

ASX MARKET ANNOUNCEMENT

Wednesday, 30 May 2018

ASX Codes : KBC; KBCPA

MOLOPO'S AUDITOR PARTIALLY RESPONDS TO QUESTIONS ON NOTICE FOR UPCOMING AGM

On 24 May 2018, Keybridge Capital Limited (**Keybridge**) announced¹ that it had posed a series of questions on notice to Molopo's Auditor, James Mooney of BDO East Coast Partnership (**BDO**), to be addressed at the upcoming annual general meeting² (**AGM**) of Molopo Energy Limited (ASX:MPO) (**Molopo**) on Thursday, 31 May 2018.

The questions relate to Keybridge's concerns about the nature and extent of a number of disclosures contained in Molopo's 2017 Annual Report³, including in the Remuneration Report and the accounting for the Orient⁴ and Drawbridge⁵ Transactions.

A detailed background to the Orient and Drawbridge Transactions is summarised in Keybridge's Media Release dated 23 May 2018⁶.

BDO has provided written responses to some of the questions posed to them, a copy of which is attached.

BDO has advised that they believe Molopo will provide written responses to the balance of the questions – this has not yet been received by Keybridge.

FOR FURTHER INFORMATION:

William Johnson
Director
Tel: +61 8 9214 9767
Email: wjohnson@keybridge.com.au

Victor Ho
Company Secretary
Tel: +61 8 9214 9767
Email: cosec@keybridge.com.au

ABOUT [KEYBRIDGE CAPITAL LIMITED](#) (ASX: [KBC](#))

Keybridge is an investment and financial services group with a diversified portfolio of listed and unlisted investments/loan assets including in the private equity (US), life insurance (New Zealand), property and funds management sectors and strategic holdings in HHY Fund (ASX:[HHY](#)), Molopo Energy Limited (ASX:[MPO](#)), Metgasco Limited (ASX: [MEL](#)) and Yowie Group Ltd (ASX:[YOW](#)). Keybridge is also the Investment Manager of HHY.

-
- 1 Refer Keybridge Media Release dated 24 May 2018: Questions on Notice to Auditor of Molopo Energy Limited for Upcoming Annual General Meeting; available on www.keybridge.com.au
 - 2 Refer MPO Notice of AGM and Explanatory Statement dated and released on ASX on 30 April 2018
 - 3 Refer MPO Annual Report for the year ended 31 December 2017 released on ASX on 8 May 2018
 - 4 Refer MPO ASX announcements dated 22 August 2017: Molopo Acquires Interest in US Oil and Gas Project and 11 December 2017: Update on Orient FRC Ltd Investment
 - 5 Refer MPO ASX announcement dated 8 May 2018: Molopo De-Risks By Diversifying its Oil and Gas Exploration Portfolio
 - 6 Refer Keybridge Media Release dated 23 May 2018: Further Letter to Molopo Shareholders for AGM – Orient and Drawbridge Transactions and Breaches of ASX Listing Rules; available on www.keybridge.com.au

**AUDITOR'S QUESTION LIST IN RESPONSE TO QUESTIONS ON NOTICE TO AUDITOR FROM
KEYBRIDGE CAPITAL LIMITED PURSUANT TO SECTION 250PA CORPORATIONS ACT 2001**

8. *Why is the following information omitted from the Remuneration Report that is required under section 300A of the Corporations Act:*

8.1. *discussion of board policy for determining, or in relation to, the nature and amount (or value, as appropriate) of remuneration of KMPs;*

The section entitled "Key Remuneration Principles" refers to the executive remuneration arrangements. The current Board has not yet established a broader remuneration policy.

8.2. *discussion of the relationship between such policy and the company's performance (which must specifically deal with the company's earnings and the consequences of the company's performance on shareholder wealth (having regard to, inter alia, changes in the price at which shares in the company are traded during the financial year), in the financial year to which the report relates and in the previous 4 financial years);*

The group does not have a remuneration policy linked to the group's performance.

14. *Are there any "Legal, management and consulting fees" attributable to KMPs or Related Parties (as defined in the Accounting Standards and or Corporations Act) and if so, to whom and in what amounts;*

Payments to KMP's are disclosed in the Remuneration Report.

Other transactions with related parties are disclosed in note 22 to the financial statements.

15. *How do you reconcile the \$373k "Salary and employee benefit expenses" with the \$1,015,652 total remuneration reported in the Remuneration Table (in respect of 2017);*

Payments to some key management personnel which are consideration remuneration for the purposes of the remuneration report and AASB 124 are not paid in the form of salaries, but rather management or consulting fees and as such have been classified under legal, management and consulting fees in the group's financial statements.

22. *Are there any provisions for impairment in respect of Orient's current and non-current assets and if so, what is the nature and amount of each such provision;*

No.

23. *If no provision for impairment was made, what was the basis for supporting the carrying value of Orient's current and non-current assets;*

Orient's Current Assets

The carrying value of the \$2.5m reflects the fair value of the balance held at 31 December 2017.

Orient's Non-current Assets

The carrying value of the non-current assets of Orient are supported by the assessment of the project by external experts in respect of the projects and their potential returns.

24. *No provision for impairment was made in respect of the \$8.695m carrying value of Molopo's investment in Orient and the \$6.043m carrying value of Molopo's loan to Orient:*

24.1. *was any 'impairment testing' undertaken on the carrying value of these assets;*

There were no indicators of impairment at reporting date requiring testing to be undertaken.

24.2. *what was the supporting bases for the carrying value of these assets;*

The carrying value of Molopo's Investment Asset and Loan to Orient are supported by the assessment of the project by external experts in respect of the projects and their potential returns.

27. *Did the Auditors consider the potential impact of Victorian Supreme Court Proceedings - Keybridge Capital Limited v. Molopo Energy Limited & Ronnen Rosengart, Supreme Court of Victoria Proceedings SCI 2017 04750 and SCI 2017 04752;*

Yes. We obtained a confirmation from the company's legal representatives and reviewed correspondence between the company and their legal representatives.

We were not made aware of any specific claim against the company that could give rise to a liability and as such our audit procedures did not indicate any potential liability arising out of this matter that met the definition of a contingent liability in AASB 137.10.

28. *Orient FRC Ltd is referred to as a subsidiary company, a A\$6,245,827 inter-company loan account balance with Orient FRC Ltd was stated as having been eliminated in the consolidated entity and all loans were stated as having been provided on an interest free basis with no fixed repayment date:*

28.1. *Are the above statements correct vis a vis Molopo's loan to Orient FRC Ltd;*

28.2. *If not, what is the actual accounting treatment of the Molopo loan to Orient FRC Ltd;*

Orient FRC Ltd is not a controlled entity. Orient FRC Ltd has been accounted as an equity accounted joint venture. As such the loan should not have been included under wholly owned group transactions. The correct presentation should have been to present the loan separately from loans within the group.

29. *Why are there no disclosures of the loans provided by Molopo to Orient FRC Ltd between 1 January 2018 and 30 January 2018 (when Orient became a wholly owned subsidiary and such loans would be eliminated on consolidation);*

Transactions with an equity accounted joint venture are not transactions of the type referred to in AASB 10 para 21 and 22.

30. *Why are there no disclosures of the accounting/financial impact of Orient becoming a wholly owned subsidiary of Molopo upon Orient completing a buy-back of ESGM Investments Limited's 50% shareholding in Orient for US\$7 million on or about 30 January 2018;*

30.1. *What is the accounting/financial impact of the same including the impact on the Statement of Financial Position and to the Statement of Profit or Loss;*

The disclosure in note 25 presents the substance of the transactions that occurred post the end of the financial year. At the date of signing the financial report the accounting impact had not been finalised.

31. *Why are there no disclosures of the accounting/financial impact of Molopo vending in Orient's wholly-owned subsidiary, Orient FRC (US) LLC, into Drawbridge Energy Holdings Ltd in consideration for 3,000 Class A shares in Drawbridge (which were entered into on 21 February and completed on 7 March 2018);*

31.1. *What is the accounting/financial impact of the same including the impact on the Statement of Financial Position and to the Statement of Profit or Loss;*

The disclosure in note 25 presents the substance of the transactions that occurred post the end of the financial year. At the date of signing the financial report the accounting impact had not been finalised.

32. *Was any 'impairment testing' undertaken on the carrying value of the investment in Drawbridge Energy Holdings Ltd (post completion on 7 March and closer to the date of the annual accounts sign-off on 7 May 2018);*

There were no indicators of impairment noted between the date of the transaction and the date of signing the financial report.

33. *If not, what was the supporting bases for not disclosing any change to the carrying value of the investment in Drawbridge Energy Holdings Ltd (post completion on 7 March 2018).*

No change in the carry value was required.

Dated: 29 May 2018

BDO East Coast Partnership



James Mooney

Partner