RAPER CAPITAL

Patrick O'Connor, Chairman
Far Limited
Level 12, 530 Collins Street
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Australia

May 9, 2022

Dear Mr O'Connor,

It was a pleasure to speak with you last week, and indeed I have very much enjoyed our communication in the months since my first letter. I write today to note, with appreciation, the substantial improvements you have wrought, as well as to outline what I feel remains the best path forward for all FAR shareholders. Whilst much has been accomplished in a very short period (and notwithstanding the increase in FAR's equity), current market prices still imply a significant discount to our company's unaffected asset value.[1] I believe this discount persists because despite the real progress you have authored, the market remains concerned that the latent asset value within FAR will somehow yet be squandered. Whilst this is certainly not my belief, given the history of the company it is perhaps not surprising. Consider the latter sections of this letter, then, as my prescription to assuage these market doubts and guarantee value maximization for all involved.

First, however, we should recapitulate the metamorphosis that has taken place. In my prior letter, I suggested a variety of steps to increase shareholder value, including the removal of the former Managing Director; the abandonment of drilling in Guinea-Bissau; the pursuit of strategic alternatives for The Gambia exploration assets; the negotiation of an early exit to the Woodside earnout; and the execution of an accretive tender offer for a bulk of the company's shares.[2]

It has been pleasing to observe your rapid execution of many (if not all) of my proposals, and I believe the steady rerating of the FAR stock price speaks to an overall level of shareholder satisfaction thus far. In particular, I have noted, and appreciated, your specific and repeated public commitment to 'seek to reflect the underlying asset value in the FAR share price' – demonstrating a new-found focus on shareholder value maximization above all else, an attitude sorely lacking in prior management.[3] I also am supportive of current efforts to extract maximum

[1] 'Unaffected' meaning here, without any benefit from value-accretive capital allocation (such as a tender for the company's shares at a discount to fair value).
[2] February 21, 2022, 'An Open Letter to the Board of FAR Limited', see here: https://rapercapital.com/wp-content/uploads/2022/02/Open-letter-to-the-board-of-FAR-limited-1.pdf
[3] See March'22 Quarterly Activities Report, p.1.

value from The Gambia licences – understanding, as you have outlined, that these deliberations are not open-ended and will neither consume further shareholder capital beyond what has been budgeted this year.

At the same time, there remains work to be done. The two agenda items yet unresolved – an accretive capital return, and a timely monetization of the Woodside earnout – remain the *sine qua non* of my prescription to maximize corporate value. I believe most of the shareholder register shares this perspective and would expect management to deliver on these points in the coming quarters.

<u>The benefits of an accretive off-market share buyback via 'Dutch auction'</u>

Despite all the progress to date, management's reticence on the specific topic of capital returns is perplexing. As of the end of the March quarter, FAR had ~US$34m unrestricted cash at its disposal – *after* allowing for The Gambia farm-down costs and all other operational expenses this year. At current exchange rates, *this cash balance constitutes ~47c per share, or approximately 65% of the stock price, today*. Meanwhile our shares stubbornly trade at a ~35% discount to management's conservative view of underlying asset value.[4]

Within this context, there remains no higher or better use for this gargantuan excess cash pile than an immediate off-market share buyback via 'Dutch auction' at a discount to NAV. Whilst acquiring greater than 10% of the share capital would require the passage of an ordinary resolution at a shareholder's meeting, I can guarantee such a motion would be passed with alacrity and overwhelming support (having spoken to a huge number of like-minded shareholders), and thus represents no real impediment to execution here.

The logic for such a move is quite straightforward, and this specific buyback structure is neither novel nor complex.[5] For shareholders who choose to tender, it would provide a liquid and cost-effective mechanism to exit what is an increasingly illiquid security, and would allow those shareholders the freedom to choose at what level to tender some, all, or none of their shares.[6] In doing so, tendering shareholders would forgo some minor upside to stated NAV, it is true. But in return they would also skirt the risk of a potentially winding, lengthy exit process from the Woodside earnout and residual Gambian assets that may, in truth, take years.

Meanwhile for shareholders committed to seeing through the monetization of the Woodside earnout and The Gambia to the very end, a Dutch tender creates a huge amount of latent value, even if just a portion of the company can be repurchased below stated NAV. As per the below

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[4] Being greater than $1 per share, referencing 0.71 A$:US$, as disclosed in the Target Statement after the STAM bid. See here: https://far.live.irmau.com/irm/PDF/49c96741-4072-4da1-b6dd-2008f9dd196e/Target39sStatement

[5] A Dutch auction off-market buyback has been used by other Australian-listed companies recently, see, for example New Energy Solar: https://www.asx.com.au/asxpdf/20210920/pdf/450np8bwt8m8sp.pdf

[6] Whilst a Dutch auction allows each shareholder to nominate specific prices at which they wish to sell shares, there is one final clearing price, meaning all shareholders are treated equally and fairly.

calculations, *even paying 85c or 90c a share for 40% of the company would create a 65-70% further per-share upside to any eventual monetization of the Woodside earn-out*:[7]

Tender price per share (AUD)	80c	85c	90c
shares outstanding	99.8	99.8	99.8
Tender for 40% at tender price	31.9	33.9	35.9
cost in USD	22.7	24.1	25.5
remaining shares	59.88	59.88	59.88
remaining value - at NPV	54.83	53.41	51.99
Residual value per share USD	$0.92	$0.89	$0.87
Residual value per share AUD	**$1.29**	**$1.26**	**$1.22**
Upside vs current	***74%***	***70%***	***65%***

I would be happy to discuss the mechanics of this tender process at your convenience. In any event, I would expect a decision on the overall topic of capital returns to shortly follow any resolution of The Gambia asset disposal later this summer. There is simply no need for this amount of cash to remain within the company after that time – a view I imagine is shared by a majority of the shareholder base.

Monetizing the Woodside earn-out

Beyond the accretive buyback, a timely monetization of the Woodside earn-out remains front and center for most shareholders. Thus far, management has articulated a plan to keep the earn-out within the company, noting in the recent Quarterly that 'Based on current statements by the Operator and current oil prices, your Board believes it is likely that the full US$55 million will be received by FAR over time.' But if recent volatility has taught us anything, it should be that 'current oil prices' are hardly predictable enough to base any medium-term judgement upon, let alone one that could potentially jeopardize the bulk of our company's forward asset value. The reality is that *today*, the company has an opportunity to monetize, at a reasonable and significant cash consideration, a contingent asset whose ultimate resting value remains subject to the caprices of the oil market. Moreover, an early monetization of what would likely be the sole remaining asset within our company, even at something of a discount, would alleviate the need to maintain an expensive corporate entity with residual annual cost drag against (at that point) a single, non-operational, derivative asset. Waiting around for three years to 'enjoy' the full earn-out value but bearing $2.5m+ of annual G&A expense along the way is a far inferior option than simply exiting the asset in the near-term and thus defraying these multitudinous risks.

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[7] Main assumptions: 0.71 A$:US$ FX; $3m of total value from The Gambia assets; residual value consists of Gambia value, remaining excess cash post tender, and the Woodside earn-out at NPV (ie 10% discount rate on gross $55m value earned over 3+ years).

Resultingly, *I believe the company should expressly consider any and all bids for the earn-out* – and not just from Woodside (who of course should be engaged, if possible, as a potential bidder). The attractions of this earn-out to a financial buyer are substantial. Crucially, our earn-out is already deeply in the money, and the underlying derivatives market for oil futures is eminently available in which to hedge. This means that any financial buyer of institutional scale (that is, possessing an ISDA with a bulge-bracket investment bank) could completely hedge out the price risk component of the earn-out via vanilla put spreads (given the structure of our earn-out as a capped upside exposure between $58/barrel and $70/barrel). I estimate this spread would cost $3-4/barrel, per year (of the $12/barrel upside per year to which we are currently entitled), using vanilla derivatives, although this hedge cost could be further reduced by $1-2/barrel, in my view, with 'light exotic' hedging strategies (I would be delighted to discuss these specific structures with you further, at your convenience).[8]

Hedge mechanics aside, the key point is that *some financial buyers could 'lock in' earning a net $8-10/barrel, per year (for the duration of the earn-out, call it two full years of production), taking only Woodside counterparty credit risk and development risk on the field's ramping to production*. These options are simply not available to our company given its lack of operational scale; derivative trading experience or capacity; or investment banking relationships today. Necessarily this dictates that the cost of capital is far higher for our company in maintaining this asset than for various financial buyers in the market (or Woodside).

What would one be willing to pay for the right to earn a fully-hedged-up $9/barrel, per year, for a couple of years? It is my firm belief that paying $6/barrel – that is, 50c on the dollar – would be a minimum starting point as it would constitute a near-riskless 15% IRR, even in the unlikely case where the entirety of the earn-out purchase and all hedge costs needed to be 100% financed with cash. In the more likely scenario where the hedge was used to offset the margin requirements of the earn-out, either in part or in full, the cash-on-cash returns to an acquirer would rapidly approach the ~30% range. This scale of return for this kind of limited-risk position – in a trade of substantial scale – are few and far between.

I know of at least a handful of credit-oriented alternative investment firms that would likely have substantial interest in bidding on an eight-figure earn-out stream of this nature, with the latent ability to hedge it up as so described. And while I am not encouraging management to sell the earn-out at 50c on the dollar, I believe it is important to countenance all options and to understand the true fair market value of the earn-out – something that could only be ascertained by both engaging Woodside AND putting the earn-out up for sale to the highest bidder. I understand this has not yet occurred, but I would hope and expect this is management's next order of business once The Gambia asset situation is resolved (ie, in concert with a concrete plan on the capital allocation front).

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[8] 'Light exotics' refers to 'knock in' barrier options, whereby a potential buyer of put spreads to hedge their position would only own said puts if the price of oil first fell substantially and touched a certain trigger level. For example, you could structure a put spread that only 'knocks in' (comes into existence) if the price of oil first trades below $70/barrel (once, or for a certain period of time, etc – these terms are all fully customizable). Since the buyer does not own linear downside exposure from current spot, the price of this hedge is necessarily cheaper than a vanilla put spread – but is perfect in the situation we find ourselves, that is, with large excess headroom above the maximum value of our earn-out.

In closing, I reiterate my overall support for the new direction being navigated by current management. I would like to communicate my intention to vote in favor of your re-election at the upcoming AGM. Reflecting this ongoing confidence, I have successively increased my stake in the company in recent weeks, and now beneficially own 2.1% of the company.

I remain at your disposal to discuss any and all of the proposals contained herein.

Yours sincerely,

Jeremy Raper