MOLOPO ENERGY LIMITED

ABN 79 003 152 154

Annual Report - 31 December 2018

Directors	Roger Corbett AO (Independent Non-executive Chairman) William Johnson (Non-executive Director) Ralph Curton (Independent Non-executive Director) Anthony Hartnell AM (Independent Non-executive Director)
Company secretary	Andrew Metcalfe
Registered office	C/- Accosec & Associates Suite 3, Level 2, 470 Collins Street Melbourne Victoria, 3000 Australia
Principal place of business	C/- Accosec & Associates Suite 3, Level 2, 470 Collins Street Melbourne Victoria, 3000 Australia
Share register	Computershare Investor Services Pty Ltd Yarra Falls 452 Johnston Street Abbotsford VIC 3067 Australia Telephone: (61 3) 9415 4000
Auditor	BDO East Coast Partnership Collins Square, Tower 4 Level 18, 727 Collins Street Melbourne, Victoria 3008 Australia
Bankers	National Australia Bank Limited 330 Collins Street, Melbourne, VIC, 3000, Australia National Bank of Canada 301 – 6th Avenue, Calgary, AB T2P 4M9, Canada
Stock exchange listing	Molopo Energy Ltd shares are listed on the Australian Securities Exchange (ASX code: MPO) Australian Securities Exchange Limited Level 4, North Tower, 525 Collins Street Melbourne, VIC 3000 Australia
Website	www.molopoenergy.com

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Molopo Energy Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2018.

Directors

The following persons were Directors of Molopo Energy Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

Roger Corbett - Independent Non-Executive Chairman (appointed 31 May 2018)
William Johnson - Non-Executive Director (appointed 31 May 2018)
Ralph Curton - Non-Executive Director (appointed 31 May 2018)
Anthony Hartnell - Non-Executive Director (appointed 31 May 2018)
Baljit Johal - Managing Director (removed 31 May 2018)
Matthew Cudmore - Non-Executive Director (removed 31 May 2018)
Richard Matthews - Executive Director (removed 31 May 2018)
Samuel Belzberg - Non-Executive Director (deceased 30 March 2018)

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to $41,987,000 (31 December 2017: $6,106,000).

Executive Summary

Corporate

Molopo's shares have been suspended from trading since 27 July 2017 as a result of failing to satisfy ASX's requirement for a sufficient level of operations.

On 31 January 2018 Molopo acquired the remaining 50% of Orient FRC Limited (Orient) shares by making a second payment of US$7 million to ESGM Investments Limited (ESGM), the owner of the shares in Orient, having acquired the initial 50% in July 2017. Orient controlled a right to earn an interest in a joint venture in an oil & gas exploration project in South Florida (Orient Project).

Subsequent to that transaction, the Company redeemed its joint venture partner shares in Orient and committed to full funding of Orient (total US$21M) in respect of the Orient Project.

In February 2018, Molopo partnered with Drawbridge Energy Holdings Ltd, a BVI registered company, for additional projects by transferring 100% of its interest in Orient US LLC and its interest in the Orient Project to Drawbridge in return for 30% non-voting interest in Drawbridge. This reduced the direct interest Molopo had in the Orient Project resulting in an indirect interest in a range of additional oil and gas projects in the USA, in what is called the Combination Transaction.

On 8 May 2018, Molopo made an ASX announcement disclosing the following actions, namely that:

(a) On 31 January 2018, Orient acquired the balance of all shares in Orient from ESGM for consideration of US$7M.
(b) During the first quarter of 2018, Molopo (or its subsidiaries) provided total funding to Orient of US$23.5M, in addition to the US$4.5M provided in December 2017. Of this total amount, US$7M was used to fund the acquisition of the shares in Orient and US$20.4M was used as a capital contribution from Orient to its wholly owned subsidiary, Orient US LLC.
(c) On 21 February 2018, Orient entered into a contribution agreement with Drawbridge contemplating the Combination Transaction, that was completed on 7 March 2018.
(d) Following completion of the Combination Transaction, Molopo had acquired, via Orient's 30% non-voting interest in Drawbridge, a diversified oil and gas exploration project portfolio with indirect interests in several oil and gas projects in Texas, U.S.A. for US$35M consisting of its interests in the Orient Project and its investment in Orient US LLC.

On 11 May 2018, ASX notified Molopo that it considered the Orient Transactions announced on 22 August 2017 (as modified by the announcement on 8 May 2018), and the subsequent completion of the Combination Transaction, to be a significant change to the nature or scale of Molopo's activities. ASX exercised its discretion under Listing Rule 11.1.2 to require that the Orient Transactions and the subsequent Combination Transaction (together referred to as the Orient/Drawbridge Transactions), be approved by Molopo shareholders and pursuant to Listing Rule 11.1.3 required Molopo to satisfy the requirements in Chapters 1 and 2 of the Listing Rules, as if it were applying for admission to the Official List, to enable lifting the suspension from trading. Further, ASX also advised that it considered Molopo, under the direction of the directors at that time, had committed serious breaches of the ASX Listing Rules and may also have breached s1041H and 1309 of the Corporations Act for making misleading disclosures to ASX. Subsequent findings of the Takeovers Panel indicated that breaches of ASX Listing Rules and Corporations Act continuous disclosure obligations had occurred.

The Current Directors of Molopo (Corbett, Johnson, Curton and Hartnell) were elected on 31 May 2018 and immediately commenced and continue to undertake detailed investigations into the Orient/Drawbridge Transactions that were entered into by former directors of the Company.

The Orient/Drawbridge Transactions comprise a combination of a US$14M investment to acquire all issued shares in Orient FRC Limited, which owns a 30% non-voting A class share interest in Drawbridge for which Molopo contributed funding in total of US$18M under the Contribution Agreement in February 2018, plus incurring a further US$3M of associated expenses.

The US$35M invested in the Orient/Drawbridge Transactions is the principal reason for the Company's cash reserves being depleted from AU$65.2M at 30 June 2017 to AU$15 Million as of 30 June 2018 with the only significant asset held by Molopo, other than its cash reserves, being Orient's 30% non-voting interest in Drawbridge.

The Current Directors have serious concerns ascribing any value to the Company's interest in Orient and the 30% non-voting interest in Drawbridge. After undertaking investigations and seeking external advice, as at the date of this report, the Current Directors' assessment of the oil & gas exploration and production assets held by Drawbridge is that their value is less than the value implied by the Orient/Drawbridge Transactions and that there is little chance that they will deliver any meaningful value for Molopo in the near future. As such, the Current Directors have fully impaired the investment in Drawbridge in the amount of US$35M (AU$46M).

With the objective of recovering as much value as possible for Molopo shareholders, the Current Directors are vigorously pursuing legal proceedings against former directors of the Company responsible for entering into these transactions to hold them accountable for breaches of their directors' duties. Molopo and Orient are also pursuing proceedings against Drawbridge seeking amongst other things orders to prevent the dissipation of funds from Drawbridge, all of which were advanced by Molopo, and to obtain reliable financial reports as to the financial position of Drawbridge and its projects as required to be provided under the Contribution Agreement.

The Current Directors firmly believe this provides the best chance for Molopo shareholders to recover value from the actions undertaken by former directors of the Company.

Drawbridge Operations

Draft and unaudited financial statements provided by Drawbridge indicated a remaining cash balance as of 30 June 2018 of approximately US$8.5M and subsequent information suggests that as at 31 December 2018 the remaining cash balance is approximately US$1.6M. If these financial statements are accurate, which the Current Directors have been unable to verify given that Drawbridge has not provided any supporting bank statements or other reliable evidence, then Drawbridge has, since February 2018, spent in excess of US$9.5M of the capital contributed by Molopo at 30 June 2018 and in excess of US$16.4M as at 31 December 2018, on acquiring interests in oil and gas projects or properties and operating expenses including management and consulting fees paid to Drawbridge management and their related entities.

2018 Annual General Meeting

At the Company's Annual General Meeting (AGM) on 31 May 2018, shareholders voted to remove the Former Directors, who since 2017 committed the Company to the Orient/Drawbridge Transactions amounting to US$35M (AU$46M) with various overseas persons and entities.

Takeovers Panel proceedings and Orders

On 11 May 2018, Aurora Funds Management Limited (Aurora) submitted an application to the Takeovers Panel in relation to the affairs of Molopo seeking a Declaration of Unacceptable Circumstances in relation to the Orient/Drawbridge Transactions.

Aurora submitted, inter alia, that:

- (a) the transactions and events described in the 8 May 2018 ASX announcement constituted frustrating actions and should have been subject to shareholder approval;
  (b) there were disclosure deficiencies in Molopo's Target Statement and Supplementary Target Statements;
  (c) Molopo failed to comply with its continuous disclosure obligations; and
  (d) the conduct of Molopo's directors (being the Former Directors) in relation to, and the nature of, the transactions, and other circumstances, gave rise to serious concerns regarding the transactions.
- the cumulative effect of the transactions and events has been, and continued, to inhibit the acquisition of control over voting shares in Molopo taking place in an efficient, competitive and informed market.
- it appeared that Molopo had misled the Takeovers Panel in prior Takeover Panel proceedings regarding the urgency and use of the US$4.5M shareholder loan to Orient.
- in relation to the Orient/Drawbridge Transactions, that certain circumstances "point to the transaction being a sham" including the uncommercial structure of the transaction, the speed at which and the secrecy with which it had been consummated, the lack of oil and gas experience of the Former Directors and the disregard for the ASX Listing Rules.
- it sought an order that all transactions that are capable of being unwound be unwound. If that order was not made (or complied with) and Aurora withdrew its bid due to the frustrating actions, it sought an order for costs associated with its bid.

On 8 June 2018, the Takeovers Panel made a Declaration of Unacceptable Circumstances in relation to the Orient/Drawbridge Transactions.

Following the Takeovers Panel decision on 8 June 2018, the Initial Panel made a declaration (Original Orders) on 18 July 2018 that required Molopo to pay to Aurora Funds Management Ltd costs amounting to AU$46,477 and AU$24,105. This represents costs incurred by Aurora in relation to Aurora's bid and initial proceedings that Aurora brought to the Takeovers Panel claiming unacceptable circumstances in respect of the Combination Transaction that the former directors of Molopo had entered into with Drawbridge.

By application made on 20 July 2018, Molopo sought a review of the Original Orders. Molopo submitted an application to the Takeovers Panel in relation to the affairs of the Former Directors seeking further orders in relation to their actions in entering into the Orient/Drawbridge Transactions and submitting that the most appropriate orders to remedy the Unacceptable Circumstances were to put Molopo shareholders back in the position they would have been had former Directors not undertaken the Orient/Drawbridge Transactions.

Molopo's application sought a review of the final orders made by the Initial Panel and did not seek a review of the Initial Panel's decision to make a Declaration of Unacceptable Circumstances.

On 26 September 2018, the Review Panel varied the orders of the Initial Panel. The Review Panel's decision required the Former Directors to, inter alia, reimburse Molopo for the costs that Molopo was ordered to pay Aurora in the Initial Panel's findings (AU$70,582) plus additional costs incurred by Molopo totalling AU$91,945 (Costs Orders). Pursuant to the varied Orders, payment of the above amounts under the Costs Orders by the Former Directors were to be made by 26 November 2018, liability being joint and several.

In making their decision, the Review Panel agreed with the Initial Panel's findings, among other things, that there had been a blatant disregard of the ASX Listing Rules and Molopo's disclosure obligations by the Former Directors.

The Current Directors will continue to pursue their investigations and legal actions in an effort to recover value for shareholders.

Legal actions

Molopo is actively pursuing the legal claims referred to above in the USA against Drawbridge. British Virgin Islands (BVI) registered Sopris Energy Investments Ltd (Sopris) is the majority 70% shareholder of Drawbridge and holds 100% of the voting rights in Drawbridge which it appears to have acquired without contributing any cash or other assets to the transaction (Molopo indirectly holds the other non-voting 30% shareholding of Drawbridge, through its wholly owned subsidiary, Orient).

Molopo has also initiated the legal actions against the former directors of Molopo, Baljit Johal, Richard Matthews, Matthew Cudmore, Ronen Rosengart and subsequently Alexandre Gabovich (Former Directors). Molopo notified its D&O Insurers that the company was making a claim under the policies against those Former Directors. These proceedings are in the Supreme Court of Victoria against those Former Directors for breach of their directors' duties in relation to committing Molopo to the Orient/Drawbridge Transactions.

Molopo will continue to vigorously pursue its claims in the Supreme Court of Victoria against the above-mentioned Former Directors of the Company and is confident that these proceedings will result in a successful recovery against the Former Directors and under the Company's D&O policy.

In addition, Molopo Energy Canada Limited (MECL), a wholly owned subsidiary of the Company, was informed that the plaintiff who initiated the long-standing legal action in Canada against MECL, appointed new legal counsel in Calgary and Court orders have now been made by consent for case management of those proceedings. No further developments in those proceedings have been advised.

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year
No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations
Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation
The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Company secretary
Mr Andrew Metcalfe (appointed 31 May 2018)

Mr Richard Matthews (removed 31 May 2018)

Meetings of Directors
The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 31 December 2018, and the number of meetings attended by each Director were:

	Full Board	
	Attended	Held
Roger Corbett - Independent Non-Executive Chairman (appointed 31 May 2018)	14	14
William Johnson - Non-Executive Director (appointed 31 May 2018)	14	14
Ralph Curton - Non-Executive Director (appointed 31 May 2018)	14	14
Anthony Hartnell - Non-Executive Director (appointed 31 May 2018)	14	14
Baljit Johal - Managing Director (removed 31 May 2018)	1	1
Matthew Cudmore - Non-Executive Director (removed 31 May 2018)	1	1
Richard Matthews - Executive Director (removed 31 May 2018)	1	1
Samuel Belzberg - Non-Executive Director (deceased 30 March 2018)	0	0

Held: represents the number of meetings held during the time the Director held office.

The Directors have elected not to form sub-committees of the Board.

Remuneration report (audited)
The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Share-based compensation
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration
The objective of the consolidated entity is to ensure reward for performance is competitive and appropriate for the results delivered. The policy framework is driven by the current status of the Company and its operations which will be reviewed in the future by the Board of Directors ('the Board'), and ensures that remuneration satisfies the following key criteria for good reward governance practices:
- competitiveness and reasonableness
- acceptability to shareholders
- transparency

The Board, in the absence of the Nomination and Remuneration Committee, is responsible for determining and reviewing remuneration arrangements for its directors and key management personnel. The performance of the consolidated entity depends on the quality of its directors and key management personnel.

Non-executive directors remuneration
Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the 2010 Annual General Meeting, where the shareholders approved a maximum annual aggregate remuneration of AU$650,000.

Key Management Personnel remuneration
The consolidated entity aims to reward key management personnel based on their position and responsibility, and for the reporting period was represented by base pay and non-monetary benefits.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Board based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

No short-term incentives ('STI') or long-term incentives ('LTI') programs were established for key management personnel remuneration in the reporting period as all remuneration was fixed and consisted of base salary and superannuation, where applicable. Since the date of the 2018 Annual General Meeting there has been no executive remuneration.

Consolidated entity performance and link to remuneration
If applicable remuneration for certain individuals would be directly linked to the performance of the consolidated entity. In that circumstance a portion of cash bonus and incentive payments may be dependent on defined earnings per share targets being met. The remaining portion of any cash bonus and incentive payments would be at the discretion of the Board. During the financial year ended 31 December 2018, no remuneration was linked to the performance of the consolidated entity.

Use of remuneration consultants
During the financial year ended 31 December 2018, the consolidated entity, did not engage the services of remuneration consultants.

Voting and comments made at the Company's Annual General Meeting ('AGM')
At the 31 May 2018 AGM, 35.2% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2017. This represented a second strike against the Company's Remuneration Report. As all directors in office at the time of the 2018 AGM were removed from office by shareholders, the 'Spill Resolution' was withdrawn. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration
Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	Termination benefits	Total
31 December 2018	$	$	$	$	$	$	$	$
Non-Executive Directors:								
R. Corbett *	54,230	-	-	-	-	-	-	54,230
W. Johnson *	32,955	-	-	3,995	-	-	-	36,950
R. Curton jr *	37,042	-	-	-	-	-	-	37,042
A. Hartnell *	33,744	-	-	3,206	-	-	-	36,950
M Cudmore **	30,000	-	-	-	-	-	-	30,000
S. Belzberg ***	10,000	-	-	-	-	-	-	10,000
Executive Directors:								
B. Johal **	138,223	-	-	-	-	-	-	138,223
R. Matthews **	77,521	-	-	-	-	-	-	77,521
Other Key Management Personnel:								
A. Metcalfe ****	73,277	-	-	-	-	-	-	73,277
R. Chan *****	15,625	-	-	-	-	-	-	15,625
	502,617	-	-	7,201	-	-	-	509,818

* Appointed on 31 May 2018 and for the reminder of the reporting period
** From 1 January 2018 until 31 May 2018
*** From 1 January 2018 until 30 March 2018
**** Appointed on 31 May 2018 and for the remainder of the reporting period – Accosec Pty Ltd, a company related to and controlled by Mr Metcalfe, has provided company secretarial, compliance and support services to the consolidated entity for which it was paid fees of $73,277 (2017: $286,883).
***** R Chan is a non-executive director of the Company's three Canadian subsidiary companies and held office for the entire reporting period

31 December 2017	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		
	Cash salary and fees	Cash bonus	Other benefits	Super-annuation	Long service leave	Equity-settled	Termination benefits	Total
	$	$	$	$	$	$	$	$
Non-Executive Directors:								
M. Cudmore	11,290	-	-	-	-	-	-	11,290
S. Belzberg	60,000	-	-	-	-	-	-	60,000
Y. Stern	10,000	-	-	-	-	-	-	10,000
S. Tough *	41,150	-	-	17,553	-	-	143,616	202,319
W. Trumble	24,732	-	971	2,468	-	-	-	28,171
A. Gabovich	207,362	-	-	17,548	-	-	60,225	285,135
R. Rosengart	60,000	-	4,051	-	-	-	-	64,051
Executive Directors:								
B. Johal	45,000	-	-	4,275	-	-	-	49,275
R. Matthews	10,000	-	-	950	-	-	-	10,950
Other Key Management Personnel:								
A. Metcalfe	286,883	-	-	-	-	-	-	286,883
R Chan	7,554	-	24	-	-	-	-	7,578
	763,971	-	5,046	42,794	-	-	203,841	1,015,652

* S. Tough received a termination benefit in the 2017 reporting period that upon reflection of the current Board of the Company was determined not appropriate and S. Tough agreed to be repay the termination benefit in full in the 2018 reporting period.

Share-based compensation

Issue of shares
There were no shares issued to Directors and other key management personnel as part of compensation during the year ended 31 December 2018.

Options
There were no options over ordinary shares issued to Directors and other key management personnel as part of compensation that were outstanding as at 31 December 2018.

There were no options over ordinary shares granted to or vested by Directors and other key management personnel as part of compensation during the year ended 31 December 2018.

Additional disclosures relating to key management personnel

Shareholding
The number of shares in the Company held during the financial year by each Director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Roger Corbett	-	-	1,657,715	-	1,657,715
Anthony Hartnell	-	-	70,028	-	70,028
Samuel Belzberg	22,501,734	-	-	(22,501,734)	-
Andrew Metcalfe	-	-	69,193	-	69,193
	22,501,734	-	1,796,936	(22,501,734)	1,796,936

Additions represents shares held at time of appointment as a key management person.Disposals represents shares held at time of ceasing to be a key management person.

This concludes the remuneration report, which has been audited.

Shares under option
There were no unissued ordinary shares of Molopo Energy Ltd under option outstanding at the date of this report.

Shares issued on the exercise of options
There were no ordinary shares of Molopo Energy Ltd issued on the exercise of options during the year ended 31 December 2018 and up to the date of this report.

Indemnity and insurance of officers
The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor
The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services
There were no non-audit services provided during the financial year by the auditor.

Officers of the Company who are former partners of BDO East Coast Partnership
There are no officers of the Company who are former partners of BDO East Coast Partnership.

Rounding of amounts
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

Auditor
BDO East Coast Partnership continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

Roger Corbett
Chairman

7 May 2019
Melbourne

Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Collins Square, Tower Four
Level 18, 727 Collins Street
Melbourne VIC 3008
GPO Box 5099 Melbourne VIC 3001
Australia

DECLARATION OF INDEPENDENCE BY JAMES MOONEY TO THE DIRECTORS OF MOLOPO ENERGY LIMITED

As lead auditor of Molopo Energy Limited for the year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Molopo Energy Limited and the entities it controlled during the period.

James Mooney
Partner

BDO East Coast Partnership

Melbourne, 7 May 2019

Molopo Energy Ltd
Contents
31 December 2018

Statement of profit or loss and other comprehensive income	13
Statement of financial position	14
Statement of changes in equity	15
Statement of cash flows	16
Notes to the financial statements	17
Directors' declaration	38
Independent auditor's report to the members of Molopo Energy Ltd	39
Shareholder information	42

General information

The financial statements cover Molopo Energy Ltd as a consolidated entity consisting of Molopo Energy Ltd and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Molopo Energy Ltd's functional and presentation currency.

Molopo Energy Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

C/- Accosec & Associates
Suite 3, Level 2, 470 Collins Street
Melbourne Victoria, 3000 Australia

A description of the nature of the consolidated entity's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 7 May 2019. The Directors have the power to amend and reissue the financial statements.

Molopo Energy Ltd
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2018

	Note	Consolidated 31 December 2018 $'000	Consolidated 31 December 2017 $'000
Revenue			
Interest received		451	1,143
Share of losses of joint ventures accounted for using the equity method	4	-	(90)
Other income	5	178	-
		178	(90)
Expenses			
Salary and employee benefits expense		(450)	(373)
Foreign exchange loss		-	(1,784)
Impairment of investments	12	(46,366)	-
Reversal of provisions	14	8,497	-
Administration		(1,113)	(1,241)
Legal, management and consulting fees		(3,184)	(3,199)
Total expenses		(42,616)	(6,597)
Loss before income tax expense		(41,987)	(5,544)
Income tax expense	7	-	(562)
Loss after income tax expense for the year attributable to the owners of Molopo Energy Ltd		(41,987)	(6,106)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		2,510	-
Other comprehensive income for the year, net of tax		2,510	-
Total comprehensive income for the year attributable to the owners of Molopo Energy Ltd		(39,477)	(6,106)
		Cents	**Cents**
Basic loss per share	27	(16.859)	(2.452)
Diluted loss per share	27	(16.859)	(2.452)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Molopo Energy Ltd
Statement of financial position
As at 31 December 2018

MOLOPO ENERGY LIMITED

	Note	Consolidated 31 December 2018 $'000	Consolidated 31 December 2017 $'000
Assets			
Current assets			
Cash and cash equivalents	8	13,325	47,689
Trade and other receivables	9	18	22
Other		507	-
Total current assets		13,850	47,711
Non-current assets			
Receivables	10	-	6,043
Investments in Orient FRC Ltd – a Joint Venture company	11	-	8,695
Total non-current assets		-	14,738
Total assets		13,850	62,449
Liabilities			
Current liabilities			
Trade and other payables	13	688	1,266
Total current liabilities		688	1,266
Non-current liabilities			
Provisions	14	-	8,544
Total non-current liabilities		-	8,544
Total liabilities		688	9,810
Net assets		13,162	52,639
Equity			
Issued capital	15	157,321	157,321
Reserves	16	(1,551)	(4,061)
Accumulated losses		(142,608)	(100,621)
Total equity		13,162	52,639

The above statement of financial position should be read in conjunction with the accompanying notes

Molopo Energy Ltd
Statement of changes in equity
For the year ended 31 December 2018

Consolidated	**Issued capital $'000**	**Foreign currency translation reserves $'000**	**Retained profits $'000**	**Total equity $'000**
Balance at 1 January 2017	157,321	(4,061)	(94,515)	58,745
Loss after income tax expense for the year	-	-	(6,106)	(6,106)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(6,106)	(6,106)
Balance at 31 December 2017	157,321	(4,061)	(100,621)	52,639

Consolidated	**Issued capital $'000**	**Foreign currency translation reserve $'000**	**Retained profits $'000**	**Total equity $'000**
Balance at 1 January 2018	157,321	(4,061)	(100,621)	52,639
Loss after income tax expense for the year	-	-	(41,987)	(41,987)
Other comprehensive income for the year, net of tax	-	2,510	-	2,510
Total comprehensive income for the year	-	2,510	(41,987)	(39,477)
Balance at 31 December 2018	157,321	(1,551)	(142,608)	13,162

The above statement of changes in equity should be read in conjunction with the accompanying notes

Molopo Energy Ltd
Statement of cash flows
For the year ended 31 December 2018

	Note	Consolidated 31 December 2018 $'000	Consolidated 31 December 2017 $'000
Cash flows from operating activities			
Payments to suppliers and employees		(6,067)	(3,798)
Interest received		270	1,175
Other revenue		181	-
Income taxes paid		-	(562)
Net cash used in operating activities	26	(5,616)	(3,185)
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired	23	(8,169)	-
Payments for new joint venture capital invested		-	(8,785)
Cash outflow on disposal of subsidiary		(20,892)	(6,043)
Net cash used in investing activities		(29,061)	(14,828)
Cash flows from financing activities			
Repayment of borrowings		(147)	-
Net cash used in financing activities		(147)	-
Net decrease in cash and cash equivalents		(34,824)	(18,013)
Cash and cash equivalents at the beginning of the financial year		47,689	67,486
Effects of exchange rate changes on cash and cash equivalents		460	(1,784)
Cash and cash equivalents at the end of the financial year	8	13,325	47,689

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted
The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern
The consolidated entity is considered a going concern as its current assets exceed its current liabilities by $13,162,000 at the reporting date, and there is no indication that in the 12 month period from the date of this report that the consolidated entity will be in a position that it cannot meet its future commitments as and when they fall due.

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 22.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Molopo Energy Ltd ('Company' or 'parent entity') as at 31 December 2018 and the results of all subsidiaries for the year then ended. Molopo Energy Ltd and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Note 1. Significant accounting policies (continued)

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation
The financial statements are presented in Australian dollars, which is Molopo Energy Ltd's functional and presentation currency.

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition
The consolidated entity recognises revenue as follows:

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:
- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Note 1. Significant accounting policies (continued)

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables
Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Joint ventures
A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduce the carrying amount of the investment.

Intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill
Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Note 1. Significant accounting policies (continued)

Impairment of non-financial assets
Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Provisions
Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Business combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

Note 1. Significant accounting policies (continued)

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Molopo Energy Ltd, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 1. Significant accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted
Refer to Note 28 - New standards and interpretations.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Fair value measurement hierarchy
The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets
The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax
The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision
As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Business combinations
As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 3. Operating segments

Identification of reportable operating segments
The consolidated entity is organised into 3 operating segments: Australia, Canada & USA. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Intersegment transactions
Intersegment transactions were made at market rates.

Intersegment receivables, payables and loans
Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Operating segment information

Consolidated - 31 December 2018	Australia $'000	Canada $'000	USA $'000	Total $'000
EBITDA	(4,561)	8,721	(46,598)	(42,438)
Interest revenue	411	39	1	451
Profit/(loss) before income tax expense	(4,150)	8,760	(46,597)	(41,987)
Income tax expense				-
Loss after income tax expense				(41,987)
Assets				
Segment assets	4,825	8,772	253	13,850
Total assets				13,850
Liabilities				
Segment liabilities	688	-	-	688
Total liabilities				688

MOLOPO ENERGY LIMITED

Note 3. Operating segments (continued)

Consolidated - 31 December 2017	Australia $'000	Canada $'000	USA $'000	Total $'000
EBITDA	(5,585)	1,506	(2,608)	(6,687)
Interest revenue	1,045	98	-	1,143
Profit/(loss) before income tax expense	(4,540)	1,604	(2,608)	(5,544)
Income tax expense				(562)
Loss after income tax expense				(6,106)
Assets				
Segment assets	53,989	8,231	229	62,449
Total assets				62,449
Liabilities				
Segment liabilities	1,113	8,670	27	9,810
Total liabilities				9,810

Note 4. Share of losses of joint ventures accounted for using the equity method

	Consolidated 31 December 2018 $'000	Consolidated 31 December 2017 $'000
Share of loss of joint venture	-	(90)

Note 5. Other income

	Consolidated 31 December 2018 $'000	Consolidated 31 December 2017 $'000
Net foreign exchange gain	178	-

Note 6. Expenses

	Consolidated 31 December 2018 $'000	Consolidated 31 December 2017 $'000
Loss before income tax includes the following specific expenses:		
Impairment		
Investment in Drawbridge Energy Holdings Ltd	46,366	-
Net foreign exchange loss		
Net foreign exchange loss	-	1,784
Superannuation expense		
Defined contribution superannuation expense	(6)	18
Employee benefits expense excluding superannuation		
Employee benefits expense excluding superannuation	581	355

Note 7. Income tax

	Consolidated 31 December 2018 $'000	Consolidated 31 December 2017 $'000
Income tax expense		
Current tax	-	562
Aggregate income tax expense	-	562
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(41,987)	(5,544)
Tax at the statutory tax rate of 30%	(12,596)	(1,663)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductable expenses and unbooked temporary differences	-	1,510
Under provision of Canadian tax	-	562
	(12,596)	409
Current year tax losses not recognised	12,596	153
Income tax expense	-	562

Note 8. Current assets - cash and cash equivalents

	Consolidated 31 December 2018 $'000	Consolidated 31 December 2017 $'000
Cash at bank	6,208	23,385
Cash on deposit	7,117	24,304
	13,325	47,689

Note 9. Current assets - trade and other receivables

	Consolidated 31 December 2018 $'000	Consolidated 31 December 2017 $'000
Other receivables	-	2
Interest receivable	18	20
	18	22

Note 10. Non-current assets - Receivables

	Consolidated 31 December 2018 $'000	Consolidated 31 December 2017 $'000
Loan to Orient Joint Venture	-	6,043

Note 10. Non-current assets - Receivables (continued)

On 25 July 2017 the Company acquired a 50% shareholding in Orient FRC Ltd (Orient) (incorporated and registered in the British Virgin Islands). Under the terms of the Orient shareholders' agreement, the Company was required to fund 50% of the Orient Project in accordance with the Exploration and Development Agreement. US$4.5 million ($A6.043 million) was loaned by the Company in December 2017 for future commitments in the Orient Project.

On 31 January 2018, Molopo acquired the remaining 50% of Orient shares. Subsequent to that transaction, the Company redeemed its joint venture partner shares in the Orient Project and provided total funding to Orient of US$23.5M, in addition to the US$4.5M provided in December 2017. Of this total amount, US$7M was used to fund the acquisition of the shares in Orient and US$20.4M as a capital contribution from Orient to its wholly owned subsidiary, Orient US LLC.

A summary of the Company's loan to Orient is as follows:

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
Opening carrying amount	6,043	-
Additions	-	6,043
Reclassify prior year loan to Orient Joint Venture to intercompany loan to subsidiary due to current year acquisition of remaining 50% of shares in Orient.	(6,043)	-
Closing carrying amount	-	6,043

Note 11. Non-current assets - investments in Orient FRC Ltd – a Joint Venture company

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
Investment in Orient Joint Venture	-	8,695

Interests in joint ventures

Interests in joint ventures are accounted for using the equity method of accounting. Information relating to joint ventures that are material to the consolidated entity are set out below:

		Ownership interest	
Name	Principal place of business / Country of incorporation	31 December 2018 %	31 December 2017 %
Orient Joint Venture	British Virgin Islands	-	50%

On 25 July 2017 the Company acquired a 50% shareholding in Orient FRC Ltd (Orient) (incorporated and registered in the British Virgin Islands) for a consideration of US$7.0 million.

At 31 December 2017, the other 50% shareholder was ESGM Investments Limited who held equal voting rights in the Company.

At 31 December 2017, the Company recognised the interest in Orient as an investment and adopted the equity method of accounting in accordance with AASB 128: Investment in Associates and Joint Ventures.

On 31 January 2018, Molopo acquired the remaining 50% interest in Orient for payment of US$7.0M. From that date and up to financial reporting date, Orient was a wholly owned entity of Molopo. Refer to note 12 - Investments and note 23 Business Combinations.

A summary of the Company's share of Orient Joint Venture is summarised below:

Note 11. Non-current assets - investments in Orient FRC Ltd – a Joint Venture company (continued)

Summarised financial information

	Orient Joint Venture 31 December 2018 $'000	31 December 2017 $'000
Summarised statement of financial position		
Current assets	-	2,507
Non-current assets	-	6,076
Total assets	-	8,583
Current liabilities	-	153
Loan from Molopo Energy Limited	-	6,043
Total liabilities	-	6,196
Net assets	-	2,387
Summarised statement of profit or loss and other comprehensive income		
Other expenses	-	(181)
Loss before income tax	-	(181)
Other comprehensive income	-	-
Total comprehensive income	-	(181)
Reconciliation of the consolidated entity's carrying amount		
Opening carrying amount	8,695	-
Share of loss after income tax	-	(90)
Investment in joint venture	-	8,785
Reclassify prior year acquisition of 50% interest in Orient from joint venture to investment in subsidiary due to current year acquisition of remaining 50% of shares in Orient	(8,695)	-
Closing carrying amount	-	8,695

Note 12. Non-current assets - investments - Drawbridge Energy Holdings Ltd

During the period, Orient FRC Ltd acquired a 30% non-voting interest in Drawbridge Energy Holdings Limited (Drawbridge) and transferred its rights to an oil & gas project located in Florida, USA. During the same period, Molopo contributed funding to Drawbridge of US$18M under the Contribution Agreement in February 2018, plus incurring a further US$3M of associated expenses.

As at 31 December 2018, the Directors considered the available information from their extensive investigations in to the investment and have determined that based upon the information available it would appear that the investment in Drawbridge had Nil value. The Company has fully impaired the investment in Drawbridge.

Note 12. Non-current assets - investments - Drawbridge Energy Holdings Ltd (continued)

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000

A summary of the Company's investment in Drawbridge is as follows:

Reconciliation
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

Opening fair value of the Company's investment in Drawbridge	-	-
Additions through Contribution Agreement	46,366	-
Impairment of investment in Drawbridge	(46,366)	-
Closing fair value	-	-

Note 13. Current liabilities - trade and other payables

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
Trade payables	688	1,266

Refer to note 17 for further information on financial risk management.

Note 14. Non-current liabilities - provisions

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
Legal claims	-	8,544

Movements in provisions
Movements in provision during the current financial year is set out below:

Consolidated - 31 December 2018	31 December 2018 $'000	31 December 2017 $'000
Carrying amount at the start of the year	8,544	8,583
Reversal of provision	(8,497)	-
Foreign exchange variation	(47)	(39)
Carrying amount at the end of the year	-	8,544

In March 2011, Molopo Energy Canada Ltd ("MECL"), a wholly owned subsidiary of Molopo was served with a statement of claim ("Claim") by a former joint venture partner (3105682 Nova Scotia ULC ("310 ULC")) 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$35.0 (A$35.9) million general damages, C$1.0 (A$1.0) million punitive and aggravated damages, interest, GST and indemnity costs.

Note 14. Non-current liabilities - provisions (continued)

Subsequent to the filing of the statement of defence, the Company undertook an extensive examination of the transactions that gave rise to the amounts in dispute. This examination resulted in the Company applying a provision in the accounts in 2012 of a net C$5.0 (A$5.1) million. In early 2013, 310 ULC settled a counterclaim by making a payment of C$3.4 (A$3.5) million to the Company, at which time the Company increased the provision to C$8.4 (A$8.6) million.

During the current reporting period the Directors have reconsidered the circumstances that gave rise to recognition of the provision. A significant amount of time has passed since the provision was brought to account with limited progress on the claim. The Directors have reviewed the current status of the claims as provided by its lawyers and based upon this status update, the time elapsed and the limited progress made in the proceedings, they have taken the view that the amount of the provision can no longer be reliably measured, and therefore no longer meets the recognition criteria for a liability. Based on these findings, the Directors have reversed the provision and fully disclosed the claims as a contingent liability (refer note 20).

Note 15. Equity - issued capital

	Consolidated			
	31 December 2018 Shares	31 December 2017 Shares	31 December 2018 $'000	31 December 2017 $'000
Ordinary shares - fully paid	294,040,648	294,040,648	157,321	157,321

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back
There is no current on-market share buy-back.

Capital risk management
The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term.

The capital risk management policy remains unchanged from the 2017 Annual Report.

Note 16. Equity - reserves

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
Foreign currency reserve	(1,551)	(4,061)

Note 17. Financial risk management

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior key management personnel ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units and reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
Consolidated	31 December 2018 $'000	31 December 2017 $'000	31 December 2018 $'000	31 December 2017 $'000
US dollars	391	229	-	-
Canadian dollars	1,610	8,233	-	-
	2,001	8,462	-	-

Sensitivity Analysis

A 10 percent change of the Australian dollar against the USD and the CAD at 31 December 2018 would have increased / (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

MOLOPO ENERGY LIMITED

Note 17. Financial risk management (continued)

Consolidated - 31 December 2018	% change	AUD strengthened Effect on profit before tax	Effect on equity	% change	AUD weakened Effect on profit before tax	Effect on equity
AUD/CAD	10%	161	161	10%	(36)	(36)
AUD/USD	10%	40	40	10%	(146)	(146)
		201	201		(182)	(182)

Consolidated - 31 December 2017	% change	AUD strengthened Effect on profit before tax	Effect on equity	% change	AUD weakened Effect on profit before tax	Effect on equity
AUD/CAD	10%	807	807	10%	(807)	(807)
AUD/USD	10%	18	18	10%	(18)	(18)
		825	825		(825)	(825)

Significant assumptions used in the foreign currency exposure sensitivity analysis above include:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last five-years historical movements.
- The reasonably possible movement of 10% was calculated by taking the foreign currency spot rates as at balance date, moving this spot rate by 10% and then re-converting the foreign currency into AUD with the "new spot-rate". This methodology reflects the translation methodology undertaken by the Group.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.
- The sensitivity analysis includes only the impact on the balance of financial assets and financial liabilities at balance date.

Price risk
The consolidated entity is not exposed to any significant price risk.

Interest rate risk
The Group does not have any borrowings and therefore no significant exposure to interest rate risk. No interest is currently charged in relation to receivable or payable balances. The Group's exposure relates to the cash balances held.

Credit risk
Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the consolidated entity. Credit risk is managed on a Group basis. The credit risk of the Group arises from cash and cash equivalents, deposits with banks and financial institutions, available-for-sale financial assets, as well as credit exposure to customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum Standard & Poor's credit rating of A (or equivalent) are accepted. The consolidated entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Consolidated Statement of Financial Position.

Liquidity risk
Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 18. Key management personnel disclosures

	Consolidated 31 December 2018 $	Consolidated 31 December 2017 $
Short-term employee benefits	502,617	769,017
Post-employment benefits	7,201	42,794
Termination benefits	-	203,841
	509,818	1,015,652

Note 19. Remuneration of auditors

	Consolidated 31 December 2018 $	Consolidated 31 December 2017 $
Audit services - BDO East Coast Partnership		
- Audit or review of the financial statements	50,000	43,000
Other services - BDO		
- Tax compliance - Australia	5,500	15,000
- Tax compliance - Canada	8,500	-
- Other professional services - Australia	67	
	64,067	58,000

Note 20. Contingent liabilities

There exists a series of historical legal actions initiated in Canada concerning the Company and Molopo Energy Canada Ltd. ("MECL"), a wholly owned subsidiary of the Company, all of which relate to the sale by MECL of its interests in various oil and gas assets on 1 March 2011, summarised as follows:

1. One of MECL's former joint venture partners (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$35.0 (A$35.5) million general damages, C$1.0 (A$1.0) million punitive and aggravated damages, interest, GST and indemnity costs.

The Group has previously made a C$8.4 million provision in its prior financial statements in relation to this litigation (see Note 11 of the financial statements). Molopo Energy Limited as parent company, is itself not a party to these proceedings. Whilst the litigation commenced in 2011, it is considered that the legal action will not be heard in court for at least a further 3 years. Given the information presented it was determined to write-back the provision to Nil and reflect the legal action as a contingent liability.

2. 310 ULC also commenced legal action in 2013 against the purchaser of MECL's interests in the assets, 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$90.0 (A$90.2) million general damages, C$1.0 (A$1.0) million punitive and aggravated damages, interest, GST and indemnity costs.

Note 20. Contingent liabilities (continued)

Legacy has issued a third-party notice to both MECL and Molopo on the basis of indemnities provided by MECL to Legacy in the sale agreement between MECL and Legacy, and a guarantee provided by Molopo to Legacy in relation to MECL's obligations under the sale agreement. In June 2015, Legacy was acquired by Crescent Point Energy Corporation, an oil and gas company based in Calgary, Canada.

MECL and Molopo have not yet been required to file any defence to the third-party claim.

Note 21. Related party transactions

Parent entity
Molopo Energy Ltd is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 24.

Joint ventures
Interests in joint ventures are set out in note 11.

Key management personnel
Disclosures relating to key management personnel are set out in note 18 and the remuneration report included in the Directors' report.

Transactions with related parties
There were no transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Note 22. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	31 December 2018 $'000	31 December 2017 $'000
Loss after income tax	(39,477)	(6,017)
Total comprehensive income	(39,477)	(6,017)

Note 22. Parent entity information (continued)

Statement of financial position

	Parent	
	31 December 2018 $'000	31 December 2017 $'000
Total current assets	11,984	53,753
Total assets	13,852	53,753
Total current liabilities	690	1,114
Total liabilities	690	1,114
Equity		
Issued capital	157,321	157,321
Accumulated losses	(144,159)	(104,682)
Total equity	13,162	52,639

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2017 and 31 December 2018.

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2017 and 31 December 2018.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 31 December 2017 and 31 December 2018.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 23. Business combinations

Acquisition of Orient FRC Limited
On 25 July 2017 the Company acquired a 50% shareholding in Orient FRC Ltd (Orient) (incorporated and registered in the British Virgin Islands) for a consideration of US$7.0 million. Under the terms of the Orient shareholders' agreement, the Company was required to fund 50% of the Orient Project in accordance with the Exploration and Development Agreement. US$4.5 million was loaned by the Company to Orient in December 2017 for future commitments in the Orient Project.

At 31 December 2017, the other 50% shareholder was ESGM Investments Limited who held equal voting rights in Orient.

At 31 December 2017, the Company recognised the interest in Orient as an investment and adopted the equity method of accounting in accordance with AASB 128: Investment in Associates and Joint Ventures.

On 31 January 2018, Molopo acquired the remaining 50% interest in Orient for payment of US$7.0 million. From that date and up to financial reporting date, Orient was a wholly owned entity of Molopo. During the period, Orient acquired a 30% non-voting interest in Drawbridge Energy Holdings Limited and transferred its rights to an oil & gas project located in Florida, USA. As at 31 December 2018, the Directors have determined that the investment in Drawbridge had Nil value.

Note 23. Business combinations (continued)

A summary of the Company's investment in Orient is summarised below:

	Fair value $'000
Cash and cash equivalents	503
Exploration and evaluation rights	18,368
Loan to Drawbridge Energy Holdings Ltd	2,477
Loan to Molopo Energy Ltd	2,832
Loan from Molopo Energy Canada Ltd	(6,813)
Net assets acquired	17,367
Goodwill	-
Acquisition-date fair value of the total consideration transferred	17,367
Representing:	
Cash paid or payable to vendor	8,672
Reclassify prior year acquisition of 50% interest in Orient from joint venture to subsidiary.	8,695
	17,367

Note 24. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of incorporation	Ownership interest 31 December 2018 %	Ownership interest 31 December 2017 %
Molopo USA LLC	USA	100%	100%
Molopo Energy Texas LLC	USA	100%	100%
Orient FRC Limited	British Virgin Islands	100%	50%
Molopo Energy Holdings Ltd	Canada	100%	100%
Molopo Energy Canada Ltd	Canada	100%	100%
Molopo Canada Callco Ltd	Canada	100%	100%

Note 25. Events after the reporting period

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 26. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
Loss after income tax expense for the year	(41,987)	(6,106)
Adjustments for:		
Impairment of investments	46,366	-
Share of loss - joint ventures	-	90
Foreign exchange differences	(417)	1,784
Change in operating assets and liabilities:		
Decrease in trade and other receivables	4	32
Increase in prepayments	(507)	-
Increase/(decrease) in trade and other payables	(578)	1,054
Decrease in other provisions	(8,497)	(39)
Net cash used in operating activities	(5,616)	(3,185)

Note 27. Earnings per share

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
Loss after income tax attributable to the owners of Molopo Energy Ltd	(41,987)	(6,106)
	Cents	Cents
Basic loss per share	(16.859)	(2.452)
Diluted loss per share	(16.859)	(2.452)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	249,040,648	249,040,648
Weighted average number of ordinary shares used in calculating diluted earnings per share	249,040,648	249,040,648

Note 28. New Standards and Interpretations

(a) New, Revised or Amending Accounting Standards and Interpretations Adopted

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to their operations and effective for the year.

The Group adopted AASB 9 Financial Instruments from 1 January 2018. The standard provides new classification and measurement models for financial assets. The Group's financial assets comprise cash and cash equivalents and trade and other receivables arising from GST recoverable and other short term operational receivables. Both asset classes are short term and arise from the normal operational cycle of the Group's business. Neither has been impacted by the changes introduced by the standard in terms of classification or measurement. In addition, the Group's financial liabilities are also short term and have been measured at amortised cost. This remains the measurement to be applied under the new standard.

Accordingly, the Group's financial instrument disclosures have not been materially impacted by the adoption of this standard.

Note 28. New Standards and Interpretations (continued)

(b) New, Revised or Amending Accounting Standards and Interpretations Not Yet Effective

The following are standards, amendments to standards and interpretations most applicable to the Group that are not yet mandatory and have not been applied in these financial statements:

AASB 16 Leases applies from 1 January 2019. The Group does not have any material operating lease commitments that will be accounted for under this standard as at 31 December 2018 and therefore do not expect adoption of this standard to have a material impact on the disclosures in the financial report.

Molopo Energy Ltd
Directors' declaration
31 December 2018

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Roger Corbett
Chairman

7 May 2019
Melbourne

Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Collins Square, Tower Four
Level 18, 727 Collins Street
Melbourne VIC 3008
GPO Box 5099 Melbourne VIC 3001
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Molopo Energy Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Molopo Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Acquisition of Orient FRC Limited

Key audit matter	*How the matter was addressed in our audit*
During the reporting period, the Group acquired the remaining 50% of Orient FRC Limited. We identified this as a key audit matter due to the transaction being material to the group and there being a level of judgement and complexity arising in respect of the acquisition accounting. Disclosures relating to the business combination investment are included in Note 23.	Our audit procedures included, but were not limited to: • Reviewing and evaluating management's position paper on the accounting treatment and supporting documentation; • Reviewing the assets and liabilities acquired in the acquisition and evaluating and concluding on the documentation supporting the values attributed to the acquisition; and • Assessing the adequacy of the Group's disclosures in respect of the acquisition.

Valuation of investment in Drawbridge Energy Holdings Limited

Key audit matter	*How the matter was addressed in our audit*
During the reporting period, the Group invested in Drawbridge Energy Holdings Limited and its activities via the contribution of an oil and gas project and cash. Due to the lack of available information, the Board were unable to determine a fair value of the investment, and therefore have elected to impair the investment and write its value down to nil. Disclosures relating to the impairment of the investment are included in Note 12.	Our audit procedures included, but were not limited to: • Assessing the information provided to management to determine the fair value of the investment; • Reviewing and evaluating management's position on the accounting treatment and the lack of supporting documentation; and • Assessing the adequacy of the Group's disclosures in respect of the impairment.

Calculation and classification of provision for legal costs

Key audit matter	*How the matter was addressed in our audit*
During the reporting period the directors have reviewed the status of an ongoing litigation with a former joint venture partner. The review concluded that the provision for legal cost was not required and that the matter should be disclosed as a contingent liability. There is a significant level of judgement required in determining whether the matter should be disclosed as a contingent liability or provision. We focused on this area as a key audit matter due to the nature and material impact reversing the provision has on the financial report of Molopo Energy Limited. Disclosures relating to the legal cases are included in Note 14 and Note 20.	Our audit procedures included, but were not limited to: • Consulting with the Groups' legal representatives and review of written representations in relation to the status of the legal cases; and • Assessing the adequacy of the Groups' disclosures in respect of legal provisions and contingent liabilities.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 9 of the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Molopo Energy Limited, for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO East Coast Partnership

BDO

James Mooney
Partner

Melbourne, 7 May 2019

The shareholder information set out below was applicable as at 30 April 2019.

Distribution of equitable securities
Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	665	-
1,001 to 5,000	1,422	-
5,001 to 10,000	656	-
10,001 to 100,000	1,000	-
100,001 and over	121	-
	3,864	-
Holding less than a marketable parcel	1,651	-

Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
ION LIMITED	49,687,332	19.95
KEYBRIDGE CAPITAL LIMITED	46,017,543	18.48
THE COMMONWEALTH OF AUSTRALIA	43,207,195	17.35
CITICORP NOMINEES PTY LIMITED	25,008,217	10.04
BNP PARIBAS NOMINEES PTY LTD [IB AU NOMS RETAILCLIENT DRP]	5,777,755	2.32
GIOVANNI NOMINEES PTY LTD [GIOVANNI FAMILY A/C]	3,200,000	1.28
SPORRAN LEAN PTY LTD [SPORRAN LEAN S/F A/C]	2,367,499	0.95
R & R CORBETT PTY LTD [R C CORBETT FAMILY A/C]	1,657,715	0.67
PAKASOLUTO PTY LIMITED [BARKL FAMILY SUPER FUND A/C]	1,286,658	0.52
MRS JANET BACKHOUSE	1,270,000	0.51
GIBRALT CAPITAL CORPORATION	1,188,526	0.48
BHL PENSION PTY LTD [BHL PENSION FUND A/C]	1,000,000	0.40
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	983,362	0.39
MR STEVEN HENRY GREATOREX	632,000	0.25
MR JAMES GARDINER	600,000	0.24
MR HAN KOEN LEE + MRS LIEN NIO LEE [THE LEE SUPER FUND A/C]	560,000	0.22
VP CAPITAL INVESTMENTS PTY LTD [BLUE SKY A/C]	521,000	0.21
BOLIBER PTY LTD [BORL PARTNERSHIP A/C]	500,000	0.20
G CHAN PENSION PTY LTD [CHAN SUPER FUND A/C]	500,000	0.20
GEFWEB NOMINEES PTY LTD [SUPER FUND A/C]	500,000	0.20
	186,464,802	74.87

Unquoted equity securities
There are no unquoted equity securities.

Molopo Energy Ltd
Shareholder information
31 December 2018

Substantial holders
Substantial holders in the Company are set out below:

	Ordinary shares Number held	Ordinary shares % of total shares issued
ION LIMITED	49,687,332	16.90
KEYBRIDGE CAPITAL LIMITED	46,017,543	15.65
THE COMMONWEALTH OF AUSTRALIA	43,207,195	14.69
GIBRALT CAPITAL CORPORATION	22,501,734	9.03

Voting rights
The voting rights attached to ordinary shares are set out below:

Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.