



6 August 2012

LETTER FROM THE CHAIRMAN

Dear fellow shareholder,

I am pleased to report we have made significant progress since my last letter, both in our field operations and in executing our corporate strategy. Our key achievements thus far in 2012 include:

- excellent progress in our North American drilling program, where we have a large acreage position in one of the most attractive unconventional oil plays in the continent;
- an increase in our proposed capital expenditure program for 2012 to accelerate returns from our assets;
- the sale of our Queensland CBM assets for \$41 million; and
- the continued transition of the organisation to North America.

Tim and the management team have made excellent progress in accelerating the implementation of our corporate strategy. We have had good feedback that, as we promised, Molopo's strategy, portfolio and the value proposition for shareholders is simpler and much easier to understand. I think you will see that as you look through or listen to one of the recent investor presentations on our website.

So while our operational progress and increased institutional ownership over the past year is satisfying, I share the frustrations of many shareholders that Molopo's share price does not yet reflect our Company's inherent value. Although general market movements are not matters within our control, delivery on our Company's strategy is the responsibility of the Board and management and I welcome this opportunity to update you on our progress.

Update on North American Drilling Program

Over the past few months, we have made significant progress in our North American exploration and drilling program. In April this year, following successful initial drilling results in North America, we announced a significant increase in our planned program for CY2012. In summary, we now anticipate that our capital investment this calendar year will total approximately A\$98 million. To support this program we have contracted exclusive use of a drilling rig in Texas for 12 months, which is allowing us to drill one new well each month and to focus on improving execution and capital management.

Reflecting the increased capital expenditure budget, we are targeting a production rate at the end of the year of 2,300 barrels of oil equivalent per day ("boepd") and we are progressing well towards that objective.

In the **Permian basin of West Texas**, following the buy-out of our partner's interest earlier in the year, Molopo now has a 100% working interest in approximately 26,000 acres of land across two projects targeting the Wolfcamp oil interval - Fiesta: ~ 24,600 acres; and Barnhart: ~ 1,400 acres.

Our first well in the Barnhart project area, Linthicum Washington 36-2H, is now on flowback, following successful drilling and completion. We are very excited about the prospects for this well, given excellent initial rates from nearby third party wells. We expect to have flow rates available which we can release to the market in the coming weeks.

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The next important data point for the market will then be the initial flow rate from our Baggett 40-2H well in the Fiesta project. All indications are positive as we proceed with fracture stimulation of this well, and if we continue to meet our planned timetable, we should be able to release results on this during September.

If these wells each produce at initial rates in excess of 500 boepd, then the underlying value of our Texas acreage will be greatly enhanced.

And from that point on, it will be one well result per month, on track to meet our target of 6 new wells by calendar year end, and our targeted exit rate of 2,300 boepd.

In **Saskatchewan**, Canada, we now have six active wells on production and one cleaning up. The Bakken wells in Taylorton have been highly economic however we only have one more location in this pool left to drill, so we will see limited further production growth from here.

We are still excited by the potential for production from the Midale interval in this area, despite the poor results from our Estevan 9-22 well, and we will continue to progress that exploration activity, albeit limited in extent compared to our Wolfcamp acreage in Texas.

Corporate Developments

Earlier this year, we announced that the recently appointed CEO and Managing Director, Tim Granger has now completed the formation of his senior leadership team, which includes CFO, Paul Belliveau; COO Ms Shannon Ouellette; VP Exploration Kelly McDonald; and VP Business development and Land, David Horn. All members of the team have significant management experience in unconventional oil & gas exploration and development in North America, and are based in Calgary, Canada.

Another cornerstone of our strategy has been the divestment of non-core assets, which commenced with the trade sale process for our Queensland CBM assets as one of the outcomes of the strategic review in April 2011. On the 1st of August 2012, we were pleased to announce that Molopo had entered into an agreement for the sale of these assets to a subsidiary of PetroChina International Investment Company for A\$41 million plus a A\$2.4 million working capital adjustment. The sale is subject to FIRB and NDRC approval and is expected to close within 90 days.

With the proceeds from this sale, our already robust financial position will be further strengthened. Our North American CY2012 exploration and development program is fully funded from existing cash reserves and we are now even better placed to pursue our exploration and development activities in CY2013.

Regarding **South Africa**, I am pleased to report that our application for the first onshore Production Right in South Africa has been accepted by the regulatory authority, and we are progressing the final negotiations of the workplan, the last step before award of the Production Right.

The markets have been challenging for junior Exploration and Production companies in North America and Australia alike, however with our combination of an excellent asset base, a strong funding position to develop those assets, and a highly accomplished leadership team to lead that development, we are well placed to unlock the value within the Company.

You may remember that as part of the Company's 2011 strategic review, we highlighted the possibility of pursuing a listing on a North American Exchange, to broaden the opportunity for North American institutional and retail investors to invest in Molopo. I am pleased to inform you that we have now commenced preparatory work to advance this option, however, no decision has yet been taken to proceed. If we do proceed with a secondary listing, we believe this will serve to enhance value for existing shareholders through the exposure of our Company to a broader range of investors and research

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coverage. There will be no change to our primary Australian listing: that will continue, and shares would be fungible between the two exchanges.

On the **governance** side, I am pleased to confirm that this remains a priority for your Board of Directors and management. When we release our annual report in the coming months, you will all have the opportunity to review in detail our continued progress in this regard, which we believe is strongly aligned with shareholders' interests. There are a few elements to which I would like to draw your attention in advance of this:

- Our shift of the key management roles of the Company to North America means that our remuneration structure shifts to a more North American norm which has a much higher "at risk" component in employee remuneration. In my view this helps to strengthen alignment with shareholders;
- We have now introduced a strategic target in our Long Term Incentive plan for all Molopo employees, which is based on achieving an annualised production target for calendar year 2014 of 6,000 boepd. That test will only be applied if the Company also manages to keep its overall Finding and Development costs down at a reasonable level. The second target in the Long Term Incentive Plan relates to relative total shareholder return as compared to 20 ASX and TSX listed peer companies;
- With the elaboration of a clear strategy and goals relating to the strategy, we have been able to introduce more structured Short Term Incentive targets for employees, which includes elements such as Production targets, Operating Costs, Share Price and others;
- And lastly, we have introduced mandatory holding of shares in the Company for the CEO and Executives at two and one year of base salary respectively: again better alignment with shareholders, and I know Tim and his team are keen to start building these holdings once the Company comes out of blackout in mid-September with the release of our annual accounts.

In line with these changes, the restructuring of the Company to a North American base is nearly complete, and from some 20 employees a year ago in Melbourne, we now have two. I would like to thank all of those employees for their contribution to Molopo.

Finally, given the increased pace of exploration in our North American acreages, and our fully funded CY2012 development program, your Board and management remains highly confident of the value in the Company's assets and is committed to unlocking this value for all shareholders.

As always, your comments, suggestions and feedback to glewin@molopo.com.au are most welcome.

Yours faithfully,



Greg Lewin
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Molopo Energy Limited is an ASX-listed oil and gas exploration and production company. The company is focussed on the development of its unconventional tight oil assets in the Permian Basin, Texas, USA and the Williston Basin, Saskatchewan, Canada. The company has shale gas assets in Quebec, Canada, a coal bed methane project in Australia (under divestment) and onshore gas projects in South Africa.