MOLOPO ENERGY LIMITED

A.B.N. 79 003 152 154

ANNUAL REPORT

For the year ended 31 December 2017

TABLE OF CONTENTS

Corporate Directory

Directors

B. Johal (Managing Director and Chairman)
M. Cudmore (Independent Non-Executive Director)
R. Matthews (Executive Director)

Company Secretary

R. Matthews

Registered Office

Level 18
Collins Square, Tower 4
727 Collins Street
Docklands, Victoria 3008
Australia

Website

www.molopoenergy.com

Corporate Governance

The Company's annual corporate governance statement was released to ASX on the same day as this report and is available on the Company's website, at http://www.molopoenergy.com/company-profile/.

Auditor

BDO East Coast Partnership
Collins Square, Tower 4
Level 18, 727 Collins St
Melbourne, Victoria 3008
Australia

Bankers

National Australia Bank Limited
330 Collins Street
Melbourne, Victoria 3000
Australia

National Bank of Canada
301 6th Avenue SW
Calgary, Alberta T2P 4M9
Canada

Share Registry

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford, Victoria 3067
Australia
Telephone: (61) 3 9415 4000

Stock Exchange Listing

Australian Securities Exchange Limited
Level 4, North Tower
525 Collins Street
Melbourne, Victoria 3000
Australia

(ASX code: MPO)

Chairman’s Letter

Dear Shareholders

The 2017 financial year was a difficult and eventful year for Molopo, its shareholders and the Board of Directors. I was appointed to the Board in difficult circumstances, where the then current Managing Director and Interim Chairman was facing removal and the future was uncertain. This, on the back of a number of appointments and resignations during the year, meant that there was very little continuity at board level. Shortly following my appointment as a Director, I was elevated by my fellow board members to the position of Managing Director and Chairman of the Board.

All of this change at board level, the subsequent change of Company Secretary and the litigation that has been brought by certain shareholders, has meant that it has been extremely challenging to run Molopo for the last 5 months. One of the largest challenges that we have had is the action taken by Keybridge which alleges poor corporate governance during the time that the company was being run by the previous Board and poor quality disclosures which were overseen by the previous Company Secretary. We have been liaising with ASX in this regard and we are taking steps to improve the Company's processes and provide additional resources. However, notwithstanding those difficulties, we have made significant progress in a number of areas, not least our transition from being a cash box to us now being an entity which is poised for growth, having acquired interests in a number of exciting oil and gas exploration and development opportunities.

I am hopeful that we can now enter into a period of relative stability and I look forward to reaching out to Molopo's shareholders in the coming months with regular updates on our progress. I am hopeful that as we demonstrate progress during the coming months, that shareholders will support their Board and that the legal expense burden on Molopo, which has been one of our major expenses in recent years, will be reduced significantly.

One of the key things that a number of parties seem to have forgotten, is that we are principally an oil and gas exploration company. As such, our key goals during the 2018 financial year are to work with our partners to further develop the oil and gas exploration and development opportunities that we have acquired in the 2017 financial year and during the first quarter of the 2018 financial year. We have acquired an interest in Drawbridge Energy Holdings Ltd. As announced, one of the projects (Fenix) held by Drawbridge is already producing c.65-90 barrels of oil per day, with a significant ramp up in production forecast for that project in the coming year. We look forward to this and bringing our other projects online in the coming 6 months.

Yours faithfully

Mr Baljit Johal

Managing Director and Chairman

Directors' Report

Your Directors present their report (the **Report**) on the consolidated entity (the **Group**) consisting of Molopo Energy Limited (**Molopo** or the **Company**) and the entities it controlled at the end of, or during, the year ended 31 December 2017.

Directors

The names of the Directors in office at any time during the year and up to the date of this report are:

Name of Director	Position
Baljit Johal	Managing Director (appointed 24 October 2017, elevated to Managing Director on 10 November 2017)
Matthew Cudmore	Independent Non-Executive Director (appointed 24 October 2017)
Richard Matthews	Executive Director (appointed as a Director on 6 December 2017 and Company Secretary on 11 December 2017)
Samantha Tough	Independent Non-Executive Director (resigned 31 March 2017)
Alexandre Gabovich	Managing Director (appointed 27 February 2017 and removed 10 November 2017)
Ronnen Rosengart	Independent Non-Executive Director (resigned 28 December 2017)
Wayne Trumble	Independent Non-Executive Director (appointed 27 February 2017 and resigned 24 July 2017)
Yaniv Stern	Independent Non-Executive Director (resigned 27 February 2017)
Samuel Belzberg	Non-Executive Director (ceased to be a Director on 30 March 2018)

Director Information

Details of the Directors as at the date of this report are shown below.

None of the current Directors have been directors of other listed companies in the three years leading up to the end of this financial year.

Baljit Johal, BA (Hons), CIMA
Managing Director
Appointed as a Director on 24 October 2017.

On 24 October 2017, Mr Johal was appointed to the Board as Finance Director. On 10 November 2017, Mr Johal became the Managing Director and Chairman of Molopo.

Mr Johal has over twenty-five years' experience in finance, investment banking, corporate finance and private equity for various corporations including Nomura International, Nova Capital Management, Exxon and White Cloud Capital LLP. Mr Johal has been Finance Director, Financial Controller, managed international portfolios, and formulated investment strategies and exits whilst building strong finance teams. Mr Johal has extensive experience in cash management and turnaround strategies, including having worked on the portfolios of several leading U.K. banks and private equity backed investments where growth opportunities were identified and invested in. Mr Johal is an honours graduate in business from the University of North London (now the London Metropolitan University) and is a member of the Chartered Institute of Management Accountants.

Matthew Cudmore, BA (Hons)
Independent Non-Executive Director
Appointed as a Director on 24 October 2017.

In October 2017, Mr Cudmore was appointed to the Board as an Independent Non-Executive Director. Mr Cudmore is a graduate of Durham University, achieving Honours in Economics. He has worked across multiple asset classes within the financial services industry in Sydney, specialising in foreign exchange markets and hedging solutions as a senior currency dealer. Matthew's experience includes having worked for Bell Potter and World First Foreign Exchange. He currently works for the Commonwealth Bank of Australia.

Richard Matthews, BComm, CA
Executive Director and Company Secretary
Appointed as a Director on 6 December 2017.

In December 2017, Mr Matthews was appointed to the Board as the Finance Director. Mr Matthews is a chartered accountant with extensive commercial and industry experience. He was employed by KPMG NZ where he attained his accounting certification. Mr Matthews has extensive experience working with UK and internationally listed blue-chip companies, such as NYK Shipping, Gate Gourmet, Babcock International and Electrolux Home Products Pty Ltd where he held senior financial posts. In addition, Mr Matthews has gained valuable experience working in large multi-national private equity based businesses, such as IDG, Vue International and Atlantis Healthcare, the latter of which he was Group Financial Controller.

Mr Matthews has extensive operational experience involved in setting up and establishing a finance structure, implementing a finance system, establishing internal controls and governance protocols and building a finance team and relationships within the business.

Mr Matthews was appointed as company secretary on 11 December 2017 (replacing Mr Andrew Metcalfe).

Previous Directors:

Directors who left the Board during or since the end of the financial year are:

Samuel Belzberg, BComm, OBC, OC, LLD
Non-Executive Director

In July 2015, Mr Belzberg joined the Board as the representative of Molopo's substantial shareholder, Gibralt Capital Corporation. Mr Belzberg has extensive international experience in real estate and finance over 5 decades. He serves on various Boards, including Second City Capital Partners, Second City Capital Partners Fund I. L. P. and NYSE listed City Office Reit, Inc. In 1989 Mr Belzberg was awarded the Order of Canada and in 2002 he was promoted to Officer of the Order of Canada. Mr Belzberg holds a bachelors degree in commerce from the University of Alberta.

Mr Belzberg passed away and ceased to be a Director on 30 March 2018.

Samantha Tough
Independent Non-Executive Director

Ms Tough has extensive experience as a Company Director and Chairman of public companies. Ms Tough has considerable experience in the oil and gas sectors including four years as General Manager of the North-West Shelf Project. Her executive experience also spans roles as Senior Vice President, Strategic Counsel Natural Resources for Commonwealth Bank of Australia (ASX:CBA), Project Director of the Pilbara Power Project and Director Strategy of Hardman Resources Limited. (ASX:HDR). Ms Tough is currently Chairman of Aerison Pty Ltd (mining and oil and gas services), Chairman Proactiv Pty Ltd, Director Synergy (WA's largest gas and electricity provider), Director Saracen Mineral Holdings Limited (ASX:SAR) and Deputy Chairman of the Western Australian Academy of Performing Arts.

Ms Tough ceased to be a Director on 31 March 2017.

Alexandre Gabovich M. DESS, BA, DEUG
Managing Director

In February 2017, Mr Gabovich joined the Board and was appointed Managing Director on 8 March 2017. Mr Gabovich has a long history in international business and the energy industry and a strong track record of leading operations in emerging markets as well as in international business development. Mr Gabovich is a member of Noble Technologies, a leading Russian company focused on Oil and Gas downstream as well as a Managing Partner of S.I.S, an investment fund. He served as the Chief Executive Officer of PNO Consultants, Chief Executive Officer of Yperion Technology and investment professional at Gustav Leven Family Office. Mr Gabovich has a Master's Degree (DESS) in Systems Information and Communication from Paris I University - Sorbonne, a B.A in Languages, Literature and foreign cultures from Paris VIII University and an Academicals General Studies Degree (DEUG) - Paris VIII University.

Mr Gabovich ceased to be a Director on 10 November 2017.

Ronnen Rosengart
Independent Non-Executive Director

In April 2016, Mr Rosengart joined the Board at the nomination of substantial shareholder Ion Limited. Mr Rosengart is a Senior Geophysicist with 23 years' experience in 2D and 3D processing and imaging of land and marine data in several major oil producing companies. He has a background in research and development of software solutions for time and depth applications and has been the Managing Director of Oil Hunters Pty Ltd, a geoscience consulting company, since January 2007.

Mr Rosengart ceased to be a Director on 28 December 2017.

Wayne Trumble, Bus. Administration (Hons), GAICD
Independent Non-Executive Director

In February 2017, Mr Trumble joined the Board as an Independent Director.

Mr Trumble has over 35 years' experience in the energy industry having led downstream development of power generation facilities in Canada, the United States, New Zealand and Australia. His expertise includes thermal generation in gas and coal technologies as well as renewable wind and solar projects. Past positions include Managing Director, TransAlta Energy (Australia) Limited and Executive General Manager, Griffin Energy Pty Ltd. Mr Trumble is currently Chairman of Clean Energy Investment Holdings Pty (Public Unlisted), Non-executive Director of Energy Made Clean Pty Ltd, Non-Executive Director (member of the Audit and Risk Committee) of African Energy Resources (ASX: AFR) and Owners Representative – Energy at Gold Road Resources (ASX: GOR). Mr Trumble is a graduate of the Richard Ivey School of Business, University of Western Ontario and a member of the Australian Institute of Company Directors.

Mr Trumble ceased to be a Director on 24 July 2017.

Yaniv Stern
Independent Non-Executive Director

In August 2015, Mr Stern joined the Board at the request of a substantial shareholder, Ion Limited. He is a Managing Partner at Red Dot Capital Partners (Israel) and is the executive chairman of Eccentex (USA), a software company. Mr Stern has extensive international experience in strategic advisory predominantly working with private equity and institutional investors on investment strategy, deal evaluation and portfolio management. He holds a bachelors degree in Computer Engineering from the Technion - Israel Institute of Technology, and an MBA from Harvard Business School.

Mr Stern ceased to be a Director on 27 February 2017.

Principal Activities

The Group's principal activities during the year were to manage Canadian and Australian litigation proceedings (discussed below), to manage and protect the Company's capital base, and to continue to evaluate potential investments in the oil and gas sector. During the year the Company completed an investment into Orient FRC Ltd to facilitate an oil exploration project in Florida, USA. This investment was announced on 22 August 2017 and is discussed further in the operating review below. There were no other significant changes in the Group's activities during the year.

Operating and Financial Review

1. Financial Review

The net result attributable to the Group, after income tax expense, for the year ended 31 December 2017 was a loss of A$6.1 million (year ended 31 December 2016: Loss A$6,000). The loss arose from various costs incurred in the progression of the litigation matters and foreign exchange movements on its Canadian and US dollar held currencies.

During the year Company earned interest revenue from treasury management of its cash reserves of A$1.1 million and unrealised foreign exchange loss of A$1.78 million. The Company spent A$4.8 million on administration, employee and legal expenses during the year. This does not include a one-off Canadian tax payment of circa. A$600,000 made during the year. These costs include the money spent on the Company undertaking detailed assessment and due diligence on a number of global oil and gas opportunities.

In the second half of the financial year the Company completed an investment into Orient FRC Ltd to facilitate an oil exploration project in Florida. (The Orient project is discussed further in section 2.1 below.) As part of this investment, during the year the Company paid US$7.0 million to purchase a half share in Orient FRC Ltd and provided a shareholder loan of US$4.5 million to Orient.

As at 31 December 2017, the Group's net asset position was A$52.6 million (31 December 2016: A$58.8 million), and cash reserves were A$47.7 million (31 December 2016: A$67.5 million). Of this cash amount, 86% was held in Australian dollars, 13% in Canadian dollars and 1% in US dollars. The Canadian dollars are retained as an offset to the provision for the litigation which sits in a Canadian subsidiary.

Loss, Earnings per share ("EPS"), dividends and the share price at 31 December 2017 and the previous reporting periods is summarised below:

	Year ended 31 December	
	2017	2016
Net Loss after Income Tax (A$'000)	**(6,106)**	(6)
Basic Loss per share (cents)	**(2.452)**	(0.002)
Diluted Loss per share (cents)	**(2.452)**	(0.002)
Dividend per share (A$)	**0.00**	0.00
Share price at 30 June*	**N/A**	0.15
Share price at 31 December*	**N/A**	0.15

*Share price is in Australian dollars. 'Not applicable' as the Company's shares are suspended from trading on ASX.

No dividends were declared for the period.

2. Operational Review

2.1 Orient Project

The most significant operational development during the year was securing rights to participate in an oil and gas exploration project in Florida, USA.

Over the last financial year the Board and Management at that time reviewed a number of oil and gas exploration opportunities, consistent with the strategic aim of the Company to invest in exploration assets in low political and economic risk environments.

On 25 July 2017, the Company acquired 50% of the shares in Orient FRC Ltd (**Orient**) for USD $7 million. Orient is participating in an Exploration and Development Project with the Kerogen Florida Energy Company LP (**Kerogen**) for up to a 50% working interest within the State of Florida and any offshore water adjacent to the State of Florida to explore for oil and gas and initially drill wells in the Upper Sunniland Formation in South Florida. The project relates to land the subject of the Indigo Oil and Gas Lease located in the Upper Sunniland Formation in Hendry County, South Florida.

Details of the project were announced to the market on 22 August 2017 and 11 December 2017, with further updates released during April 2018.

The prospect is approximately 15,000 net acres in a mature oil province in South Florida and has potentially up to 65 drilling locations. There is an initial drilling program of up to 3 wells within the prospect for oil and gas. This will be a conventional vertical well drilling program and fracturing will not be required.

On 11 December 2017, the Company announced that it had advanced $4.5 million in upfront funds to Orient in accordance with funding commitments under the transaction agreements.

After the end of the financial year, the Company negotiated and agreed to changes in the Orient project, as part of a broader transaction which involves additional oil and gas projects. These changes are discussed in the "Subsequent Events" section below. Continuing to execute these projects will be a major focus for the Board during the 2018 financial year.

2.2 Management

As at the date of this Report, the Group has two employees, being Mr Baljit Johal (Managing Director) and Mr Richard Mathews (Executive Director and Company Secretary). During the reporting period, the then-current Chairman assumed executive functions from June 2016 until March 2017. In order to minimise the Company's employee commitments and long term fixed costs, staffing requirements were, and continue to be, performed by contractors on an as required basis.

3. Corporate Activities

During the year the Board also contended with a range of legal and corporate matters, including litigation and takeover offers. They are described below roughly in chronological order, although some of the Australian litigation and takeover matters are interrelated.

3.1 Litigation

Legacy Canadian Legal Proceedings

During the year the Company continued to manage the progress of legal actions 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.

The Molopo Board has centralised management of the litigation at Board level. Most of the legal work is undertaken by external law firm Bennett Jones LLP in Canada, overseen by lawyers and the Board in Australia.

Last year the Board was successful in negotiating a consolidation of all claims into one claim. The resulting single claim action is not expected to be brought to court before late 2019 / early 2020 calendar year.

The consolidated legal claims are 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$35.9) million general damages, C$1.0 (A$1.0) million punitive and aggravated damages, interest, GST and indemnity costs.

   The Group has made a C$8.4 (A$8.6) million provision in these financial statements in relation to this litigation (see Note 12 of the financial statements). Molopo Energy Limited, as parent company, is not a party to these proceedings.

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 $92.3 million general damages, C$1.0 (A$1.0) million punitive and aggravated damages, interest, GST and indemnity costs.

   Legacy has issued a third-party notice to both MECL and Molopo based on 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.

These two claims are now consolidated into a single lawsuit. This lawsuit is proceeding and in the reporting period, Molopo and MECL have exchanged records with the other parties and have completed the majority of oral questioning for discovery of the parties.

The following claims that were previously reported have now been dismissed.

3. 310 ULC commenced legal action in 2013 against three former MECL employees, claiming they induced MECL to breach the joint venture agreements the subject of the proceedings referred to in point 1 above. 310 ULC has sought against each employee special damages, C$65.0 (A$66.6) million general damages, C$2.0 (A$2.1) million punitive damages, interest, GST and indemnity costs.

   In June 2016, the Board negotiated and successfully sought this claim to be withdrawn by 310 ULC, at no cost to the Group, immediately prior to the consolidation of legal claims

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

During the reporting period, Molopo continued to hold the view that the proceedings were without merit, and in March 2017 Molopo was successful in having the proceedings summarily dismissed at no cost to the Group.

2017 Takeover Panel Matters

During the year the Company was a party to a number of Takeover Panel (**Panel**) proceedings[1], involving Aurora Funds Management Limited (**Aurora**) and Keybridge Capital Limited (**Keybridge**).

On 11 April 2017, the Company applied to the Panel to seek a declaration of unacceptable circumstances in relation to, amongst other things, the conduct of Keybridge and Aurora. Molopo contented that Keybridge and Aurora were associated with one another in relation to Molopo with a combined shareholding in Molopo of 37.87% which is a contravention of section 606 of the *Corporations Act 2001*. The Australian Securities and Investments Commission (**ASIC**) also made a similar application.

On 30 May 2017, in *Molopo Energy Limited 01 & 02*[2]*,* the Panel made a declaration of unacceptable circumstances due to the behaviour of two individuals, Mr Nicholas Bolton and Mr John Patton, who had strong connections to Keybridge and Aurora. Despite this, the Panel did not find not find an "association" between Keybridge and Aurora. The Panel made several orders including a divestment order (specifically, that some of the Molopo shares held by Keybridge and Aurora must be divested). The Panel accepted undertakings that neither Keybridge or Aurora would dispose of or acquire shares in Molopo without the Panel being given two clear business days' notice of any such proposed disposal or acquisition.

On 1 June 2017, in *Molopo Energy Limited 03R, 04R & 05R*,[3] Keybridge and Molopo each sought a review of the Panel's decision to make a declaration of unacceptable circumstances in *Molopo Energy Limited 01 & 02*. The Panel set aside the decision made in *Molopo Energy Limited 01 & 02*. The Panel considered and ultimately found that Keybridge and Aurora were associated and in contravention of section 606 of the Act and the substantial holder notice provisions. The Panel also agreed with the initial panel's decision regarding Mr Bolton and Mr Patton. The Panel made several orders, including:

- a divestment order (specifically, that 1.5% of Molopo's shares held by Keybridge, and 15.9% of Molopo's shares held by Aurora, are to be divested); and
- a standstill order whereby none of Aurora and Keybridge or their respective associates could, directly or indirectly, acquire any shares in Molopo for a period of 6 months (7 July 2017 - 7 January 2018).

On 15 September 2017, Aurora applied to the Federal Court of Australia for judicial review of the Panel's decision in *Molopo Energy Limited 03R, 04R & 05R*. Molopo is not a party to this proceeding. The matter is scheduled for a court hearing in October 2018.

In *Molopo Energy Limited 06*,[4] ASIC unsuccessfully applied to the Panel to vary the confidentiality directions given in *Molopo Energy Limited 01 & 02* and *Molopo Energy Limited 03R, 04R & 05R*.

On 24 August 2017, in *Molopo Energy Limited 07*,[5] Keybridge sought to vary the standstill order that was made in *Molopo Energy Limited 03R, 04R & 05R*. The Panel declined to vary the standstill order.

On 23 October 2017, in *Molopo Energy Limited 08,*[6] Molopo sought a declaration of unacceptable circumstances. Molopo submitted that Aurora was reckless in announcing the proposed bid of 12 September 2017 (discussed in section 3.2 below) on the basis that the bid could not practically proceed

[1] *Molopo Energy Limited 01 & 02* [2017] ATP 10, *Molopo Energy Limited 03R, 04R & 05R* [2017] ATP 12, *Molopo Energy Limited 06* [2017] ATP 14, *Molopo Energy Limited 07* [2017] ATP 17, *Molopo Energy Limited 08* [2017] ATP 20 and *Molopo Energy Limited 09* [2017] ATP 22

[2] [2017] ATP 10

[3] [2017] ATP 12

[4] [2017] ATP 14

[5] [2017] ATP 17

[6] [2017] ATP 20

until the standstill order had ended. Molopo further submitted that the effect of the circumstances was to inhibit the business and operations of the Molopo Board to the detriment of all shareholders as a whole and prevent Molopo's shares from resuming trading on the ASX. The Panel considered that there was no reasonable prospect that it would declare the circumstances unacceptable. The Panel declined to conduct proceedings.

On 22 November 2017, Aurora became aware that Molopo proposed to make a payment in order to fund certain costs of Orient that Aurora submitted would trigger the *no material transactions condition* in Aurora's takeover bid for Molopo (discussed in section 3.2 below). On 24 November, in *Molopo Energy Limited 09*,[7] Aurora sought an interim order from the Panel preventing Molopo from making a payment which would trigger the no material defeating condition. Aurora stated that the payment proposed by Molopo would constitute a frustrating action giving rise to unacceptable circumstances. On 8 December, the Takeovers Panel declined to make a declaration of unacceptable circumstances.

2017 Keybridge Litigation

The Company is involved in several lawsuits with Keybridge apart from the Takeovers Panel matters discussed above.

On 1 September 2017, Keybridge applied to the Supreme Court of Western Australia seeking Court orders under section 247A(1) of the *Corporations Act* 2001 to inspect Molopo's books and documents (the **inspection of records proceeding**).[8]

On 12 September 2017, Keybridge commenced further legal proceedings in the Supreme Court of Western Australian against Molopo and former director Ronnen Rosengart. Keybridge submitted that Molopo had committed oppressive conduct and their actions were contrary to the interests of members as a whole. These proceedings sought several orders including an injunction against Molopo expending any further funds in relation to the Orient Project (the **oppression proceeding**).[9]

On 2 November 2017, the Supreme Court of Western Australia ordered that the inspection of records proceeding and oppression proceeding be transferred to the Supreme Court of Victoria. As part of the oppression proceeding, Keybridge had sought to restrain Molopo from entering into any transaction that involved the expenditure of funds in excess of $250,000. In order to transfer the proceedings from Perth to Melbourne, Molopo gave an undertaking that it would not dispose of assets of a value more than $2.5 million or enter into any new transaction requiring expenditure of more than $2.5 million without first providing notice to Keybridge (the **undertaking**).

On 5 December 2017, the Supreme Court of Victoria dismissed an application from Keybridge that sought to restrain Molopo from paying $4.5 million to Orient to meet funding commitments for the Orient Project.

On 7 March 2018, the Supreme Court of Victoria discharged the undertaking entirely on the basis that it restricted the ability of the Company's directors to perform their functions and that it was an unfair and impermissible encroachment on their ability to act as Directors, as they are subject to the requirement to satisfy duties of Directors in any event.[10]

[7] [2017] ATP 22
[8] Supreme court of Western Australia Proceeding No. COR 216 of 2017
[9] Supreme court of Western Australia Proceeding No. COR 220 of 2017
[10] Supreme court of Victoria Proceeding No. SCI 2017/04752

3.2 Takeover bids

Takeover bids by Aurora

Throughout the second half of 2017, Aurora Funds Management Limited (**Aurora**), as responsible entity for Aurora Fortitude Absolute Return Fund (**AFARF**), attempted to take control of Molopo by making unsolicited off-market takeover bids.

On 27 July 2017, Aurora made a takeover bid for 100% of the shares in Molopo at a price of $0.18 per share through a combination of cash and units in AFARF. Aurora's Initial Intended Bid contained numerous defeating conditions, including a "no material transaction" defeating condition involving any single transaction of more than $2 million (**no material transaction defeating condition**).

On 22 August 2017, Molopo announced that it had entered into the Orient transaction (described in section 2.1 above). On 12 September 2017, Aurora announced the "withdrawal" of its previously announced proposed bid on the basis that Molopo's investment in Orient triggered a proposed condition in similar terms to the no material transaction defeating condition.

Also on 12 September 2017, Aurora announced a revised off-market takeover bid for Molopo offering consideration valued at $0.135 per share. As in the case of its withdrawn proposed bid, Aurora proposed that Molopo shareholders would be able to elect to receive the bid consideration in cash (capped at $5 million in total) or the equivalent value in new unquoted AFARF units. The announcement stated that the consideration had been reduced to reflect the estimated value dilutive impact of Molopo's acquisition of shares in Orient.

Aurora lodged its bidder's statement on 26 October 2017. The bidder's statement specified that the offer opened on 9 November 2017 and would close on 19 January 2018. In response to the Aurora bid, the Company lodged its target statement on 28 November, in which the Board unanimously recommended that shareholders reject the Aurora offer.

On 12 January 2018, Aurora announced a notice of variation to Aurora's takeover bid to extend the offer period and to announce a conditional increase in bid consideration (the **varied takeover bid**). The Offer Period was extended so that Offers will now remain open for acceptance until 20 April 2018. (On 13 April 2018 Aurora announced that the acceptance period had been extended to 20 June 2018.) The varied takeover bid consideration, which was previously offered at $0.135 for each Molopo share, was increased to $0.153 subject to certain conditions.

One of those conditions is that Molopo make an announcement to the ASX to the effect that it will not advance money to Orient beyond the US$4.5m referred to in Molopo's announcement of 11 December. That condition cannot be satisfied, as Molopo will be required to fund further amounts for the project, as Molopo had previously announced.

The Company released a supplementary target's statement on 19 January 2018 responding to the varied takeover bid, and a second supplementary target's statement on 19 March 2018. Again the Board unanimously recommended that shareholders reject the Aurora offer. The Board considers that Aurora's offer is inadequate and that it presents a significant liquidity risk for Molopo shareholders.

WAM Capital Limited

On 8 November 2017, WAM Capital Limited (**WAM Capital**) made an off-market takeover bid for all the issued fully paid ordinary shares in Molopo at a bid price of $0.135 for each share. WAM Capital's bid contained numerous defeating conditions, including a "no material transaction" defeating condition involving any single transaction of more than $2 million or an amount in aggregate in any series of transactions of more than $2 million. WAM Capital withdrew its bid on 4 January 2018, citing funding of the Orient Project triggering the defeating condition.

3.3 Corporate Matters

General Meetings of Shareholders

During the year the Company received two requisitions for general meetings of shareholders from Keybridge under section 249D of the *Corporations Act* 2001.

In the first notice, received on 13 March 2017, Keybridge called for a general meeting to remove all Directors of Molopo at that time and to replace them with three Directors nominated by Keybridge. This meeting, originally scheduled for 15 May, was postponed to 20 June 2017 to allow for the Takeover Panel proceedings to be concluded before the meeting. (This meeting also comprised the usual Annual General Meeting.) At this meeting the Directors in place at that time were re-elected by shareholders and the alternative Directors put forward by Keybridge were not elected to the Board.

On 13 September 2017 the Company received a second notice from Keybridge calling for a general meeting to consider the following resolutions:

- the removal of Alexandre Gabovich (at the time, Managing Director and Interim Chairman); and
- the appointment of William Johnson as Director of the Company (nominee of Keybridge).

At the General Meeting held on 10 November 2017, Alexandre Gabovich was removed as a Director. The resolution to appoint William Johnson to the Board was rejected by the Company's shareholders.

Suspension of trading

On 31 May 2017, the Company's shares were suspended from trading on ASX, at the request of the Company. The Company requested the trading halt pending the announcement of a strategic investment. On 7 June 2017, the ASX had advised the Company that it required Molopo to demonstrate by 31 July 2017, a level of oil and gas operations sufficient, in the ASX's opinion, to warrant the continued quotation of its securities.

On 4 July, the securities of the Company were reinstated to quotation. On 27 July 2017, the Company's shares were placed in voluntary suspension from trading on the ASX. The Company requested the trading halt pending the announcement of a strategic investment.

On 22 August 2017, the Company announced that the ASX was not satisfied that the Orient transaction (described in section 2.1 above) had a sufficient level of operations and therefore, the Company's securities would continue to be suspended. The ASX advised that the Company's shares would remain suspended until such a time that the ASX is satisfied that the Company has completed an acquisition or investment to meet the ASX Listing Rule requirements (i.e. so that Molopo is no longer considered a 'cash box').

4. Priorities for 2018

The Board remains committed to protecting the interests of all shareholders, while it transitions from dealing with legacy litigation and takeover issues, into once again focusing on its core business of oil and gas exploration.

The Board's priorities during 2018 include:

- Continuing to manage and/or resolve the legacy litigation matters;
- Executing the Orient project in Florida – and other projects in the USA;
- Having the Company's shares re-admitted to trading on ASX.

Significant Changes in State of Affairs

Other than as disclosed above, there were no significant changes in the state of affairs of the Group during the financial year.

Subsequent Events

Takeover Offers

The following events occurred after the end of the financial year relating to the takeover offers (discussed in section 3.2 above):

- On 4 January 2018, WAM Capital withdrew its intention to make a takeover bid for the Company.
- On 12 January 2018, Aurora varied the terms of the bidder's statement dated 26 October 2017. The offer period to Company shareholders was extended to 20 April 2018.
- The Company released a supplementary target's statement on 19 January 2018 responding to the varied Aurora takeover bid, and a second supplementary target's statement on 19 March 2018.
- On 13 April 2018, Aurora again varied the terms of the bidder's statement dated 26 October 2017. The offer period to Company shareholders was extended to 20 June 2018.

On 23 January 2018, Keybridge sent a letter of concerns to the Company shareholders. The Company responded to these concerns with an announcement on 27 April 2018.

On 7 March 2018, the Supreme Court of Victoria discharged the undertaking restraining Molopo from entering into any transaction that involved the expenditure of funds in excess of $250,000.[11]

Orient Project and other Drawbridge Projects

After the end of the financial year, the Company agreed to alter some of the terms of the Orient Project (described in section 2.1 above) and entered an agreement for new oil and gas projects in the USA.

In general terms, these changes are:

- Molopo taking ownership of 100% of Orient shares. The Company redeemed its joint venture partner's shares in Orient FRC Limited (**Orient**) and committed to full funding of Orient (total USD21 million) in respect of the oil and gas exploration project in South Florida in which Orient has an interest (**Orient Project**);
- Molopo partnering with Drawbridge for additional projects. Diversification and de-risking of assets held by Orient by way of contribution of fully funded Orient Project to Orient FRC US, LLC (**Orient US**) and transfer of 100% interest in Orient US to Drawbridge Energy Holdings, Ltd (**Drawbridge Holdings**) in return for a 30% interest in Drawbridge Holdings.
- The net impact is to reduce Molopo's interest in the Orient Project, while giving Molopo an indirect interest in additional oil and gas projects in the USA, as follows:
    - Permian Basin, Fenix Project: An interest in Fenix DB, LLC, a privately owned exploration and production company headquartered in Houston Texas, with current production of 65-90 BOPD (barrels of oil per day) with significant expansion potential;
    - South East Texas Gulf Coast, Onshore: Exploration and Development Opportunity onshore in South East Texas. The Project Area lies in the Expanded Yegua producing trend of the Texas Gulf Coastal Plain in Liberty, Hardin and Chambers Counties, Texas. Drawbridge Holdings has identified three 3D evaluated prospects (estimated 22 total wells) and nine mapped prospects;
    - South East Texas Gulf Coast, Offshore: Drawbridge Holdings has acquired seven offshore Gulf of Mexico lease blocks representing 40,320 gross acres. The newly acquired leasehold covers 3 identified prospects; and
    - USA Drilling Prospect Participation: The Drawbridge Holdings team is exposed to

[11] Supreme court of Victoria Proceeding No. SCI 2017/04752

numerous single and multiple well drilling opportunities. Two prospects are expected to be drilled soon in South Texas.

Other than those matters reported above, no matter or circumstance has arisen since 31 December 2017 that has significantly affected or may significantly affect the consolidated entity's operations, the result of those operations or the consolidated entity's state of affairs in future financial periods.

Likely Developments and Expected Results of Operations

Other than the matters described in the Operational Review and Subsequent Events sections of this report, there are no further matters to report relating to information on likely developments in the operations of the Group and the expected results of operations.

Environmental Regulation

The Group does not have any operations which are subject to any particular and significant environmental laws or regulation in Australia.

Dividends

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

Unissued shares

As at 31 December 2017, there were no unissued ordinary shares under options (Nil as at 31 December 2016).

Shares issued on the exercise of options

During the period, employees and Executives did not exercise any options to acquire shares in Molopo.

Performance Share Rights

The Company's Employee Incentive Scheme, under which performance share rights were offered, was discontinued in August 2015. There were no performance share rights outstanding, granted, vested, expired or cancelled during the year ended 31 December 2017 (or the prior year).

Indemnification of Officers and Auditor

During the financial year, the Group paid premiums to insure the Directors, Secretary of Molopo, and the officers of the Group. The policies prohibit the Company disclosing premiums.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against these officers in their capacity as officers of entities of the Group, and any other payments arising from liabilities incurred by these officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a deliberately fraudulent or wilful breach of duty by the officer or are otherwise prohibited by the *Corporations Act* 2001.

The Company has entered into Deeds of Access, Insurance and Indemnity for all Directors of Molopo as well as Deeds of Insurance and Indemnity for executives that act as Directors or officers of a Group Company.

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. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act* 2001.

Directors' Meetings

The following table sets out the number of Directors' meetings held and attended by each Director (while they were a Director) during the year ended 31 December 2017.

Board of Directors meetings:	Number of meetings attended	Number of meetings held
B. Johal (appointed 24 October 2017)	3	3
S. Belzberg	9	9
M. Cudmore (appointed 24 October 2017)	3	3
R. Matthews (appointed 6 December 2017)	2	2
S. Tough (resigned 31 March 2017)	1	1
A. Gabovich (appointed 27 February 2017 and removed 10 November 2017)	5	5
R. Rosengart (resigned 28 December 2017)	8	9
W. Trumble (appointed 27 February 2017 and resigned 24 April 2017)	2	2
Y. Stern (resigned 27 February 2017)	1	1

Auditor's Independence Declaration

The auditor's independence declaration as required under Section 307C of the *Corporations Act* 2001 is set out immediately following this report.

Non-Audit Services

The Directors are satisfied that the provision of non-audit services during the year, by the Auditor BDO East Coast Partnership (or by another person or firm on the Auditor's behalf) is compatible with the general standard of independence imposed by the *Corporations Act* 2001.

The Directors' reasons for being satisfied that the provision of those non-audit services did not compromise the auditor independence requirements of the Act are:

- all non-audit services were subject to the corporate governance procedures adopted by Molopo and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the Auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in the Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the Auditor's own work, acting in a management or decision making capacity for Molopo, acting as an advocate for Molopo or jointly sharing risks and rewards.

During the period, the following fees were paid or payable for non-audit services provided by the auditor:

			Year Ended 31 December 2017 A$	Year Ended 31 December 2016 A$
Non-Audit Services:				
Tax Compliance Services	-	BDO Australia	**14,895**	13,176
	-	BDO Canada	**-**	74,074
			14,895	87,250

Rounding of amounts

The Company is of the kind referred to in ASIC Corporations (Rounding in financial/directors' Report) Legislative Instrument 2016/91, dated 24 March 2016 and in accordance with that Legislative Order amounts in the Directors Report and the Financial Statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Remuneration Report (audited)

About this Report

This report is prepared in accordance with section 300A of the Australian *Corporations Act* 2001 and corporate governance guidance in Australia. Australian legislation requires disclosures in respect of Key Management Personnel (**KMP**) which is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. For the purposes of this report and for the year ended 31 December 2017, the KMP comprise the Non-Executive Directors (the "NEDs"), Executive Directors and Company Secretary of Molopo Energy.

Compensation for the KMP is paid in Australian dollars (**A$**).

Quoted prices and volume weighted average price of shares are expressed in A$.

Key Remuneration Principles

Other than the Executive Directors' remuneration that is reported below, there are no other key remuneration principles. The Board discontinued the Short-Term Incentive Plan (**STIP**) and LTIP Long-Term Incentive Plan (**LTIP**) effective 9 August 2015. None of the KMP at the date of this report have any entitlements under the STIP or LTIP.

Executive Remuneration

Executive remuneration packages contain the following key elements:

(a) Primary benefits – salary / fees, bonuses and non-monetary benefits;
(b) Post-employment benefits including superannuation; and
(c) Other benefits.

As at 31 December 2017 the Group has only two executives:

Mr Baljit Johal was appointed Managing Director of the Company in November 2017.
Key terms of his appointment are:

- Salary: $180,000 plus superannuation
- Termination: 3-month notice

Mr Richard Matthews was appointed Executive Director and Company Secretary of the Company in December 2017.
Key terms of his appointment are:

- Salary: $120,000 plus superannuation
- Termination: 3-month notice

Remuneration Report (audited)

Remuneration Table

The following table discloses the remuneration of the KMP of the Group during the year ended 31 December 2017:

2017	Short-term benefits			Post-employment benefits		Termi-nation benefits	Share-based payments Equity-settled		Total
	Salary & fees	Bonus	Other Benefits	Super - annuation	Other		Shares & units	Performance Share Rights	
	$	$	$	$	$	$	$	$	$
Executive Directors									
B. Johal[1]	**45,000**	**-**	**-**	**4,275**	**-**	**-**	**-**	**-**	**49,275**
R. Matthews[2]	**10,000**	**-**	**-**	**950**	**-**	**-**	**-**	**-**	**10,950**
Non-Executive Directors									
M. Cudmore[3]	**11,290**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**11,290**
S. Belzberg	**60,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**60,000**
Y. Stern[4]	**10,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10,000**
S. Tough[5]	**41,150**	**-**	**-**	**17,553**	**-**	**143,616**	**-**	**-**	**202,319**
W. Trumble[6]	**24,732**	**-**	**971**	**2,468**	**-**	**-**	**-**	**-**	**28,171**
A. Gabovich[7]	**207,362**	**-**	**-**	**17,548**	**-**	**60,225**	**-**	**-**	**285,135**
R. Rosengart[8]	**60,000**	**-**	**4,051**	**-**	**-**	**-**	**-**	**-**	**64,051**
R.Chan[9]	**7,554**	**-**	**24**	**-**	**-**	**-**	**-**	**-**	**7,578**
Officers									
A. Metcalfe[10]	**286,883**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**286,883**
Total	**763,971**	**-**	**5,046**	**42,794**	**-**	**203,841**	**-**	**-**	**1,015,652**

1 B. Johal was appointed 24 October 2017
2. R. Matthews was appointed 6 December 2017
3. M. Cudmore was appointed 24 October 2017
4. Y. Stern resigned 27 February 2017
5. S. Tough resigned 31 March 2017
6. W. Trumble resigned 24 July 2017
7. A. Gabovich resigned 10 November 2017
8. R. Rosengart resigned 16 January 2018
9. R. Chan is a director of Molopo's Canadian subsidiaries
10. A. Metcalfe resigned 11 December 2017

The following table discloses the remuneration of the KMP of the Group during the year ended 31 December 2016:

2016	Short-term benefits			Post-employment benefits		Termi-nation benefits	Share-based payments Equity-settled		Total
	Salary & fees	Bonus	Other Benefits	Super - annuation	Other		Shares & units	Performance Share Rights	
	$	$	$	$	$	$	$	$	$
Non-Executive Directors									
S. Tough	136,987	-	-	13,013	-	-	-	-	150,000
A. Sormann[1]	55,000	-	-	-	-	-	-	-	55,000
S. Belzberg	60,000	-	-	-	-	-	-	-	60,000
Y. Stern	60,000	-	-	-	-	-	-	-	60,000
R. Rosengart[2]	45,000	-	-	-	-	-	-	-	45,000
R. Chan[3]	15,292	-	-	-	-	-	-	-	15,292
Officers									
A. Metcalfe	153,600	-	-	-	-	-	-	-	153,600
Total	525,879	-	-	13,013	-	-	-	-	538,892

1 A.Sormann resigned on 30 November 2016
2. R.Rosengart was appointed on 27 April 2016
3. R. Chan is a director of Molopo's Canadian subsidiaries

Performance Share Rights, Performance Rights and Options granted to Key Management Personnel

As the LTIP was discontinued on 9 August 2015, there were no Performance Share Rights and Performance Rights issued to key management personnel of the Group during the year ended 31 December 2017 or the year ended 31 December 2016.

Non-Executive Director Remuneration Structure

Non-Executive Director Remuneration consists of base fees, other payments for additional services outside the scope of Board and Committee duties, and statutory superannuation contributions. Non-executive Directors do not earn retirement benefits other than superannuation for Australian Directors, are not entitled to any form of performance-related remuneration and do not participate in any equity scheme.

The remuneration table for the year ended 31 December 2017 shows fees paid to non-executive Directors. In addition to these fees, Non-Executive Directors are entitled to reimbursement of reasonable travel, accommodation and other expenses incurred in attending meetings of the Board, committees and shareholders, or while engaged on Molopo business. Non-Executive Directors are not entitled to compensation on termination of their Directorships.

Molopo's Non-Executive Director fee cap is A$650,000 as approved by shareholders at the 2010 annual general meeting. The current board has reduced the amount being spent on Non-Executive Directors to approximately $120,000 per year at present.

Executive & Director Shareholdings

Directors, officers, employees and their related parties must not enter into transactions in products associated with shares or options in the Company that operate to limit the economic risk of holding the shares or options in the Company during a prohibited period, and must not enter into transactions in products associated with shares or options in the Company that operate to limit the economic risk of holding any unvested shares or options in the Company at any time.

Directors, officers, employees and their related parties must not trade in any securities of the Company (including shares, options, contracts for difference, warrants, or derivatives) for speculative reasons or short-term gain.

Other than Mr Samuel Belzberg, no current Director has a relevant interest in shares, debentures, and rights or options in shares or debentures of Molopo or a related body corporate as at the date of this report.

Executive KMP's Personal Shareholdings

At the date of this report, no executive key management personnel hold shares in the Company.

Key management personnel options holdings

As of 31 December 2017, no Directors or officers hold any unlisted options of Molopo Energy Limited.

Key Management Personnel Shareholdings

The following table sets out the shareholdings of key management personnel of the Group during the:

(a) Year ended 31 December 2017
(b) Year ended 31 December 2016:

31 December 2017	Balance at 1 January 2017 No.	Granted No.	Issued on vesting of PSRs No.	Purchase No.	Sales No.	Other No.	Balance at 31 December 2017 No.
B. Johal[1]	-	-	-	-	-	-	-
R. Matthews[2]	-	-	-	-	-	-	-
M. Cudmore[3]	-	-	-	-	-	-	-
S. Belzberg	**22,501,734**	-	-	-	-	-	**22,501,734**
Y. Stern[4]	-	-	-	-	-	-	-
S. Tough[5]	-	-	-	-	-	-	-
W. Trumble[6]	-	-	-	-	-	-	-
A. Gabovich[7]	-	-	-	-	-	-	-
R. Rosengart[8]	-	-	-	-	-	-	-
R.Chan[9]	-	-	-	-	-	-	-
Officers							
A. Metcalfe[10]	**69,193**	-	-	-	-	-	**69,193**
Total	**22,570,927**	-	-	-	-	-	**22,570,927**

1. B. Johal was appointed 24 October 2017
2. R. Matthews was appointed 6 December 2017
3. M. Cudmore was appointed 24 October 2017
4. Y. Stern resigned 27 February 2017
5. S. Tough resigned 31 March 2017
6. W. Trumble resigned 24 July 2017
7. A. Gabovich resigned 10 November 2017
8. R. Rosengart resigned 16 January 2018
9. R. Chan is a director of Molopo's Canadian subsidiaries
10. A. Metcalfe resigned 11 December 2017

31 December 2016	Balance at 1 January 2016 No.	Granted No.	Issued on vesting of PSRs No.	Purchase No.	Sales No.	Other No.	Balance at 31 December 2016 No.
S. Tough	-	-	-	-	-	-	-
A. Sormann[1]	-	-	-	-	-	-	-
S. Belzberg	22,501,734	-	-	-	-	-	22,501,734
Y. Stern	-	-	-	-	-	-	-
R. Rosengart[2]	-	-	-	-	-	-	-
Officers							
A. Meltcalfe	69,193	-	-	-	-	-	69,193
Total	22,570,927	-	-	-	-	-	22,570,927

1. A.Sormann resigned on 30 November 2016
2. R.Rosengart was appointed on 27 April 2016

Use of Remuneration Consultants

The Board periodically uses external consultants to provide advice on matters relating to remuneration. However, no external consultants were utilised during the year ended 31 December 2017 or the year ended 31 December 2016.

Prior Year Remuneration Report

The Remuneration Report for the year ending 31 December 2016 was passed by shareholders at the annual general meeting held on 20 June 2017 with 54% of votes voting in favour of the resolution. As more than 25% of votes were against the resolution, this constitutes a 'first strike' under the executive remuneration related provisions of the *Corporations Act* 2001.

Under these provisions, in general terms, if there are at least 25% votes against the remuneration report at two consecutive AGM's, then shareholders will have the opportunity to immediately vote on a "Board Spill Resolution" at the second AGM, as required by section 250V of the *Corporations Act* 2001. If the Board Spill Resolution is approved, a further meeting of shareholders must be held within 90 days (the Board Re-election Meeting). The Directors (save for a Managing Director, where applicable) of a company will cease to hold office prior to the Board Re-election Meeting but are eligible to stand for re-election at the same meeting. Key Management Personnel and their closely related parties may not vote on the adoption of the remuneration report or the Board Spill Resolution but can vote at the Board Re-election Meeting.

The Remuneration Report which was voted on at the meeting on 20 June 2017, covered the year ending 31 December 2016. None of the current Directors were on the Board during that time, and were not paid any remuneration during that year. The current Directors all joined the Board in the second half of 2017, and the remuneration paid to them is set out in the Remuneration Report.

The current executive members of the board have salaries which are significantly lower than their predecessors. This is notwithstanding the significant workload that has been involved in respect of dealing with the litigation commenced by Keybridge, the takeover panel proceedings involving Aurora and the significant travel demands placed on Mr Johal in respect of the efforts being undertaken by the Board to source new oil and gas opportunities for the Company.

The Board expects that a large degree of the votes against the 2016 remuneration report were from Keybridge and Aurora, and interests associated with them. These shareholders have initiated several lawsuits against the Company (and some Directors), tried to spill the Board, and, in Aurora's case, launched a takeover offer, all of which have been defended by the Company and its Directors. It is therefore not surprising that they would vote against the remuneration report.

Given all of these factors, the current Directors have not taken any particular action in response to the vote on the 2016 remuneration report. The remuneration paid to the current Directors is disclosed in this 2017 Remuneration Report, which will be tabled for consideration at the forthcoming Annual General Meeting.

Signed in accordance with a resolution of the Directors.

Baljit Johal
Managing Director

7 May 2018
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 2017, 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 2018

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 2017, 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 2017 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.

Investment in Orient Joint Venture

Key audit matter	*How the matter was addressed in our audit*
The Group entered into the Orient FRC Ltd Joint Venture during the reporting period. We focused on this area 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 accounting treatment of the investment. Disclosures relating to the investment are included in Note 8 of the financial report.	Our audit procedures included: • Reviewing and evaluating the clients position paper on the accounting treatment and supporting documentation; • Reviewing the transactions making up the value of the investment and the third party documentation supporting valuation at 31 December 2017; and • Consultation with internal technical accounting specialists in relation to the appropriate accounting treatment in line with AASB 11: *Joint Arrangements* and AASB 128: *Investment in Associates and Joint Ventures*.

Calculation and classification of provision for legal costs

Key audit matter	*How the matter was addressed in our audit*
At 31 December 2017 the Group's statement of financial position includes provision for legal claims. The Group has also disclosed a contingent liability in relation to these claims. There is a significant level of judgement, calculation and uncertainty applied to the calculation of the provision and contingent liabilities arising. We focused on this area as a key audit matter due to the nature of the provision and its material impact on the financial report of Molopo Energy Limited. Disclosures relating to the legal cases are included in Note 11 and Note 18.	Our audit procedures included: • Reviewing the appropriateness of the calculation of the provision provided by the entity and evaluation of the supporting documentation to support the calculation; • Consultation with the Groups' legal representatives and review of written representations in relation to the legal cases; and • Assessment of 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 2017, 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 19 to 23 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Molopo Energy Limited, for the year ended 31 December 2017, 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

James Mooney
Partner

Melbourne, 7 May 2018

Molopo Energy Limited

Consolidated Statement of Financial Position
As at 31 December 2017

	Note	**31 December 2017 A$000**	31 December 2016 A$000
CURRENT ASSETS			
Cash and cash equivalents	14(a)	**47,689**	67,486
Trade and other receivables	7	**22**	54
TOTAL CURRENT ASSETS		**47,711**	67,540
NON CURRENT ASSETS			
Investments in Joint Venture	8	**8,695**	-
Loan to Related Party	8	**6,043**	
TOTAL NON CURRENT ASSETS		**14,738**	-
TOTAL ASSETS		**62,449**	67,540
CURRENT LIABILITIES			
Trade and other payables	10	**1,266**	212
TOTAL CURRENT LIABILITIES		**1,266**	212
NON-CURRENT LIABILITIES			
Provisions	11	**8,544**	8,583
TOTAL NON-CURRENT LIABILITIES		**8,544**	8,583
TOTAL LIABILITIES		**9,810**	8,795
NET ASSETS		**52,639**	58,745
EQUITY			
Share Capital	12	**157,321**	157,321
Reserves	13	**(4,061)**	(4,061)
Accumulated Losses		**(100,621)**	(94,515)
TOTAL EQUITY		**52,639**	58,745

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Molopo Energy Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017

	Note	**Year ended 31 December 2017 A$000**	Year ended 31 December 2016 A$000
Continuing operations			
Interest and other income	4	**1,143**	1,784
Share of loss of joint venture		**(90)**	-
Administration expense		**(1,241)**	(431)
Salary and employee benefit expense	5	**(373)**	(385)
Legal, management and consulting fees		**(3,199)**	(944)
Finance costs		**-**	(44)
Share based payments	5	**-**	111
Foreign exchange loss	5	**(1,784)**	-
(LOSS)/PROFIT BEFORE INCOME TAX		**(5,544)**	91
Income tax expense from continuing operations	6	**(562)**	(97)
(LOSS) FROM CONTINUING OPERATIONS		**(6,106)**	(6)
OTHER COMPREHENSIVE INCOME NET OF TAX			
Foreign currency translation	13	**-**	21
Total other comprehensive income		**-**	21
TOTAL COMPREHENSIVE INCOME		**(6,106)**	15
Total comprehensive income for the period attributable to:			
Continuing operations		**(6,106)**	15
		(6,106)	15

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Molopo Energy Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017 (continued)

	Note	**Year ended 31 December 2017**	Year ended 31 December 2016
Loss per share attributable to the owners of Molopo Energy Limited:			
Basic loss per share (cents per share)	21	**(2.452)**	(0.002)
Diluted loss per share (cents per share)	21	**(2.452)**	(0.002)
Loss per share from continuing operations			
Basic loss per share (cents per share)	21	**(2.452)**	(0.002)
Diluted loss per share (cents per share)	21	**(2.452)**	(0.002)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Molopo Energy Limited

Consolidated Statement of Changes in Equity
For the year ended 31 December 2017

	Ordinary Shares A$000	Share Based Payment Reserve A$000	Foreign Currency Translation Reserve A$000	(Accumulated Losses) A$000	Total Equity A$000
At 1 January 2017	**157,321**	**-**	**(4,061)**	**(94,515)**	**58,745**
Loss for the period	**-**	**-**	**-**	**(6,106)**	**(6,106)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**(6,106)**	**(6,106)**
Balance as at 31 December 2017	**157,321**	**-**	**(4,061)**	**(100,621)**	**52,639**
At 1 January 2016	157,321	111	(4,082)	(94,509)	58,841
Loss for the year				(6)	(6)
Other comprehensive income	-	-	21	-	21
Total comprehensive income for the year	-	-	21	(6)	15
Transactions with owners in their capacity as owners					
Share based payments	-	5	-	-	5
Transfer from the Share Based Payment Reserve[1]	-	(116)	-	-	(116)
Balance as at 31 December 2016	157,321	-	(4,061)	(94,515)	58,745

1. Performance Share Rights issued by the company in prior reporting periods and which vested or were cancelled in the current reporting period have been reversed to the profit and loss account. The Share Based Payment Reserve has been reduced by $116 thousand to $nil to reflect that there are no remaining long term Performance Rights.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Molopo Energy Limited

Consolidated Statement of Cash Flows
For the year ended 31 December 2017

	Note	**Year ended 31 December 2017 A$000**	Year ended 31 December 2016 A$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**-**	-
Payments to suppliers and employees		**(3,798)**	(1,551)
Interest received		**1,175**	1,847
Income tax paid		**(562)**	(97)
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	14(b)	**(3,185)**	199
CASH FLOWS FROM INVESTING ACTIVITES			
Investments accounted for using the equity method		**(8,785)**	-
Loan to Related Party		**(6,043)**	
NET CASH USED IN INVESTING ACTIVITIES		**(14,828)**	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(18,013)**	199
Opening cash and cash equivalents		**67,486**	67,263
Effect of exchange rate changes		**(1,784)**	24
CLOSING CASH AND CASH EQUIVALENTS	14(a)	**47,689**	67,486

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Molopo Energy Limited
For the year ended 31 December 2017

1. CORPORATE INFORMATION

Molopo Energy Limited ("Molopo" or the "Company") is a company incorporated and domiciled in Australia and listed on the Australian Securities Exchange ("ASX"). The consolidated financial report of the Company as at and for the year ended 31 December 2017 comprises the Company and its subsidiaries (together referred to as the "Group").

Operations and Principal Activities

The Group's principal activities during the year were to respond to the Canadian and Australian litigation proceedings, to manage and protect the Company's capital base, to manage the Company's current investment into Orient FRC Ltd (**Orient**) and to continue to evaluate potential investments in the oil and gas sector. On 25 July 2017, the Company acquired 50% of the shares in Orient FRC Ltd (Orient) for USD $7 million (**Orient Transaction**).

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Australian Accounting Standards (including Australian Accounting Interpretations) and other pronouncements of the Australian Accounting Standards Board ("AASB"). The consolidated Financial Report of the Group complies with International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB"). The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

The financial report was authorised for issue on the date of signing the Directors' Declaration.

(b) Basis of measurement

The financial report has been prepared on a historical cost basis, except for available for sale non-financial assets and investments, which have been measured at fair value.

The financial report is presented in Australian ("A") dollars and rounded to the nearest one thousand dollars.

(c) Changes in accounting policy and disclosures

No changes in accounting policies occurred during the period.

2. BASIS OF PREPARATION (continued)

(d) New and revised Standards and Interpretations

The Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current year. The adoption has not had any significant impact on the amounts reported in this financial report but may affect the accounting for future transactions or arrangements.

(e) Significant Judgments and Key Assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following:

- ***Taxation***

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the Consolidated Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Consolidated Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to Profit or Loss.

- ***Provision and litigation***

Judgement is required in assessing the likely outcome of the litigation and the assessment of the amount of costs to provide for. The Group determines the provision based on commercial judgement taking into consideration legal opinion.

2. BASIS OF PREPARATION (continued)

(f) New Accounting Standards and Interpretations not yet mandatory or early adopted

At the date of approving the financial report, the following Australian Accounting Standards and Interpretations relevant to the Group have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the year ended 31 December 2017.

Standard/Interpretation	**Effective for the annual reporting period beginning on**	**Expected to be initially applied in the financial year ending**
AASB 15 ‘Revenue from Contracts with Customers’ and AASB 2014-5 ‘Amendments to Australian Accounting Standards arising from AASB 15’	1 January 2018	31 December 2018
AASB 9 ‘Amendments to Australian Accounting Standards - Financial Instruments’	1 January 2018	31 December 2018
AASB 16 ‘Amendments to Australian Accounting Standards - Leases’	1 January 2019	31 December 2019

The Directors anticipate that the above standards and interpretations will not have a material impact on the financial report of the Group in the year of initial application based on current operations.

(g) Corporations Act 2001 Amendments

During the year ended 31 December 2017 there have been no material amendments to the *Corporations Act* 2001 that the Group was required to adopt.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising Molopo Energy Limited (the parent entity) and all subsidiaries that Molopo Energy Limited controlled for the year ended 31 December 2017.

Subsidiaries are all those entities over which the Company has control. Control is achieved when the company has power over the entity, is exposed to or has rights to variable returns from its involvement with the entity and the ability to use its power to affect those returns. The Company reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The accounts of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. All intercompany balances, transactions, and unrealised profits arising from intra-consolidated entity transactions, have been eliminated in full. Full details pertaining to all controlled entities are provided in Note 17.

The acquisition of subsidiaries or a group of assets meeting the definition of a business are accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Segment Reporting

The Group determines and presents operating segments (refer to Note 20) based on the information that is internally provided to the Board of Directors and the Executive Management Team (the chief operating decision makers).

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with any of the Group's other components) whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment, assess its performance and for which discrete financial information is available.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements. Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category called "all other segments".

(c) Foreign Currency Translation

(i) Foreign currency transactions

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The functional currency of the parent entity is Australian dollars. For the purpose of consolidated financial statements, the results and financial position of each entity in the group are expressed in Australian dollars, which is the presentation currency for the consolidated financial statements.

Transactions in foreign currencies on initial recognition in the functional currency are recorded by applying to the foreign currency amount the spot exchange rate at the date of the transaction.
At each statement of financial position date:

- Foreign currency monetary items are reported using the closing exchange rate;
- Non-monetary items which are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- Non-monetary items which are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Exchange rate differences arising on the settlement of monetary items or on translating monetary items at exchange rates different from those at which they were initially translated during the period, or in previous financial statements, are recognised in profit or loss in the period in which they arise, with the exception of exchange rate differences arising on a monetary item that forms part of the net investment in a foreign operation which are recognised initially in a separate component of equity and recognised in profit or loss on disposal of the net investment.

(ii) Foreign operations

The following procedures are used in translating the results and financial position of foreign operations from their respective functional currencies to the Group's presentation currency (Australian dollars):

- Assets and liabilities at the closing rate at the balance sheet date;
- Income and expense items at average monthly exchange rates; and
- Exchange rate variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Cash and Cash Equivalents

Cash and cash equivalents in the Consolidated Statement of Financial Position comprise cash and short-term deposits with an original maturity 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.

(e) Trade and Other Receivables

Trade receivables are recognised initially at fair value (original invoice amount), less allowance for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

(f) Trade and Other Payables

Liabilities for trade creditors and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for the goods and services received, whether or not billed to the consolidated entity. Due to their short-term nature they are not discounted. The amounts are unsecured and usually paid within 30 days of recognition.

Payables to related parties are recognised and carried at the nominal amount. Interest is not taken up as income on any related party payables.

(g) Employee Benefits

(i) Wages, salaries

Liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(iii) Defined contribution superannuation plan

Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the periods during which the services are rendered by employees.

(iv) Share based payments

The Group has previously provided benefits to employees (including the Executive Director) in the form of share based compensation, whereby employees render services in exchange for rights over shares.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Employee Benefits (continued)

The Board had previously approved the grant of options, performance share rights and performance rights as incentives to attract executives and to maintain their long-term commitment to the Company. These benefits were awarded at the discretion of the Board (equity-settled transactions).

The costs of these equity-settled transactions are measured by reference to the fair value of the equity instruments at the date on which they are granted. The fair value of performance share rights granted is determined using the twenty-day volume weighted average price ("VWAP") of the Company's shares immediately prior to grant date. The fair value of options granted is determined by using a Black-Scholes option pricing technique.

The fair value of performance rights granted is also determined using the VWAP of the Company's shares immediately prior to grant date. However, since a performance right can ultimately vest into nil to 100 shares, an additional consideration is the current best estimate of the number of shares that will ultimately vest in three years based on performance factors.

The costs of these equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the "Vesting Period"), ending on the date on which the relevant employees become fully entitled to the equity instrument ("Vesting Date").

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of (i) the fair value at grant date of the award; (ii) the current best estimate of the number of equity instruments that will vest, considering such factors as the likelihood of employee turnover during the Vesting Period and the likelihood of non-market performance conditions being met and (iii) the expired portion of the Vesting Period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Until an equity instrument has vested, any amounts recorded are contingent and will be adjusted if more or fewer equity instruments vest than were originally anticipated to do so. Any equity instrument subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the recipient of the award, as measured at the date of modification.

If an equity-settled transaction is cancelled (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new equity instrument is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new equity instrument are treated as if they were a modification of the original award, as described in the preceding paragraph.

The dilutive effect, if any, of outstanding options and performance share rights and performance rights is reflected as additional share dilution in the computation of diluted earnings per share.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(i) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest

Interest revenue is recognised on an accrual basis using the effective interest rate method.

(j) Income Tax

Income tax expense is comprised of current and deferred tax. Current and deferred taxes are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Differences relating to investments in subsidiaries and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for deductible temporary differences and carry-forward unused tax losses and unused tax credits, to the extent that it is probable that taxable amounts will be available against which the deductible temporary differences, carry-forward unused tax losses and unused tax credits can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable amounts will be available to allow all or part of the deferred tax asset to be utilised. Deferred tax assets may be subsequently recognised or past reductions reversed to the extent that it becomes probable that there will be sufficient taxable amounts to utilise the deferred tax asset.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST except:

i. where the GST incurred on a purchase of goods is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as an expense item as applicable; and

ii. receivables and payables are stated with the amount of the GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

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

(l) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares, which comprise share options, Performance Share Rights and Performance Rights granted to employees.

(m) Rounding of amounts

The Company is of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Legislative Instrument 2016/91, dated 24 March 2016 and in accordance with that Legislative Order amounts in the Directors Report and the Financial Statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

4. INTEREST AND OTHER INCOME

	Year ended 31 December 2017 A$000	Year ended 31 December 2016 A$000
Other income		
Interest	**1,143**	1,755
Unrealised foreign exchange gain	**-**	29
Total other income	**1,143**	1,784

5. EXPENSES AND LOSSES

	Year ended 31 December 2017 A$000	Year ended 31 December 2016 A$000
Expenses		
Director and employee benefits expenses:		
Salaries and wages	**355**	375
Superannuation	**18**	10
Total salary and employee benefit expense	**373**	385
Share based payments[1]	**-**	5
Cancellation of Share based payments[1]	**-**	(116)
Total share based payments	**-**	(111)
Foreign exchange loss	**1,784**	-

1. Performance Share Rights issued by the Company in prior reporting periods and cancelled in the current reporting period have been written-back to the profit and loss account. The Share Based Payment Reserve has been reduced to nil to reflect the value of the remaining long term Performance Rights that vested on 31 December 2016.

6. INCOME TAX

	Year ended 31 December 2017 A$000	Year ended 31 December 2016 A$000
(a) Income Tax Expense		
Current income tax expense	**(562)**	(97)
Deferred tax expense	**-**	-
Total Income Tax Expense	**(562)**	(97)
(b) Reconciliation between tax expense and pre-tax accounting loss		
(Loss)/Profit before income tax	**(6,106)**	91
Prima facie tax expense on profit at 30%	**1,832**	(27)
Tax effect of items which are not deductible/(taxable) for income tax purposes:		
Unused tax losses	**(322)**	-
Non-deductible expenses and unbooked temporary differences	**(1,510)**	(70)
Under provision of Canadian tax	**(562)**	-
Income tax expense	**(562)**	(97)

The Company has accumulated unused tax losses in the parent entity of A$2.9 million (2016: A$1.86 million) for which no deferred tax asset has been recognised. The Company has accumulated unused income tax losses of A$22 million (2016: A$22 million) in its Canadian entities and A$109 million (2016: A$109 million) in its United States subsidiary for which no deferred tax asset has been recognised.

7. TRADE AND OTHER RECEIVABLES

	31 December 2017 A$000	31 December 2016 A$000
Interest and other receivables	**22**	54
	22	54

The Group's exposure to credit and currency risk and impairment losses to trade and other receivables is disclosed in Note 24.

8. INVESTMENT IN JOINT VENTURE

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 in December for future commitments in the Orient Project.

At 31 December 2017, the other 50% shareholding is held by ESGM Investments Limited who holds equal voting rights as the Company.

The Company has recognised the interest in Orient as an investment and has adopted the equity method of accounting in accordance with AASB 128: Investment in Associates and Joint Ventures

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

	31 December 2017 A$000
Result of the Orient Joint Venture	
Loss for the period	**(181)**
Other comprehensive income	**-**
Total comprehensive income for the period	**(181)**
The Company's share	50%
The Company's' share of Orient Joint Venture loss	(90)
Financial position of the Orient Joint Venture at year end	
Current assets	**2,507**
Non-current assets	**6,076**
Total assets	**8,583**
Current liabilities	**153**
Non-current liabilities	
Loan from Molopo Energy Limited	**6,043**
Total Non-current liabilities	**6,043**
Total liabilities	**6,196**
Net Assets	**2,387**
Reconciliation of the Company's carrying amount	
Opening carrying amount	**-**
Investment in Joint Venture	**8,785**
Foreign exchange difference	**-**
Share of loss after income tax	**(90)**
Closing carrying amount	**8,695**
Loan to Orient Joint Venture	**6,043**

9. FRANKING ACCOUNT

	31 December 2017 A$000	31 December 2016 A$000
The balance of the Company's franking account is a franking credit balance of:	**14,706**	14,706

10. TRADE AND OTHER PAYABLES

	31 December 2017 A$000	31 December 2016 A$000
CURRENT		
Trade creditors	**743**	206
Other creditors and accruals	**523**	6
	1,266	212

11. PROVISIONS

	31 December 2017 A$000	31 December 2016 A$000
NON-CURRENT		
Provision for legal claim	**8,544**	8,583
	8,544	8,583

Provision for Legal Claim

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.

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, the JV Partner 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.

The matter is continuing in the ordinary course with the Court. No court date has yet been set and the standard preparatory litigation processes are being undertaken.

The movement in the past two years in the provision for legal claim arises solely from fluctuations in foreign exchange rates in the period. The Board is satisfied that the progress of the litigation process has not provided evidence to suggest the C$8.4 (A$8.6) million provision is inappropriate. The Board therefore considers the provision to be appropriate.

12. SHARE CAPITAL

	31 December 2017 A$000	31 December 2016 A$000
(a) Issued and paid-up capital		
Ordinary shares fully paid	**157,321**	157,321
	157,321	157,321
(b) Movement in shares on issue		
Balance at beginning of period	**157,321**	157,321
Issue of shares	**-**	-
	157,321	157,321
(c) Share Capital Movement (Number of Shares)		
On Issue at beginning of period	**249,040,648**	249,040,648
Total number of shares at end of period	**249,040,648**	249,040,648

(d) Terms and conditions of contributed equity

Ordinary shares - There are 249,040,648 ordinary fully paid shares on issue at 31 December 2017 (31 December 2016: 249,040,648). The Company has unlimited authorised capital with no par value. Ordinary shares entitle the holder to the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(e) Share Options and Performance Share Rights

In relation to share options and performance share rights over ordinary shares refer to Note 15 for full details of the unlisted Employee Incentive Options, Performance Share Rights ('PSR's) and Performance Rights ("PR") held at the end of the financial period. At 31 December 2017, no such interests remained on issue.

13. RESERVES

	Share Based Payments Reserve A$000	Foreign Currency Translation Reserve A$000	Total A$000
At 1 January 2017	**-**	**(4,061)**	**(4,061)**
Other comprehensive income	-	-	-
Share based payments	-	-	-
Balance at 31 December 2017	**-**	**(4,061)**	**(4,061)**
At 1 January 2016	111	(4,082)	(3,971)
Other comprehensive income	-	21	21
Share based payments	5	-	5
Correction to Share Based Payments Reserve [1]	(116)	-	(116)
Balance at 31 December 2016	-	(4,061)	(4,061)

The investment fluctuation reserve comprises both market and currency movements and all present impairments or gains and losses on investments in equity instruments that are not held for trading.

Share Based Payment Reserve

The share based payment reserve comprises all vested but unexercised options and an amortised portion of the PSRs and PSRs granted.

Foreign Currency Translation Reserve

The foreign currency translation reserve comprises all foreign currency differences, net of any tax, arising from the translation of the financial statements of foreign operations.

14. CASH FLOW STATEMENT

	31 December 2017 A$000	31 December 2016 A$000
(a) Reconciliation of cash		
Cash balance comprises:		
-Cash at bank	**23,385**	10,128
-Short-term deposits	**24,304**	57,358
Closing cash balance	**47,689**	67,486
(b) Reconciliation of the operating result after tax to the net cash flows from operations		
(Loss) after tax	**(6,106)**	(6)
Non-Cash Items		
Unrealised foreign exchange gain	**1,784**	(29)
Share based payments	**-**	5
Share based payments	**-**	(116)
Share of loss of Joint Venture	**90**	-
Adjust for changes in assets and liabilities		
Decrease in trade and sundry debtors	**32**	92
Increase/(decrease) in trade and sundry creditors	**1,054**	(50)
Increase/(decrease) in legal claim provision	**(39)**	324
Effect of exchange rate changes	**-**	(21)
Net cash flows (used in)/from operating activities	**(3,185)**	199

15. SHARE BASED PAYMENTS

(a) Employee Performance Share Rights and Performance Rights Scheme

The Group previously had an ownership-based compensation scheme for employees. In accordance with the provisions of the scheme, the consolidated entity's employees were awarded Performance Share Rights ("PSRs) and Performance Rights ("PRs") in accordance with the rules of the Company's Employee Incentive Scheme. Each PSR entitled the holder to one ordinary share upon the satisfaction of specified performance criteria. Each PR entitled the holder to up to 100 ordinary shares upon the satisfaction of specified performance criteria. PSR and PR holders did not have any right, by virtue of the performance share right, to participate in any share issue of Molopo or any related body corporate.

During the year ended 31 December 2017 and 31 December 2016 the Board approved Nil PSRs.

There were nil PSRs outstanding during the year ended 31 December 2017 (or the year ended 31 December 2016).

(b) Expenses arising from option and share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of Director and employee benefit expenses are detailed below:

	31 December 2017 A$000	31 December 2016 A$000
(c) Share based payments		
Total equity-settled options based payments recognised as an expense during the period	**-**	5

16. PARENT ENTITY

As at, and throughout, the year ended 31 December 2017, the parent company of the Group was Molopo Energy Limited. The results and financial position of the parent entity are detailed below:

	31 December 2017 A$000	31 December 2016 A$000
Result of the parent entity		
Loss for the period	**(6,017)**	(124)
Total comprehensive income for the period	**(6,017)**	(124)
Financial position of the parent entity at year end		
Current assets	**53,753**	58,853
Total assets	**53,753**	58,853
Current liabilities	**1,114**	197
Total liabilities	**1,114**	197
Total equity of the parent entity comprising of:		
Share Capital	**157,321**	157,321
Accumulated loss	**(104,682)**	(98,665)
Total equity	**52,639**	58,656

Parent entity contingencies and commitments

The parent entity has no contingent liabilities or commitments at 31 December 2017 (2016: Nil). The provision for legal claim sits within the subsidiary entity, Molopo Energy Canada Limited.

17. CONTROLLED ENTITIES

The following table lists the details of controlled entities as at 31 December 2017:

Name of controlled entity	Country of incorporation	Class of share	Percentage Holding	
			31 Dec 2017	31 Dec 2016
Molopo Energy Limited (parent entity)	Australia	Ordinary		
Molopo USA LLC	USA	Ordinary	**100%**	100%
Molopo Energy Texas LLC	USA	Ordinary	**100%**	100%
Molopo Energy Holdings Ltd	Canada	Ordinary	**100%**	100%
Molopo Energy Canada Ltd	Canada	Ordinary	**100%**	100%
Molopo Canada Callco Ltd	Canada	Ordinary	**100%**	100%

18. CONTINGENT LIABILITIES

There were a series of legal actions 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.

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 made a C$8.4 (A$8.6) million provision in these 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 still at an early stage and 310 ULC has not progressed the litigation for nearly 2 years.

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.

   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.

These two claims are now consolidated into a single lawsuit. This lawsuit is proceeding and in the reporting period, Molopo and MECL have exchanged records with the other parties and have completed the majority of oral questioning for discovery of the parties.

In March 2017 contingent liabilities disclosed in 2016, in respect of legal action brought by 310 ULC against three former employees of MECL and action against Molopo (Parent) were dismissed at no cost to the Group.

19. EXPENDITURE COMMITMENTS

No expenditure commitments exist as at 31 December 2017 (2016: nil)

20. SEGMENT INFORMATION

Identification of reportable segments

Segment information is prepared in conformity with the consolidated entity's policies described in Note 3. There were no inter-segment sales.

	Australia	Canada	USA	Total
Year ended 31 December 2017	**A$000**	**A$000**	**A$000**	**A$000**
Interest revenues	**1,045**	**98**	**-**	**1,143**
Income tax expense	**(562)**	**-**	**-**	**(562)**
Reportable segment (loss)/profit after tax	**(5,102)**	**1,604**	**(2,608)**	**(6,106)**
Reportable segment assets	**53,989**	**8,231**	**229**	**62,449**
Reportable segment liabilities	**1,113**	**8,670**	**27**	**9,810**
Year ended 31 December 2016				
Interest revenues	1,673	82	-	1,755
Income tax expense	-	(97)	-	(97)
Reportable segment profit/(loss) after tax	163	(142)	(27)	(6)
Reportable segment assets	58,842	8,453	245	67,540
Reportable segment liabilities	197	8,598	-	8,795

.

21. EARNINGS PER SHARE

	31 December 2017 A$000	31 December 2016 A$000
The following reflects the loss and share data used in the calculation of basic and diluted loss per share:		
Net loss	**(6,106)**	(6)
Net loss from continuing operations	**(6,106)**	(6)
Weighted average number of ordinary shares on issue in the calculation of basic loss per share	**249,040,648**	249,040,648
Effect of dilution		
Share options and Performance Share Rights dilutive		
Weighted average number of ordinary shares adjusted for the effect of dilution	**249,040,648**	249,040,648
Basic loss per share (cents per share)	**(2.452)**	(0.002)
Basic loss per share (cents per share)	**(2.452)**	(0.002)
Earnings per share from continuing operations		
Basic loss per share (cents per share)	**(2.452)**	(0.002)
Basic loss per share (cents per share)	**(2.452)**	(0.002)

Apart from as mentioned above, there have been no other transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

22. RELATED PARTY INFORMATION

(a) Key management personnel

Details of key management personnel

The key management personnel of the Group during the financial year were:
- B. Johal
- S. Belzberg
- M. Cudmore
- R. Mathews
- R. Rosengart
- S. Tough
- A. Gabovich
- W. Trumble
- Y Stern
- R. Chan (Non-Executive Director of the Company's three Canadian subsidiaries); and
- A. Metcalfe (Company Secretary)

Key management personnel compensation

The aggregate compensation of the Group's key management personnel is set out below.

	31 December 2017 A$000	31 December 2016 A$000
Short-term employee benefits	**764**	526
Other benefits	**5**	-
Post employment benefits	**43**	13
Termination Payments	**204**	-
	1,016	539

Loans with key management personnel (and their related parties)

During the reporting period, there have been no loans by the Group to key management personnel.

(b) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 17.

(c) Wholly owned group transactions

During the year ended 31 December 2017, the transactions with controlled entities consisted of movements in the respective inter-company loan accounts. As at 31 December 2017, Molopo Energy Limited loan balances with its subsidiary companies were: Molopo Energy Texas LLC $53,408,695 (31 December 2016: $53,408,695); Molopo Energy Holdings Ltd receivable of $924,482 (31 December 2016: $924,482); Molopo Energy Canada Ltd payable of $210,461 (31 December 2016: $355,133 payable); and Orient FRC Ltd $6,245,827 (31 December 2016: $Nil) for costs in relation to operation of the respective areas. These balances have been eliminated in the consolidated entity. During the year, no amounts (31 December 2016: $Nil) were charged by the parent entity to the subsidiary companies for services provided. All loans have been provided on an interest free basis and have no fixed repayment date.

23. AUDITORS REMUNERATION

			31 December 2017	31 December 2016
Audit Services:				
Audit services - BDO			**42,772**	35,640
			42,772	35,640
Non-Audit Services:				
Tax compliance services	-	BDO Australia	**14,895**	13,176
	-	BDO Canada	**-**	74,074
			14,895	87,250

24. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, market risk (including interest rate risk, commodity price risk, equity price risk and currency risk), credit risk and liquidity risk. This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and their management of capital.

Risk management framework

To manage and limit the effects of financial risks the Board of Directors has approved the Risk Management Policy. The Group'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 Group. The Group at present does not use derivative financial instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates and foreign exchange, and ageing analysis for credit risk. The policies approved at balance date are outlined below.

Financial risk management is carried out by the Company Secretary and Chief Financial Officer under policies approved by the Board of Directors. The Chief Financial Officer identifies, evaluates and manages the financial risks of the Company. The Board provides written policies which also cover specific areas, such as foreign exchange risk, interest rate risk and credit risk.

(a) Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices, such as interest rates, commodity prices, equity prices and foreign exchange rates.

(i) 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.

(ii) Price risk Commodity price risk

The Group does not hold oil & gas assets and is therefore not subject to any commodity price risk.

(iii) Currency risk

The Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Group has exposure to the Canadian Dollar and US Dollar. Measuring the exposure to foreign exchange risk is achieved by monitoring and performing sensitivity analysis on the Group's financial position.

24. FINANCIAL RISK MANAGEMENT (continued)

Currency risk exposure

The carrying amounts of the Group's foreign currency denominated financial assets and liabilities in entities which do not have the corresponding functional currency at the reporting date are as follows:

	CAD($'000)	USD($'000)
31 December 2017		
Cash and cash equivalents	**8,233**	**229**
31 December 2016		
Cash and cash equivalents	8,245	177

Sensitivity Analysis

A 10 percent change of the Australian dollar against the USD and the CAD at 31 December 2017 would have increased / (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Impact on Post Tax Profit Higher/(Lower)		**Other Comprehensive Income Higher/(Lower)**	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
	A$000	A$000	**A$000**	A$000
AUD/CAD + 10%	**807**	845	**807**	845
AUD/CAD - 10%	**(807)**	(845)	**(807)**	(845)
AUD/USD + 10%	**18**	25	**18**	25
AUD/USD - 10%	**(18)**	(25)	**(18)**	(25)

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.

24. FINANCIAL RISK MANAGEMENT (continued)

(b) 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.

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding to settle transactions on the due date. The Group does not have any borrowings and therefore does not have any exposure to meeting external borrowing commitments. Management monitors rolling cash forecasts to ensure it can meet operational and investment requirements.

(d) Net Fair Values

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level	Valuation method
Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Financial asset or liability	Fair value method
Cash, cash equivalents and short-term deposits	The carrying amount approximates fair value because of their short-term to maturity (Level: n/a).
Receivables and Payables	The carrying amounts approximate fair value (Level: n/a).

24. FINANCIAL RISK MANAGEMENT (continued)

(e) Capital Management

The Group's objectives when managing capital are to maintain a strong capital base capable of withstanding significant cash flow variability, whilst providing the flexibility to pursue its growth aspirations. The Group aims to maintain an optimal capital structure to reduce the cost of capital and maximise shareholder returns. The capital structure of the Group currently consists of cash and cash equivalents and equity.

The Group will balance its overall capital structure through the issue of new shares, or the issue of new debt where considered appropriate.

The Group is not subject to any externally imposed capital requirements.

25. SUBSEQUENT EVENTS

Takeover Offers

The following events occurred after the end of the financial year relating to the takeover offers (discussed in Section 3.2 of the Directors' Report):

- On 4 January 2018, WAM Capital withdrew its intention to make a takeover bid for the Company.
- On 12 January 2018, Aurora varied the terms of the bidder's statement dated 26 October 2017. The offer period to Company shareholders was extended to 20 April 2018.
- The Company released a supplementary target's statement on 19 January 2018 responding to the varied Aurora takeover bid, and a second supplementary target's statement on 19 March 2018.
- On 13 April 2018, Aurora again varied the terms of the bidder's statement dated 26 October 2017. The offer period to Company shareholders was extended to 20 June 2018.

On 23 January 2018, Keybridge sent a letter of concerns to the Company shareholders. The Company responded to these concerns with an announcement on 27 April 2018.

On 7 March 2018, the Supreme Court of Victoria discharged the undertaking restraining Molopo from entering into any transaction that involved the expenditure of funds in excess of $250,000.[12]

Orient Project and other Drawbridge Projects

After the end of the financial year the Company agreed to alter some of the terms of the Orient Project (described in section 2.1 of the Directors' Report) and entered an agreement for new oil and gas projects in the USA.

In general terms, these changes are:

- Molopo taking ownership of 100% of Orient shares. The Company has redeemed its joint venture partner's shares in Orient FRC Limited (**Orient**) and committed to full funding of Orient (total USD21 million) in respect of the oil and gas exploration project in South Florida in which Orient has an interest (**Orient Project**);
- Molopo partnering with Drawbridge for additional projects. Diversification and de-risking of assets held by Orient by way of contribution of fully funded Orient Project to Orient FRC US, LLC (**Orient US**) and transfer of 100% interest in Orient US to Drawbridge Energy Holdings, Ltd (**Drawbridge Holdings**) in return for a 30% interest in Drawbridge Holdings.

[12] Supreme court of Victoria Proceeding No. SCI 2017/04752

25. SUBSEQUENT EVENTS (continued)

- The net impact is to reduce Molopo's interest in the Orient Project, while giving Molopo an indirect interest in additional oil and gas projects in the USA, as follows:
  - Permian Basin, Fenix Project: An interest in Fenix DB, LLC, a privately owned exploration and production company headquartered in Houston Texas, with current production of 65-90 BOPD (barrels of oil per day) with significant expansion potential;
  - South East Texas Gulf Coast, Onshore: Exploration and Development Opportunity onshore in South East Texas. The Project Area lies in the Expanded Yegua producing trend of the Texas Gulf Coastal Plain in Liberty, Hardin and Chambers Counties, Texas. Drawbridge Holdings has identified three 3D evaluated prospects (estimated 22 total wells) and nine mapped prospects;
  - South East Texas Gulf Coast, Offshore: Drawbridge Holdings has acquired seven offshore Gulf of Mexico lease blocks representing 40,320 gross acres. The newly acquired leasehold covers 3 identified prospects; and
  - USA Drilling Prospect Participation: The Drawbridge Holdings team is exposed to numerous single and multiple well drilling opportunities. Two prospects are expected to be drilled soon in South Texas. On the 25 April 2018, the deadline for spudding the first commitment well in respect of the Orient Project was extended to 1 April 2019.

Other than those matters reported above, no matter or circumstance has arisen since 31 December 2017 that has significantly affected or may significantly affect the consolidated entity's operations, the result of those operations or the consolidated entity's state of affairs in future financial periods.

Directors' Declaration

The Directors of Molopo Energy Limited declare that:

a) In the Director's opinion, the financial statements and notes set out on pages 29 to 59 and the Remuneration report in the Director's Report set out on pages 19 to 23 are 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 2017 and of its performance, for the financial year ended on that date; and

   ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*;

b) The financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board, as disclosed in Note 2; and

c) There are reasonable grounds to believe that the company will be able to pay its debts and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* by the Company Secretary for the year ended 31 December 2017.

Signed in accordance with a resolution of the Directors.

Baljit Johal
Managing Director

7 May 2018
Melbourne

ASX Additional Information

Additional information required by the Listing Rules of the Australian Stock Exchange Limited and which is not disclosed elsewhere in the Annual Report is as follows. The information is current as at 20 April 2018.

Shareholder Distribution

The number of investors holding less than a marketable parcel of 3,571 shares (at $0.14 on 20 April 2018) is 1,646 and they hold 2,451,090 securities.

	Ordinary Shares		
Category (number of securities)	**Number of Holders**	**Number of Shares**	**Percentage (%)**
1- 1,000	665	348,570	0.14%
1,001 - 5,000	1420	4,028,848	1.62%
5,001 – 10,000	655	5,081,572	2.04%
10,001-100,000	1005	31,473,646	12.64%
100,000 – and over	121	208,108,012	83.56%
Total	3,866	249,040,648	100%

Twenty Largest Shareholders as at 20 April 2018

Shareholder	Number	Percentage (%)
ION LIMITED	49,687,332	19.951%
KEYBRIDGE CAPITAL LIMITED	46,017,543	18.478%
THE COMMONWEALTH OF AUSTRALIA	43,207,195	17.349%
CITICORP NOMINEES PTY LIMITED	24,929,342	10.010%
BNP PARIBAS NOMINEES PTY LTD	5,777,755	2.320%
RUBI HOLDINGS PTY LTD	3,200,000	1.285%
SPORRAN LEAN PTY LTD	2,367,499	0.951%
R & R CORBETT PTY LTD	1,657,715	0.666%
PAKASOLUTO PTY LIMITED	1,286,658	0.517%
MR SEAN ANTHONY DENNEHY	1,270,000	0.510%
GIBRALT CAPITAL CORPORATION	1,188,526	0.477%
BHL PENSION PTY LTD	1,000,000	0.402%
HSBC CUSTODY NOMINEES	909,080	0.365%
MR STEVEN HENRY GREATOREX	632,000	0.254%
MR JAMES GARDINER	600,000	0.241%
MR HAN KOEN LEE &	560,000	0.225%
VP CAPITAL INVESTMENTS PTY LTD	521,000	0.209%
BOLIBER PTY LTD	500,000	0.201%
G CHAN PENSION PTY LTD	500,000	0.201%
Total	**185,811,645**	**74.612%**

ASX Additional Information

Substantial Holders

Based on substantial shareholder notices received by the Company, the substantial shareholders are:

Holder	*Interest in Shares*	*Voting power*	*Date of last notice*
Aurora Funds Management Limited	51,106,464	20.52%	15 Nov 2017
Keybridge Capital Limited	51,106,464	20.52%	11 July 2017
ION Limited, Alizay Limited and Daniel Goldberg	49,687,332	19.95%	24 March 2016
Bentley Capital Limited	46,017,543	18.48%	23 Oct 2017
ASIC and the Commonwealth of Australia	43,207,195	17.35%	11 July 2017
Samuel Belzberg and Gibralt Capital Corporation	22,501,734	9.03%	22 April 2016

Notes:

- Aurora and Keybridge each have a relevant interest in shares held by the other.
- Bentley is taken to have a relevant interest in securities held by Keybridge because Bentley has more than 20% voting power in Keybridge.

Voting Rights

On a show of hands every shareholder present in person or by proxy holding ordinary shares in the Company shall have one vote and upon a poll each share shall have one vote. There are no voting rights attached to the options, performance share rights or performance rights.

Number of Restricted Securities

As at 20 April 2018, there were no restricted securities.

Incentive Options, Performance Share Rights and Performance Rights

As at 20 April 2018, the Group had no Incentive Options, Performance Share Rights or Performance Rights on issue.

Tenements (Listing Rule 5.37)

Description	*Location*	*Interest Owned*
Orient Project (30 leases)	Hendry, Glades and Lee Counties, Florida, USA	25%

MOLOPO
ENERGY LIMITED

Molopo Energy Limited

www.molopoenergy.com