

Aurora Absolute Return Fund

Valuation of Molopo Energy Limited & Off-market Redemptions Update

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.

In light of the announcement by AFARF, including the write down of its investment in Molopo Energy Limited to 3.6 cents as at 30 June 2018, all investors that had previously lodged Redemption Requests will now have the option of withdrawing their Requests until 31 August 2018.

Further information

If you have any queries or concerns, please contact us.

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Aurora Funds Management Limited | ABN 69 092 626 885 | AFSL No. 222110
14 August 2018

Aurora Fortitude Absolute Return Fund

Valuation of Molopo Energy Limited & Off-market Redemptions Update

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

Valuation of Molopo Energy Limited shares

As at 30 June 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 12 September 2017, AFARF announced an off-market takeover bid for 100% of the shares in Molopo at a price of \$0.135 (13.5 cents) per share through a combination of cash (capped at \$5 million) and units in AFARF.

On 8 May 2018, Molopo disclosed a number of transactions which were in excess of the ‘no material transaction or series of transactions of more than \$2 million’ defeating condition of AFARF’s bid, specifically:

- “On 30 January 2018, Orient redeemed all of the JV Partner's shares in Orient for a redemption amount of USD\$7 million (Orient Redemption), resulting in the shares of the JV Partner in Orient being cancelled and Orient becoming a wholly-owned subsidiary of Molopo”;
- “Following completion of the Orient Redemption, Molopo has sole funded the remaining amounts required by the Orient Project, in accordance with its current budget for the project, in an aggregate amount of USD\$21 million (Orient Funding)”;
- “On 21 February 2018, Orient entered into a contribution agreement with Drawbridge Energy Holdings Ltd (Drawbridge) pursuant to which it agreed to (i) transfer its 100% interest in Orient FRC (US) LLC (Orient US), a wholly owned subsidiary of Orient; and (ii) assign Orient's interest in the Orient Project to Orient US at completion, in consideration for a 30% interest in Drawbridge (Combination Transaction)”;
- USD\$21 million was funded by way of intercompany loan from Orient to Orient US. Following completion of the Combination Transaction on or about 7 March 2018, the loan from Orient to Orient US was extinguished.

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

On 11 May 2018, Aurora submitted an application to the Takeovers Panel in relation to the affairs of Molopo seeking a Declaration of Unacceptable Circumstances in relation to the Orient / Drawbridge Transactions. Amongst other things, Aurora submitted:

1. that:
 - (a) the transactions and events described in the 8 May 2018 ASX announcement constituted frustrating actions and should have been subject to shareholder approval;
 - (b) there were disclosure deficiencies in Molopo’s Target Statement and Supplementary Target Statements;

- (c) Molopo failed to comply with its continuous disclosure obligations; and
 - (d) the conduct of Molopo's (now former) directors in relation to, and the nature of, the transactions, and other circumstances, gave rise to serious concerns regarding the transactions.
2. the cumulative effect of the transactions and events was to inhibit the acquisition of control over voting shares in Molopo taking place in an efficient, competitive and informed market.
 3. it appeared that Molopo had misled the Takeovers Panel in prior Takeover Panel proceedings regarding the urgency and use of the US\$4.5 million shareholder loan to Orient.
 4. in relation to the Orient / Drawbridge Transactions, that certain circumstances "point to the transaction being a sham", including the uncommercial structure of the transaction, the speed at which and the secrecy with which it had been consummated, the lack of oil and gas experience of the Former Directors and the disregard for the ASX Listing Rules.
 5. it sought an order that all transactions that are capable of being unwound be unwound. If that order was not made (or complied with) and Aurora withdrew its bid due to the frustrating actions, it sought an order for costs associated with its bid.

On 8 June 2018, the Takeovers Panel made a Declaration of Unacceptable Circumstances in relation to the Orient / Drawbridge Transactions and subsequently ordered Molopo to pay a portion of the costs necessarily, properly and reasonably incurred by Aurora, however did not order that the Drawbridge /Orient transaction be unwound.

On 1 August 2018, the new Molopo Board, who were elected at the Company's Annual General Meeting on 31 May 2018, made the following comments in the recent Quarterly Activities Report released by Molopo:

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

*The Transactions resulted in the Company's cash reserves being depleted from **A\$66.2 million** at 30 June 2017 to **A\$15 million** as at 30 June 2018.*

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

On 10 August 2018, Aurora made an ASX Announcement advising of its decision to not declare AFARF's takeover bid free from its defeating conditions and therefore to withdraw the AFARF takeover bid.

In light of the above, Aurora considers that the actions of the former Molopo directors have substantially and adversely affected the value of Molopo's assets. As such, Aurora has considered the carrying value of its investment in Molopo and has decided to write the value of its investment down from 13.5 cents to 3.6 cents. The rationale for this decision is summarised below:

- Today, Molopo's primary assets comprise its cash reserves (A\$15 million as at 30 June 2018) and its shareholding in Drawbridge. Molopo's shareholding in Drawbridge, being a 30% shareholding with no voting rights and limited rights to appoint a representative director, was reported to have gross cash of US\$14.07 million, investment and other assets of US\$4.41 million, current liabilities of US\$0.29 million and net assets of US\$18.2 million (A\$24.06 million) as at 31 March 2018; against which the projected cash outflows for the 6 month period between April and September 2018 was estimated to be US\$6.61 million (gross) or US\$1.1 million (A\$1.46 million) per month. Molopo's 30% share of the net balance equates to A\$5.235 million.

- Given the uncertainty around the recoverability of the money invested in Drawbridge, coupled with the lack of available audited information at this time, Aurora has taken 50% of A\$5.235 million for the purpose of ascribing a value for Molopo's shareholding in Drawbridge, being A\$2.62 million. This estimate may change as more information regarding Drawbridge's financial position is made available over the coming months.
- 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. According to the most recent financial statements released by Molopo, being the annual audited financial statements for the year ended 31 December 2017, which were released by Molopo on 8 May 2018, 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 calculated as follows:
 - cash reserves of \$15 million; plus
 - 50% of Molopo's 30% of Drawbridge estimated value \$2.62 million; less
 - litigation provision of \$8.6 million;
 - divided by 249,040,648 ordinary shares on issue;
 - the total estimated value equates to a value of **3.6 cents per share**
- As more information is released by Molopo on the Drawbridge shareholding 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 Aurora's investment in Molopo is based on significant estimates and judgements adopted by management of Aurora based on all available information about Molopo as at the date of the 30 June 2018 financial report.

In addition to the application made by Aurora to the Takeovers Panel, Aurora is pursuing other avenues to recover value that has been lost by the former directors of Molopo.

Update on Redemption Requests

In light of the decision to write down the value of the Molopo investment to 3.6 cents, all investors that had previously lodged Redemption Requests will now have the option of withdrawing their Redemption Request. This option remains open until 31 August 2018. If no withdrawal request is received by 31 August 2018, Aurora will process those Redemption Requests in line with previous announcements.

For all Redemption Requests received by Aurora after the 31 August 2018, Aurora will process those Redemption Requests pursuant to its Constitution, Product Disclosure Statement and any Fund updates.

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