

Molopo Energy Limited (“Molopo” or the “Company”) presents its quarterly activities report for the three-month period ended 30 June 2018. (Definitions are found at the end of this report).

Summary

At the Company’s Annual General Meeting (**AGM**) on 31 May 2018, shareholders voted to remove the Former Directors, who since 2017 have committed the Company to a series of transactions (the **Orient / Drawbridge Transactions**) amounting to US\$35 Million (circa A\$47 Million) with various overseas persons and entities.

Following a detailed review of the Orient / Drawbridge Transactions, the current Directors of Molopo cannot see any logical or commercial reason for entering into these transactions.

The transactions resulted in the Company’s cash reserves being depleted from **A\$66.2 Million** at 30 June 2017 to **A\$15 Million** as of 30 June 2018.

The Former Directors proceeded with these transactions without seeking shareholder approval, resulting in a breach of ASX Listing Rules, as well as breaching ASX continuous disclosure obligations and the Corporations Act.

The current Directors, who were elected by shareholders at the 2018 AGM, are now vigorously pursuing multiple avenues to recover the Company’s funds spent by the Former Directors.

In this regard, the Company:

1. is forensically reviewing all of the transactions undertaken by the Former Directors over the preceding 12 months;
2. has instigated injunction proceedings in the USA against Drawbridge Energy Holdings Limited (**Drawbridge**), registered in the British Virgin Islands, Drawbridge Energy Operation & Management, LLC (**Drawbridge O&M**), Drawbridge Energy US Ventures LLC (**Drawbridge US Ventures**), both Delaware registered limited liability companies, and Orient FRC (US) LLC (**Orient US**), a Texas registered limited liability company, in order to prevent any further expenditure by Drawbridge of the capital which was contributed by Molopo under the Orient / Drawbridge Transactions;
3. is pursuing proceedings against the Former Directors personally; and
4. is considering possible legal action against former advisors of Molopo and any other potential actions relating to the Company entering into the Orient/Drawbridge Transactions.

The Board of Molopo will keep shareholders and the market advised of future developments as they occur.

Capital and operating expenses:

The Company holds AU\$15.02M in cash reserves at the end of the June 2018 quarter.

Operating expenses during the quarter were AU\$1.9M mainly comprising of legal expenses of AU\$1.2M incurred by the Former Directors.

Other expenses in the quarter relate to US exploration lease payments relating to transactions referred to below, taxation and general operating expenses.

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 30 January 2018 Molopo acquired the remaining 50% of Orient FRC Limited (**Orient**) shares by making a second payment of US\$7M to ESGM, the owner of the shares in Orient, having acquired the initial 50% in July 2017.

Subsequent to that transaction, the Company redeemed its joint venture partner shares in Orient and committed to full funding of Orient (total USD 21 million) in respect of the oil and gas exploration project in South Florida in which Orient has an interest being the Orient Project.

In February 2018 Molopo also partnered with Drawbridge for additional projects by transferring 100% of its interest in Orient US to Drawbridge in return for 30% interest in Drawbridge. This reduced the direct interest Molopo had in the Orient Project and gave Molopo an indirect interest in a range of additional oil and gas projects in the USA being the Combination Transaction.

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

- (a) on 30 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\$21M was used to fund an intercompany loan from Orient to its wholly owned subsidiary, Orient US.
- (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, the loan from Orient to Orient US was extinguished.

- (e) following completion of the Combination Transaction, Molopo had acquired, via Orient's 30% 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.; and
- (f) on 25 April 2018, Kerogen provided an extension to 1 April 2019 in respect of the drilling deadline for the first commitment well in the Florida project, subject to a number of conditions including that the application for a drilling permit must be filed on or before 1 August 2018.

Following completion of the Combination Transaction, Molopo reported that it had \$16.904M of cash as at 31 March 2018.

On 11 May 2018, ASX notified Molopo that ASX considered the Orient Transactions announced on 22 August 2017 (as modified by the announcement on 8 May 2018), and the subsequent Combination Transaction, to be a significant change to the nature or scale of Molopo's activities and ASX had exercised its discretion under Listing Rule 11.1.2 to require that the Orient Transactions be approved by Molopo shareholders and under Listing Rule 11.1.3 to require 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 advised that it considered that Molopo, under the direction of the Former Directors, had committed serious breaches of the ASX Listing Rules and may also have breached ss1041H and 1309 of the Corporations Act for making misleading disclosures to ASX.

On 18 May 2018, following Aurora's Declaration Application to the Panel, the Former Directors advised its shareholders that it intended to seek shareholder approval and satisfy the ASX readmission requirements, as described above.

The current Directors are concerned with the projects and structure of the Orient / Drawbridge Transactions and accordingly they do not intend to seek shareholder approval of the transactions.

Annual General Meeting

On 31 May 2018, at Molopo's AGM, the following changes to the Board were approved by shareholders:

Roger Corbett	Appointed as non-executive director (and subsequently appointed Chairman by the Board)
Ralph Curton	Appointed as Non-Executive Director
William Johnson	Appointed as Non-Executive Director
Anthony Hartnell	Appointed as Non-Executive Director

Baljit Johal	Removed by shareholders
Matthew Cudmore	Removed by shareholders
Richard Matthews	Removed by shareholders

Aurora Takeover Bid

On 12 September 2017, Aurora Funds Management Limited, as responsible entity of Aurora Fortitude Absolute Return Fund (AFARF), announced an off-market takeover bid for 100% of the shares in Molopo at a price of \$0.135 (13.5 cents) per share through a combination of cash and units in AFARF.

Under Aurora's off-market takeover bid:

- Molopo shareholders will be able to elect to receive the bid consideration in cash (capped at \$5 million in total) or the equivalent value in AFARF units, being units in an unlisted managed investment scheme.
- Accepting Molopo shareholders who elect to receive AFARF units will be able to request redemption of the units off-market at the prevailing net asset value-based redemption price in accordance with AFARF's constitution and fund updates.
- Acceptances for cash consideration that in aggregate exceed \$5 million would be scaled back, with the balance of the bid consideration satisfied by the issue of AFARF units.
- Aurora has stated that its present redemption guidelines to manage the liquidity requirements of the AFARF, being an unlisted scheme, limit or restrict the redemption of units to 5% of total funds on management in any given quarter, and consequently, the ability of holders of AFARF units to have their units redeemed is significantly limited or restricted.
- On 28 May 2018, Molopo released its third Supplementary Target Statement outlining its recent announcements and stated that its directors (namely the Former Directors) continue to unanimously recommend that shareholders reject Aurora's Bid.
- In light of the circumstances reported in the 8 May 2018 ASX announcement, Molopo failed to provide a Supplementary Target Statement disclosure in compliance with s644 of the Corporations Act and therefore the third Supplementary Target Statement contains omissions, insufficient and misleading information that did not offer shareholders a choice between seeking shareholder approval of the Orient / Drawbridge Transactions and Aurora's off market takeover bid.

Takeovers Panel proceedings

On 11 May 2018, 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:

1. 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.
2. 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.
3. it appeared that Molopo had misled the Takeovers Panel in prior Takeover Panel proceedings regarding the urgency and use of the US\$4.5 million shareholder loan to Orient.
4. 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.
5. 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 and subsequently ordered Molopo to pay \$24,105 in costs to Aurora representing costs, necessarily, properly and reasonably incurred by Aurora; plus \$46,477 in costs in relation to the off-market takeover bid from 1 January 2018 if the Bid is declared unconditional and Aurora obtains voting power of more than 50% of Molopo.

Legal actions:

Molopo Energy Canada Ltd - During the June quarter, there were no further developments in respect of the long standing legal action in Canada concerning the Company and Molopo Energy Canada Ltd, a wholly owned subsidiary of the Company.

Keybridge Capital Limited - In September 2017, Keybridge commenced proceedings in the Supreme Court of Western Australia against Molopo (which was subsequently transferred to the Supreme Court of Victoria) for statutory oppression and breach of the Listing Rules.

As part of those proceedings, Keybridge commissioned an independent expert report in relation to the Orient project leases. The expert valued Orient's interests in the Orient project at between US\$0 and US\$395,000. Keybridge submitted that this supported Aurora's proposition that the Orient / Drawbridge Transactions were non-commercial.

It is also submitted that the issues raised in the ASX letter dated 11 May 2018 support the submissions made in the Declaration Application that unacceptable circumstances had occurred. Keybridge had also commenced independent proceedings against the Former Directors alleging, inter alia, breach of director's duties in approving the Orient / Drawbridge Transactions.

Subsequent to the Molopo AGM, Molopo has settled proceedings brought by Keybridge against it, and by consent Molopo has been substituted as the Plaintiff in the proceedings against the Former Directors in the Supreme Court of Victoria.

Drawbridge - The current Directors intend to pursue all legal avenues available to Molopo to unwind the Orient / Drawbridge Transactions, recover the funds invested by the Company in the transactions and pursue the injunction proceedings which have been instituted to that end.

DEFINITIONS:

Aurora	Aurora Funds Management Limited as responsible entity of the Aurora Fortitude Absolute Return Fund
Aurora's Bid	Aurora's off-market takeover bid for Molopo announced on 12 September 2017
Combination Transaction	The transactions entered into pursuant to a contribution agreement between Orient and Drawbridge Holdings pursuant to which Orient agreed to (i) assign Orient's interest in the Orient Project to Orient US at completion and (ii) transfer its 100% interest in Orient US to Drawbridge Holdings, in consideration for receipt of a 30% non-voting interest in Drawbridge Holdings
Declaration Application	The Takeover Panel application made by Aurora on 14 May 2018
Drawbridge Holdings	Drawbridge Energy Holdings Ltd, a British Virgin Islands entity
EDA	The Exploration and Development Agreement, effective 1 July 2017, between Kerogen and Orient
ESGM	ESGM Investments Limited (special purpose vehicle said to be held by Dr Gil Feiler)
Former Directors	Messrs Baljit Johal, Matthew Cudmore and Richard Matthews
Kerogen	Kerogen Florida Energy Company LP
Keybridge	Keybridge Capital Limited, a substantial shareholder in Molopo
Orient	Orient FRC Ltd, a British Virgin Islands entity
Orient / Drawbridge Transactions	The Orient Transactions and the Combination Transaction
Orient Project	Orient's up to 50% working interest to explore for oil and gas in a mature oil province in South Florida, U.S.A. pursuant to the EDA
Orient Transactions	The acquisition by Molopo of 50% of Orient from Dr Gil Feiler, the redemption by Orient of 50% of Orient from ESGM and any loans by Molopo (or any of Molopo's subsidiaries) to Orient (or any of Orient's subsidiaries) or otherwise made in connection with the Orient Project
Orient US	Orient FRC (US) LLC, a subsidiary of Orient FRC Ltd

MOLOPO ENERGY LIMITED

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