

Aurora Absolute Return Fund

Valuation of Molopo Energy Limited

Aurora Funds Management Limited ("Aurora") provides an update in respect to the Aurora Fortitude Absolute Return Fund ("AFARF"), which directly impacts the Aurora Absolute Return Fund. Attached is a copy of the relevant announcement by AFARF.

Further information

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Aurora Fortitude Absolute Return Fund

Valuation of Molopo Energy Limited – Update

Aurora Funds Management Limited (“Aurora”) provides the following valuation update in respect of the Aurora Fortitude Absolute Return Fund (“AFARF”).

Valuation of Molopo Energy Limited shares

As at 31 December 2018, AFARF held an investment in the ordinary shares of Molopo Energy Limited (ASX: MPO), which was suspended from trading on the Australian Stock Exchange on 27 July 2017 and remains suspended as at the date of this update.

On 27 September 2018, Aurora announced that the fair value of the holding in Molopo had been reduced from 3.6 cents per share to 2.6 cents per share, based on material information which had come to light between 31 August 2018 and 27 September 2018.

On 31 January 2019, Molopo released its Quarterly Cash Flow Statement for the quarter ended 31 December 2018. Based on the information contained in this Quarterly Cash Flow Statement, Aurora has reassessed the carrying value of its investment in Molopo and has decided to write the value of its investment down from 2.6 cents to 1.9 cents. The rationale for this decision is summarised below:

- Today, Molopo’s primary assets comprise its cash reserves and its investment in Drawbridge. Molopo has advised that the cash reserves at 31 December 2018 amounted to \$13.3 million, however no guidance has been provided as to the carrying value of the Drawbridge Investment. Based on the structure of the Drawbridge investment, whereby Molopo has a 30% holding in a foreign private company with no voting rights and only a limited ability to appoint a director, it is difficult to ascribe any value to this investment – based on the information that has been released to date. As such, for the purpose of valuing its investment in Molopo, Aurora continues to place nil value on the Drawbridge investment;
- Molopo’s primary liability relates to a long-standing legal action in Canada concerning the Company and Molopo Energy Canada Ltd (“MECL”), a wholly owned subsidiary of the Company. As the financial statements for the half-year ended 30 June 2018 have not yet been released by Molopo, the annual audited financial statements for the year ended 31 December 2017 remain the most recent financial statements released by Molopo, which were released by Molopo on 8 May 2018. In those financial statements, there was no change to the long standing provision of A\$8.6 million, with the following commentary being provided:

In March 2011, MECL was served with a statement of 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.

- Molopo currently has 249,040,648 ordinary shares on issue;
- Based on the above, Aurora considers the appropriate carrying value of its investment in Molopo to be 1.9 cents, calculated as follows:
 - cash reserves of \$13.3 million; less
 - litigation provision of \$8.6 million;
 - divided by 249,040,648 ordinary shares on issue; which
 - equates to a value of 1.9 cents per share.
- As more information is released by Molopo on the Drawbridge investment as well as the Canadian litigation, it may be appropriate for Aurora to revisit the carrying value of its Molopo investment.

The fair value of the Molopo Investment is based on significant estimates and judgements adopted by the Board of Aurora based on all available information about Molopo as at the current date.

The Aurora Board considered the range of possible values and determined that the fair value of the Molopo investment held by the Fund should now be valued at 1.9 cents.

Aurora continues to pursue avenues to recover value that has been lost by the former directors of Molopo.