



## MOLOPO ENERGY LIMITED

ASX Compliance Pty Limited  
20 Bridge Street  
Sydney  
NSW 2000  
Attn: Ms. Cheng Tang and Mr. James Gerraty

**By email**

23 April 2018

Dear Ms. Tang and Mr. Gerraty

**Molopo Energy Limited (MPO) – Response to Disclosure Query  
For Release to ASX**

We refer to the letter sent to MPO from ASX dated 20 March 2018.

You have asked that we respond to certain queries raised in respect of the following:

- MPO's announcement entitled "Molopo invests into Orient FRC and Florida petroleum assets" released on 22 August 2017;
- MPO's announcement entitled "Update on funding for Orient investment" released on 11 December 2017; and
- ASX's query letter to MPO dated 15 February 2018 and MPO's response dated 21 February 2018 and released on 21 February 2018.

We note that since the date of your letter we have provided responses to the ASX and the requested documents in several tranches. As you are aware, MPO is currently engaged in litigation initiated by Keybridge Capital Ltd, in the Supreme Court of Victoria, which relates to the Orient FRC Ltd transaction entered into by MPO last year and some of the information requested by ASX, by its letter dated 20 March 2018, relates to matters pertinent to the current litigation. In the circumstances of the litigation, it has been incumbent upon MPO to deal with the ASX queries, mindful of the litigation which touches on a number of matters raised in the ASX correspondence, to ensure this disclosure does not adversely impact the litigation. MPO's responses to the questions and requests for information by ASX are as set out below. This information is for publication on ASX.

**ASX Query: Please provide a copy of documents relating to the Orient FRC Ltd (“Orient”) transaction.**

These materials are not for release to the market and have been provided to ASX on a confidential basis.

**ASX Query: Please provide a copy of the latest financial statements for Orient.**

The previous board of MPO had not made any arrangements for separate financial statements to be prepared for Orient. It is a private BVI company and does not require its own financial statements to be prepared and/or separately audited in the ordinary course. MPO's interest in Orient will however be accounted for in MPO's financial report which will be lodged shortly.

**ASX Query: Did any of the directors of MPO vote against, or abstain from voting for, the Orient Acquisition? If so, who and why?**

We have answered this query on a confidential basis.

**ASX Query: Please list and quantify the “certain costs of the Orient Project” for which MPO was required to provide “US\$4.5 million in upfront funds” and which MPO has provided by way of a Shareholder Loan, as referenced in the Funding Announcement.**

Under the terms of the Orient shareholders’ agreement, Molopo was required to fund 50% of the Orient Project under the terms of the Exploration and Development Agreement (EDA).

The US\$4.5 million was funded primarily to demonstrate to the proposed operator that MPO was able to fund its share of commitments. It will in time be used to pay for the costs of the three commitment wells, Orient's share of a bond in favour of a landholder, delay rentals, costs to acquire new leases and extensions, and costs of the operations and management team.

Under the terms of the EDA, Orient is required to spud the first Commitment Well by no later than 1 May 2018 (although Orient is in discussions with Kerogen to seek an extension, see the details at MPO’s responses to ASX queries below). The proposed drilling works are a substantial undertaking which involves significant planning, mobilisation of labour, equipment, infrastructure, logistical support and other resources by the driller. Much of that needed to be implemented before any drilling work begun.

It was also necessary for Orient to engage a driller as soon as possible in order to be able to meet its commitments under the EDA. Orient was in the process of engaging an operator on confidential and commercially-sensitive terms to undertake (among other things) drilling works in relation to the Orient Project, and had to be in a position to satisfy the Operator that Orient had the ability to perform the Project as required, including meeting the financial costs and expenses associated with the drilling of the three Commitment Wells. It would not have been able to convince an operator to commence work on the Orient Project unless it could show that the Orient Project was viable and that the three Commitment Wells could be funded.

To summarise, the provision of these funds by MPO to Orient by way of loan was necessary in order for (among other things) (i) Orient to meet its contractual obligations; and (b) to demonstrate that Orient was not in breach of its representations and warranties (in particular regarding having sufficient funds) under the EDA.

**ASX Query: Please explain the purposes for which the US\$4.5 million shareholder loan to be made by Dr Feiler to Orient, as referenced in the Funding Announcement, will be used.**

Any shareholder loan made by Dr Feiler to Orient would have been utilised in the same manner as the loan from MPO, as detailed in the response above; that is, to fund the initial costs of the Orient project.

Dr Feiler has not to date executed any shareholder loan agreement with Orient. Molopo will provide further updates in due course.

**ASX Query: Please provide an update on:**

**Orient's progress in entering into the Joint Operating Agreement with Kerogen, as referenced in the Orient Announcement.**

Negotiations are ongoing and are being dealt with in connection with other amendments that have been proposed to the EDA, such as an extension to the drilling deadline.

**Orient's progress in engaging employees and obtaining "all relevant licences and permits to operate its business", as referenced in the Funding Announcement.**

Orient has engaged Drawbridge Energy Operation & Management, LLC (**Drawbridge**) to provide operational expertise and to be the "operator" under the EDA.

Drawbridge has recommended to Orient that an extension to the drilling deadline imposed by the EDA be sought from Kerogen. Drawbridge also recommended that Orient acquire additional acreage in order to enhance returns from the project before drilling the first commitment well under the EDA and before applying for drilling permits, each such action which would otherwise alert competitors to the location of proposed drilling sites and increase costs which Orient would incur if it then sought to acquire additional acreage. MPO is currently preparing a further disclosure in this regard. Orient has funded Drawbridge with US\$2 million in order to carry out its land strategy. This amount is part of the US\$4.5 million already advanced and is part of the 'leasehold costs' line item in the summary budget (noted below).

**Orient's progress in spudding the first commitment well, required to occur by 1 May 2018.**

This was delayed due to the actions of Keybridge and Aurora as explained further below.

The court proceedings initiated by Keybridge against MPO (**Keybridge Proceedings**) hampered Orient in engaging an operator, completing its strategy for the project and applying for drilling permits from the Florida Department of Environmental Protection, including by restricting MPO's ability to freely utilise its funds and comply with its obligations in respect of the Orient Project.

As announced, on 7 December 2017, 8 December 2017 and 7 March 2018 MPO defended (i) a court action whereby the restrictions imposed on it under the Keybridge Proceedings were lifted such that it was able to inject US\$4.5 million into Orient by way of shareholder loan (**Court Ruling**); and (ii) a takeover panel review where it was confirmed that MPO was able to continue to invest in Orient notwithstanding the attempts made by Aurora to construe MPO's funding obligations in respect of the Orient Project as an attempt to trigger the defeating conditions in Aurora's takeover bid for MPO (**Panel Ruling**).

During the period since the Court Ruling and the Panel Ruling, MPO and Orient have been working with Orient's operating partner, Drawbridge, to prepare their land strategy and obtain an extension from Kerogen in respect of the timing for commencing drilling. To date, this extension has been discussed, but not yet formally agreed. MPO will update the market as and when any agreement is reached.

**Whether Dr Feiler has contributed his US\$4.5 million shareholder loan to Orient, as referenced in the Funding Announcement.**

To date, Dr Feiler has not contributed a shareholder loan.

Due to the Keybridge Proceedings and the Aurora takeover panel review, and the ultimate restraint imposed on MPO to transfer funds to Orient in support of the Orient Project in Florida, Kerogen, Drawbridge and Dr Feiler, the other 50% shareholder of Orient, raised direct concerns with MPO as to MPO's ability to contribute funds in a timely manner to ensure that the Orient Project could be adequately and appropriately supported from a financial perspective as and when required.

MPO expects to make a further announcement on developments in this regard in the coming weeks.

**There are statements in the Funding Announcement suggesting that Orient has already identified its operating partner ("Before the operating partner will commence works...", "The operating partner has prepared a summary budget..."). Please respond to the following questions.**

**Who is the operating partner?**

See response above. The operating partner is Drawbridge.

**Does the operating partner have any affiliation with MPO, Kerogen or Dr Feiler?**

The board of MPO notes that certain employees of Drawbridge were former employees of Kerogen and/or have continuing roles with Kerogen. The board views this as positive from a commercial perspective, as the relevant employees have knowledge of the Orient Project and are best placed to assist in developing and enhancing value from it.

At the time of the appointment as Operator, the board confirmed that there was no affiliation between the Operator and MPO and/or Dr Feiler.

**What experience does the operating partner have drilling for petroleum in the US?**

The team members of Drawbridge working with MPO have extensive experience in drilling for petroleum in the US.

Drawbridge has three senior executive team members and five senior operational team members. Each member of the team has in excess of 35 years of experience in the oil and gas industry and all of them have worked for or on behalf of significant players in the oil and gas industry. The team has deep technical, managerial and commercial experience in subsurface evaluation, risk analysis and all aspects of production operations.

Members of the team have been involved in oil and gas investments globally, including North America, North Sea, Europe, Russia, Middle East, Africa, South America and Asia. In terms of North American experience, the team has relevant experience in drilling and production in Texas, Louisiana and the Gulf of Mexico. By way of example deal experience, representative deals/statements taken from CVs of the three executive members of the team include:

- Co-originator of a Canadian refineries, storage and LNG business which was taken private and later re-listed at a c.10x multiple;
- Responsibility for over 50 Production Sharing Agreements;
- African petroleum start up (4.5x multiple);
- Executed multiple 3D projects, lease, assemble exploration prospects and promote, drill and produce wells in South East Texas and South Louisiana;
- Directed the acquisition of 160,000 acres of options and leasehold in conjunction with shooting 467 SM 3D shoots in South East Texas;
- Created a project with USD1.8 million of funding and through acquisitions, divestitures and drilling, returned original investment in 12 months and generated 100% IRR for over 8 years; and
- Developed, promoted and drilled internally generated exploration prospects and managed operations for joint venture developed projects.

The executive team includes members with senior management and senior board experience at international listed petroleum companies. The operational team includes a Geologist/Geophysicist, a land manager, a Senior Reservoir Engineer, Senior Geologist, Senior Engineering and Regulatory Technician and a Senior Drilling and Compliance Engineer.

**Please provide details of the Summary Budget prepared by the operating partner referred to in the Funding Announcement.**

The Summary Budget provides the following categories of expenditure over a two year period from the start of drilling:

Expense	1-6 months	7-12 months	13-18 months	19-24 months	Total (US\$)
Drilling costs	\$3,700,000	\$3,700,000	\$3,700,000		\$11,100,000
Completion costs	\$650,000	\$1,300,000	\$1,300,000	\$650,000	\$3,900,000
Leasehold costs*	\$1,033,334	\$966,666			\$2,000,000
Management fee*	\$3,000,000				\$3,000,000
<b>Total</b>					<b>\$20,000,000</b>

Notes:

- The Leasehold Costs and Management costs will be incurred ahead of drilling commencement.
- The drilling costs include: tangible and intangible drilling costs, including location costs (for transportation of equipment and preparation of site), infrastructure and cost of drilling, including plant and machinery, infrastructure for managing mud, water and chemicals, survey work, ground clearing, drainage, wages, fuel, repairs and supplies.
- Completion costs include: preparation of well for production, including casing, tubing, perforating and treating the well, together with labor, completion materials, completion rig time and fluids.
- Leasehold costs comprise lease acquisition costs and payments due to existing leaseholders.
- Management fees comprise management fees of operators and consultants that they require in order to manage the drilling project.

Yours sincerely



Richard Matthews  
Company Secretary  
Molopo Energy Limited



20 March 2018

Richard Matthews  
Company Secretary  
Molopo Energy Limited

By email: rmatthews@molopoenergy.com

Dear Mr Matthews

**Molopo Energy Limited ("MPO"): Disclosure Query**

ASX Limited ("ASX") refers to:

- A. MPO's announcement entitled "Molopo invests into Orient FRC and Florida petroleum assets" lodged on the ASX Market Announcements Platform ("MAP") and released at 1:53pm on 22 August 2017 (the "Orient Announcement") disclosing that MPO had completed an acquisition of 50% of the shares in Orient FRC Ltd ("Orient") from Dr Gil Feiler for US\$7 million (the "Orient Acquisition").
- B. MPO's announcement entitled "Update on funding for Orient investment" lodged on MAP and released at 5:22pm on 11 December 2017 (the "Funding Announcement") disclosing, among other things, that MPO had advanced US\$4.5 million to Orient by way of a shareholder loan (the "Shareholder Loan").
- C. ASX's query letter to MPO dated 15 February 2018 and MPO's response dated 21 February 2018 ("Query Response") lodged on MAP and released at 5:33pm on 21 February 2018.

Having regard to the above, ASX asks MPO to respond separately to each of the following questions and requests for information:

- 1. Please provide a copy of the following documents for ASX to verify the information disclosed by MPO in the Orient Announcement, the Funding Announcement and the Query Response (these materials are not for release to the market).
  - 1.1. The agreement or agreements between Dr Gil Feiler and MPO relating to the Orient Acquisition.
  - 1.2. The Exploration and Development Agreement between Orient and Kerogen Florida Energy Company LP ("Kerogen") referenced in the Orient Announcement.
  - 1.3. The Loan Agreement for the Shareholder Loan from MPO to Orient.
  - 1.4. The Shareholder Agreement between Orient, MPO and Dr Feiler referred to in the Query Response.
  - 1.5. The minutes for the MPO board meeting(s) agreeing to enter into the agreements above to which MPO is a party.

- 1.6. A copy of the Morningstar report into the technical work carried out by Kerogen and the addendum supplementary report referenced in the Orient Announcement.
2. Please provide a copy of the latest financial statements for Orient (this is for release to the market).
3. Did any of the directors of MPO vote against, or abstain from voting for, the Orient Acquisition? If so, who and why?
4. Please list and quantify the “certain costs of the Orient Project” for which MPO was required to provide “US\$4.5 million in upfront funds” and which MPO has provided by way of a Shareholder Loan, as referenced in the Funding Announcement.
5. Please explain the purposes for which the US\$4.5 million shareholder loan to be made by Dr Feiler to Orient, as referenced in the Funding Announcement, will be used.
6. Please provide an update on:
  - 6.1. Orient’s progress in entering into the Joint Operating Agreement with Kerogen, as referenced in the Orient Announcement.
  - 6.2. Orient’s progress in engaging employees and obtaining “all relevant licences and permits to operate its business”, as referenced in the Funding Announcement.
  - 6.3. Orient’s progress in engaging “a reputable operating partner”, as referenced in the Funding Announcement.
  - 6.4. Orient’s progress in spudding the first commitment well, required to occur by 1 May 2018.
  - 6.5. Whether Dr Feiler has contributed his US\$4.5 million shareholder loan to Orient, as referenced in the Funding Announcement.
7. There are statements in the Funding Announcement suggesting that Orient has already identified its operating partner (“Before the operating partner will commence works...”, “The operating partner has prepared a summary budget...”). Please respond to the following questions.
  - 7.1. Who is the operating partner?
  - 7.2. Does the operating partner have any affiliation with MPO, Kerogen or Dr Feiler?
  - 7.3. What experience does the operating partner have drilling for petroleum in the US?
8. Please provide a copy of the Summary Budget prepared by the operating partner referred to in the Funding Announcement (this is for release to the market).

#### **When and where to send your response**

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than **10:00 a.m. AEDT on Monday, 26 March 2018**.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, the Company’s



obligation is to disclose the information “immediately”. This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent by e-mail to [cheng.tang@asx.com.au](mailto:cheng.tang@asx.com.au) and [james.gerraty@asx.com.au](mailto:james.gerraty@asx.com.au). It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

### **Listing Rule 3.1**

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity’s securities. Exceptions to this requirement are set out in Listing Rule 3.1A.

In responding to this letter, you should have regard to the Company’s obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B.

It should be noted that the Company’s obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

*[sent electronically without signature]*

Cheng Tang  
**Senior Adviser, Listings Compliance (Melbourne)**