



## **MOLOPO ENERGY LIMITED**

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

You should read this document in its entirety. It contains the recommendations of the Molopo Directors in relation to Aurora's offer to purchase all of your Molopo Shares. If you are in any doubt as to how to deal with it, you should consult your legal, financial or other professional adviser as soon as possible. If you have any questions about the Offer or this document or about how to reject or accept the Offer, please call 1300 090 795 (for calls within Australia) or +61 3 9415 4320 (for calls outside Australia).

# **SECOND SUPPLEMENTARY TARGET'S STATEMENT** by

**MOLOPO ENERGY LIMITED**  
ACN 003 152 154

**The Directors of Molopo Energy Limited**

**unanimously recommend that you**

**REJECT** Aurora's Offer

by **TAKING NO ACTION**

or **WITHDRAW** your  
acceptance (if you previously validly accepted  
Aurora's Offer)

### **FURTHER INFORMATION**

Please call 1300 090 795 (for calls within Australia) or +61 3 9415 4320 (for calls outside Australia) between 8.30am and 5.30pm Monday to Friday (AEDT) if you require assistance with rejecting or accepting the Offer.



# MOLOPO ENERGY LIMITED

## Important notices

This document is a supplementary target's statement dated [x] March 2018 and is issued by Molopo Energy Limited ACN 003 152 154 (**Molopo**) under section 644 of the *Corporations Act 2001* (Cth) (**Corporations Act**). This is the second supplementary target's statement issued by Molopo in relation to the offer made by Aurora Funds Management Limited (ABN 69 092 626 885) as responsible entity of the Aurora Fortitude Absolute Return Fund (ARSN 145 894 800) (**Aurora**) in its Bidder's Statement dated 26 October 2017 (**Bidder's Statement**).

This supplementary target's statement (**Second Supplementary Target's Statement**) supplements and is to be read together with the Target's Statement issued by Molopo dated 28 November 2017 and the First Supplementary Target's Statement issued by Molopo dated 19 January 2018. This Second Supplementary Target's Statement will prevail to the extent of any inconsistency with the Target's Statement and the First Target's Statement.

A copy of this Second Supplementary Target's Statement was lodged with ASIC and provided to ASX on [x] March 2018. Neither ASIC, ASX nor any of their respective officers takes any responsibility for the contents of this Second Supplementary Target's Statement.

This Second Supplementary Target's Statement has been approved by a resolution passed by the Directors. All Directors voted in favour of the resolution.

Capitalised terms used but not defined in this Second Supplementary Target's Statement have the same meaning as in the Target's Statement, unless the context requires otherwise.



# MOLOPO ENERGY LIMITED

[x] March 2018

Dear Molopo Shareholder

## **Aurora's Offer**

Your Directors want to tell you more about their doubts about the off-market takeover offer by Aurora<sup>1</sup> for all the shares in Molopo Energy Limited (**Molopo**) (**Offer**).

Your Directors advised you in our First Supplementary Target's Statement dated 19 January 2018 that a condition to Aurora's announced conditional price increase could not be satisfied. Molopo Shareholders should therefore ignore Aurora's statements about its alleged conditional intention to increase its Bid price<sup>2</sup>.

## **What about Aurora's current offer of \$0.135 for each of your shares in Molopo (Molopo Shares)?**

Aurora's Offer is subject to a number of conditions. One of those is that Aurora attains a relevant interest of at least 50.1% of all Molopo Shares. Unless Aurora waives that minimum acceptance condition, it will never pay anything like \$0.135 **cash** for each of your Molopo Shares - because Aurora says that it will only pay a maximum of \$5 million in cash, and make up the shortfall between that cash and \$0.135 in units in the Aurora Fortitude Absolute Return Fund (**AFARF**) (**AFARF Units**).

For example, if it receives acceptances for 50% of the Molopo Shares for which it has made offers (at which level its minimum acceptance condition would have been satisfied), Molopo Shareholders would receive \$0.041 cash per share, and units in the unlisted hedge fund AFARF with a nominal value of \$0.094<sup>3</sup> for each Molopo Share.

Unless Aurora waives its minimum acceptance condition, your Directors consider that you should not see the Aurora Offer price as equivalent to \$0.135 cash. *You should see it as a small proportion of cash, and principally as an investment in AFARF Units.*

## **So how attractive are AFARF Units?**

They are unlisted, so that they cannot be sold on the stock market, and AFARF is currently only redeeming some units which unitholders want to redeem.

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<sup>1</sup> Aurora Funds Management Limited as responsible entity of the Aurora Fortitude Absolute Return Fund (**Aurora**)

<sup>2</sup> Page 3 and page 5, Molopo's First Supplementary Target's Statement dated 19 January 2018

<sup>3</sup> Page 5, Aurora's Bidder's Statement dated 26 October 2017



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AFARF is a hedge fund which has seen large net redemptions in each of the years to 30 June 2016 (applications for 10,504,726 AFARF Units, redemptions of 34,077,181 AFARF Units) and 30 June 2017 (applications for 7,086,348 AFARF Units, redemptions of 66,060,102 AFARF Units)<sup>4</sup>.

On 15 January 2018, Aurora announced that it expects that AFARF Unit holders seeking redemptions will receive approximately 27% of their outstanding redemption monies, based on total redemptions outstanding at 31 December 2017. AFARF currently has a cap of 10% of its funds that it will use for redemptions in any quarter.

Any Molopo Shareholder who invested in AFARF Units by accepting Aurora's Offer could be waiting many quarters before it could redeem its AFARF Units - and would be exposed to the risk of AFARF's performance, plus its high fees, in the meantime.

If Aurora's Offer was successful, AFARF's main asset would be Molopo Shares. So any Molopo Shareholders who accepted Aurora's Offer would be choosing to exchange a direct interest in Molopo Shares for an indirect interest in Molopo Shares - plus a smaller interest in AFARF's other assets. Molopo's analysis shows that the transaction would result in increased net asset value per AFARF Unit for AFARF's existing unitholders, and a dilution of net asset value for Molopo Shareholders. This is not surprising - it is a legal requirement that the Aurora Offer is in the best interests of AFARF's existing unitholders.

In Aurora's Bidder's Statement dated 26 October 2017, *Aurora said that the suggested minimum timeframe for an investment in AFARF is 5 years*<sup>5</sup>.

### **Would AFARF Units be an attractive investment to hold for a minimum timeframe of 5 years?**

Obviously not if you hold Molopo Shares for exposure to the oil and gas sector, which is Molopo's sector but not AFARF's. Aurora has stated that it plans to cease any further investment in the oil and gas sector if it is successful in gaining control of Molopo<sup>6</sup>.

Molopo Shareholders should also be aware of AFARF's recent performance, and the large amounts paid by AFARF in management costs. For the year to 30 June 2017, AFARF's performance was negative 13.28%, compared with its benchmark, which was up 1.53%<sup>7</sup>. For the seven months to 31 January 2018, AFARF's performance was negative 1.61%, compared with its benchmark which was up 0.88%<sup>8</sup>.

In Aurora's Bidder's Statement, Aurora discloses that its management costs are 5.19% of net asset value - before any performance fees are paid<sup>9</sup>. A performance fee of up to 30.75% of out-

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<sup>4</sup> Page 33, Aurora's Annual Report for the year ended 30 June 2017.

<sup>5</sup> Page 20, Aurora's Annual Report for the year ended 30 June 2017.

<sup>6</sup> Page 40, section 6.2(a) of Aurora's Bidder's Statement dated 26 October 2017

<sup>7</sup> Aurora undated portfolio update June 2017

<sup>8</sup> Aurora undated portfolio update January 2018

<sup>9</sup> Page 23, Aurora's Bidder's Statement dated 26 October 2017



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performance could be paid under AFARF's Constitution if AFARF did outperform, although Aurora has said that it intends to charge a performance fee rate of 'just 20.5%' of any outperformance<sup>10</sup>.

Of course, if the conditions to Aurora's Offer were satisfied, Molopo Shares would comprise the main asset in AFARF's portfolio, and management costs of 5.19% and performance fees would be paid by AFARF to Aurora, further reducing the assets of AFARF.

Molopo's analysis shows that if the Aurora Offer were successful, a performance fee would likely be payable to Aurora by AFARF - resulting in a further dilution of net asset value for any Molopo Shareholder who invested in AFARF Units by accepting Aurora's Offer.

For the reasons set out above, your Directors consider that Molopo Shareholders should not regard the Aurora Offer price as equivalent to \$0.135 cash. Principally, the Offer is an offer to invest in AFARF, which is a speculative hedge fund with indifferent performance and high fees, from which a large number of investors have been exiting (and are seeking to exit).

Your Directors continue to unanimously recommend that you **REJECT** Aurora's Offer as they consider that Aurora's Offer is inadequate and that it continues to be a significant liquidity risk for Molopo Shareholders.

Please refer to this Second Supplementary Target's Statement, Section 2 of the First Supplementary Target's Statement and section 1.2 of the Target's Statement for the reasons why you should reject Aurora's Offer.

You are encouraged to read the Target's Statement, the First Supplementary Target's Statement and this Second Supplementary Target's Statement in full and seek appropriate professional advice if necessary before taking any action (if any) in response to Aurora's Offer.

Yours sincerely,

Richard Matthews  
**Director**  
**MOLOPO ENERGY LIMITED**

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<sup>10</sup> Page 24, Aurora's Bidder's Statement dated 26 October 2017