KS ENERGY LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 198300104G)

QUARTERLY UPDATE DISCLOSURE PURSUANT TO RULE 1313(2) OF THE LISTING MANUAL OF THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ("SGX-ST")

The Board of Directors (the "**Board**") of KS Energy Limited (the "**Company**" and together with its subsidiaries the "**Group**") refers to the Company's announcement dated 3 June 2017 and 4 June 2018 in relation to the Company being placed on the minimum trading price ("**MTP**") entry criterion watch-list under Rule 1311(2) and financial entry criteria watch list under Rule 1311(1) of the Listing Manual of the SGX-ST (the "**Listing Manual**") with effect from 5 June 2017 and 5 June 2018, respectively.

Pursuant to Rule 1313(2) of the Listing Manual, which requires the Company to provide a quarterly update on the efforts and the progress made by the Company in meeting the exit criteria of the watch-lists, including where applicable its financial situation, its future direction, or other material developments that may have a significant impact on its financial position, the Board wishes to provide the following updates on the Group to complement the unaudited financial statements and dividend announcement for the 12-months ended 31 December 2018 ("**FY2018**") which was announced on 27 February 2019 (the "**FY2018 Results Announcement**").

<u>Update on Financial Position and Outlook</u>

The Group recorded a net loss of $53.8 million for FY2018 compared to the consolidated loss after tax of $24.6 million reported for FY2017, an increase of $29.2 million. The higher loss was mainly due to:

i. a $25.6 million decrease in share of results from joint ventures, from a $16.4 million gain in FY2017 to a $9.2 million loss in FY2018;

ii. a $20.6 million decrease in Finance Income from $23.3 million in FY2017 to $2.7 million in FY2018; and

iii. a $0.1 million increase in Finance Costs from $18.8 million in FY2017 to $18.9 million in FY2018

offset by

i. improved result from operating activities which improved by $14.2 million from a $46.1 million loss in FY2017 to a $31.9 million loss in FY2018; and

ii. a $2.9 million increase in tax credit from $0.6 million in FY2017 to $3.5 million in FY2018.

The Group's shareholders' funds fell from $52.3 million as at 31 December 2017 to $1.2 million as at 31 December 2018 mainly due to a loss of $53.8 million for FY2018 offset by foreign currency translation impacts.

As at 31 December 2018, the Company had a net current liability of $2.5 million and the Group had a net current liability of $18.3 million.

As at 31 December 2018, the Group's current assets were $23.9 million, a decrease of $18.4 million from $42.3 million as at 31 December 2017. Trade receivables decreased by $8.5 million, amounts due to joint ventures decreased by $8.3 million, other current assets decreased by $8.1 million, and asset held for sale decreased by $0.7 million; whereas cash and cash equivalents increased by $7.2 million.

As at 31 December 2018, the Group's current liabilities stood at $42.2 million as compared to $44.7 million as at 31 December 2017. The decrease was mainly due to the adjustment for the over provision of tax in respect of prior years.

For more details on the financial position of the Company, please refer to the FY2018 Results Announcement.

<u>Update on Future Direction and Other Material Developments</u>

On 19 October 2018, the Company announced that:

i. there shall be an internal reorganisation of the Group whereby the Company's entire 55.35% shareholdings in KS Distribution Pte. Ltd. ("**KS Distribution**" and together with its subsidiaries the "**KS Distribution Group**") shall be transferred to its wholly-owned subsidiary, KS Resources Pte Ltd ("**KSR**") such that the Company's interest in KS Distribution shall be held through KSR;

ii. the Company has on 19 October 2018 entered into a bond purchase agreement ("**KSE Bond Purchase Agreement**") with Oversea-Chinese Banking Corporation Limited ("**OCBC**") pursuant to which OCBC wishes to sell and the Company wishes to purchase S$30,000,000 in principal amount of KSE Bonds (as defined below) outstanding as at the date of the KSE Bond Purchase Agreement; and

iii. the Company, together with its wholly-owned subsidiary, KSR, has on 19 October 2018 entered into a bond subscription agreement with OCBC ("**KSR Bond Subscription Agreement**", together with the KSE Bond Purchase Agreement, the "**Agreements**") pursuant to which KSR shall issue and OCBC shall subscribe for an aggregate of S$35,000,000 fixed rate unsecured bonds due 2021 ("**KSR Bonds**").

The completion of the Internal Reorganisation, the Proposed KSE Bond Purchase and the Proposed KSR Bonds Issuance are conditional upon each another.

For further details please refer to the general announcement called "proposed transactions" released on 19 October 2018.

On 19 October 2018, the Company also announced that the Company had on 19 October 2018 entered into a sale and purchase agreement (the "**SPA**") with ACH Distribution Pte. Ltd. (the "**Purchaser**") in relation to the proposed disposal of 100% of the existing issued share capital of its wholly-owned subsidiary KS Resources Pte Ltd ("**KSR**") ("**Sale Shares**", and KSR together with its subsidiaries collectively, the "**Target Group**") which holds 55.35% of KS Distribution Pte. Ltd. ("**KS Distribution**"), and subject to the terms and conditions of the SPA (the "**Proposed Disposal**") for an aggregate cash consideration of S$1,643,000 (the "**Consideration**"). KS Distribution is a joint venture and is 55.35% owned by the Company through its wholly-owned subsidiary, KSR, and 44.65% owned by a third party, Actis Excalibur Limited ("**Actis**"). ACH has concurrently entered into a separate sale and purchase agreement with Actis in relation to the purchase of Actis' entire shareholdings in KS Distribution.

The Company's intention to dispose the distribution business, which is accounted for as a joint venture and which has been suffering losses in recent years due to instability in the oil prices and slower growth in the global economy. The Company has recorded losses from its share of results from KS Distribution of $2.9 million for the six-months ended 30 June 2018 and $14.0 million for the 12-months ended 31 December 2017. The Proposed Disposal is undertaken as part of the restructuring of the Group and its debt liabilities. It will also allow the Company to strengthen its financial position and achieve an immediate gain on disposal. The Proposed Disposal is essential to the Group's continued development and operation as it will result in a substantial reduction in losses, a significant lowering of liabilities and a cash inflow.

For further details please refer to the asset acquisitions and disposals announcement called "proposed disposal of the entire issued share capital of KS Resources Pte Ltd" released on 19 October 2018.

On 11 December 2018, the Company announced the completion of the Internal Reorganisation and the Proposed Disposal.

On 9 November 2018, the Company announced that:

i. the Company has on 9 November 2018 entered into bond purchase agreements (the "**Bond Purchase Agreements**") with each of Pacific One Energy Limited ("**POEL**") and Ms Hedy Wiluan ("**HW**") (collectively, the "**Existing Bondholders**", each an "**Existing Bondholder**"), pursuant to which an aggregate of S$31,000,000 in principal amount of Existing KSE Bonds outstanding as at the date of the Bond Purchase Agreements shall be purchased by the Company; and

ii. the Company has on 9 November 2018 entered into a subscription agreement with the Existing Bondholders ("**Subscription Agreement**"), pursuant to which the Existing Bondholders will subscribe for, and the Company will allot and issue to the Existing Bondholders, an aggregate of 794,871,795 new ordinary shares in the capital of the Company ("**Consideration Shares**"). The Consideration Shares are issued to the Existing Bondholders as consideration for the payment of the Company for the purchase of the Existing KSE Bonds.

The completion of the Proposed KSE Bond Purchase from the Existing Bondholders and the Proposed Issuance of Consideration Shares are conditional upon each other.

The Proposed Issuance of Consideration Shares is subject to, inter alia, the approval of shareholders of the Company ("**Shareholders**"), which will be sought at an extraordinary general meeting ("**EGM**") to be convened. A circular to Shareholders containing information on the Proposed Issuance of Consideration Shares, as well as the Proposed KSE Bond Purchase from the Existing Bondholders which is related thereto, together with the notice of EGM, will be despatched to Shareholders in due course.

The rationale of the Proposed Issuance of Consideration Shares in connection with the Proposed KSE Bond Purchase from the Existing Bondholders is to reduce the debt burden of the Group, eliminate the need for any cash repayment or payment in view of the current financial and cash position of the Group, provide for some level of stability to the Group and alleviate pressures faced by the Group on its cash flow. As such, having considered the terms and benefits of the Proposed Issuance of Consideration Shares in connection with the Proposed KSE Bond Purchase from the Existing Bondholders, the Board is of the view that the Proposed Issuance of Consideration Shares in connection with the Proposed KSE Bond Purchase from the Existing Bondholders is in the best interests of the Company.

For further details please refer to the general announcement called "the proposed transactions" released on 9 November 2018.

The Group has recently made the following announcements in relation to contracts awarded to the Drilling business unit:

i. On 22 February 2019, a contract extension for the "KS Java Star 2" jack-up drilling rig with an expected value of approximately US$6.7 million;

ii. On 21 December 2018, a new contract for the "KS Java Star 2" jack-up drilling rig with an expected value of approximately US$2.6 million; and

iii. On 6 April 2018, a new contract for the "KS Discoverer 6" land drilling rig with an expected value of approximately US$5.0 million.

The Group remains focused on continuous cost cutting efforts and improving the performance of the Group's existing businesses.

The Company intends to continue to carry on business through its Drilling business unit and maintain its listing status on the SGX-ST and will take active steps to be removed from the watch-list based on the MTP exit criteria and financial exit criteria within 36 months from 5 June 2017 and 5 June 2018, respectively.

The Company will make further announcements to update shareholders of the Company as and when there are any material developments.

BY ORDER OF THE BOARD
KS ENERGY LIMITED

Lai Kuan Loong Victor
Company Secretary
27 February 2019