

REX INTERNATIONAL HOLDING LIMITED

(Company Number: 201301242M)
(Incorporated in the Republic of Singapore)

**RESPONSES TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RESPECT OF THE
COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

Unless otherwise defined, all terms and references used herein shall bear the same meanings ascribed to them in the annual report issued to shareholders on 15 April 2020 (the "Annual Report").

Rex International Holding Limited (the "**Company**") and together with its subsidiaries, the "**Group**") would like to provide the following information in response to queries from the Securities Investors Association (Singapore) ("**SIAS**").

1. **SIAS:** Since the writing of the letter to shareholders (dated 12 March 2020) by the executive chairman and chief executive officer (pages 4 to 7 in the annual report), the world has experienced further carnage in the oil and gas sector. Due to the COVID-19 pandemic, an estimated 4 billion people around the world went under lockdown and demand for gasoline, jet fuel and other petroleum products went into freefall. Coupled with a price war between the world's major producers, Saudi Arabia and Russia, the US crude fell to negative value on 20 April 2020.

In the first week of May 2020, crude prices remain low with West Texas Intermediate (WTI) crude futures still below \$25 per barrel and Brent crude just above \$30 a barrel. As noted in the key audit matters highlighted by the independent auditors, the significant decline in oil prices may have an impact on key management judgements and estimates relating to the group's exploration and evaluation assets.

- (i) **Can management help shareholders understand how its exploration plans for 2020 will be impacted by the depressed prices?**

COMPANY RESPONSE

As stated in the Letter to Shareholders (page 7 of the Annual Report), the Company will monitor the oil price volatility and apply suitable strategies in its investments and operations following the unprecedented times and volatility of the current oil price.

In Oman, the focus will be to continue test production of oil from the Yumna 1 well that was recently completed and successfully flowed at a production rate of 11,843 stock tank barrels of oil per day.

The Company maintains its views of participating in any new exploration and drilling activities that can bring profitability to the Group.

Lime Petroleum AS ("**LPA**"), the Company's subsidiary in Norway, will continue to be eligible for 78 per cent cash-back on all exploration expenditures annually under the Norwegian tax system. LPA is

expected to participate in only one exploration drilling in the fourth quarter of 2020 in the licences PL263D/E, in which LPA holds 20 per cent interests.

- (ii) **Specifically, what are the estimated lifting costs (per barrel of oil equivalent) at Yumna 1 and at Shrek prospect in PL838?**

COMPANY RESPONSE

There is currently no oil production at the Shrek discovery in PL838 yet and accordingly, no lifting costs has been established. In Oman, test production of oil from the Yumna 1 well is still in progress and all exploration costs are still capitalised and lifting costs will be part of the operating costs upon declaration of commerciality.

2. **SIAS:** The group's Rex Virtual Drilling (RVD) is widely acknowledged as the main differentiating factor from other oil exploration & production companies. RVD was also credited with the three successful commercial oil discoveries in Oman and Norway over the last few years.

- (i) **For the benefit of new shareholders, can management clarify on the "false positive" rates of the technology?**

COMPANY RESPONSE

RVD is a multi-attribute seismic analytical tool which studies dispersion events in the seismic data to identify frequencies in the data (page 19 of the Annual Report) associated with the presence of a reservoir and potentially also of liquid hydrocarbons. As such, the quality of the seismic data is an important factor on the accuracy of RVD analyses. The false positive rate is therefore a factor of, among others, the seismic quality and therefore the quantification into one number is difficult. Over the last few years, the Group has refrained from participating in several farm-in opportunity wells on the basis of negative RVD indications. These wells have subsequently been drilled by other companies and were all proven to be dry.

- (ii) **With the improvements made to RVD since 2013, is management going to improve the documented success rate of 96 per cent for dry-well prediction and 69 per cent for commercial oil find prediction?**

COMPANY RESPONSE

The success rate of 96 per cent for dry-well prediction and 69 per cent for commercial oil find prediction was for a sample size of 41 wells done in 2013. This data was gathered by a client using RVD. As such statistical evidence provided by a third-party only serves to validate the Group's confidence in RVD's effectiveness, the Group is more focused on improving the RVD technology through research and development over the past few years, in particular, having achieved recent improvements in 2019 to processing speed and results resolution (page 18 of the Annual Report).

- (iii) **Can management elaborate further on the barriers to offering the RVD service to other offshore oil exploration companies?** It would appear that RVD, being an analytical approach, would be an easy-sell to an industry “steeped in” conventional science.

COMPANY RESPONSE

As stated in the Letter to Shareholders (page 6 of Annual Report), “commercialisation of new technology in any industry that is steeped in tradition and conventional science takes time”, and the same can be said for RVD, a technology that is often seen in the industry to be unconventional. With further volatility in oil prices, many oil exploration companies are cutting costs and may defer spending on new technology, even though exploration success rate could be enhanced. Notwithstanding, RVD has been offered as a service to offshore oil exploration companies outside of the Group since 2018 and market response to RVD has been encouraging.

3. **SIAS:** On 18 November 2019, the company announced the vesting of share awards under the Rex International Performance Share Plan (“PSP”). In the announcement, it was disclosed that 22,669,380 shares were vested pursuant to the achievement of the performance targets based on the average of the company’s closing market prices over \$0.15 for the consecutive period of five market days from 7 November 2019 to 13 November 2019 (page 93).
- (i) **Can the remuneration committee (“RC”) (that administers the PSP) help shareholders understand the choice of market price as a performance target in the PSP?**

COMPANY RESPONSE

When the Rex PSP share awards were first granted on 28 April 2017, the Company’s share price was S\$0.057. The objective of the share awards, based on the market price, was to ensure that the participants’ interests remained aligned with the shareholders of the Company with a view to achieving long-term growth for the Group.

- (ii) **Has the RC considered if the use of market price as a performance target in the PSP may lead to unintended consequences, such as possible market manipulation?**
- In addition, management has direct control over its operational and financial performance but do not directly determine the market prices of the company’s shares. In fact, shortly after the PSP grant, the share price dropped to as low as 8.5c in the first quarter of 2020.

COMPANY RESPONSE

The RC has considered this question and both the RC and the Board do not believe that this can lead to any market manipulation as the participants have no direct control over the Company’s share price.

- (iii) **Would the RC be reviewing the use of a market price performance target in the PSP?**

COMPANY RESPONSE

The RC will continue to review performance targets and currently supports the use of market price as a performance target in the PSP.

SIAS: The RC had granted a waiver of the remaining vesting period of the contingent share awards which were granted to certain eligible participants on 29 April 2019.

(iv) **Can the RC provide shareholders with more details and the reasons for the waiver?**

COMPANY RESPONSE

The Rex PSP share awards were first granted on 28 April 2017. The market price performance target of \$0.15 was reached in November 2019 and the Board therefore waived the remaining vesting period under the terms and conditions under the Rex PSP.

SIAS: The RC consists of Mr Sin Boon Ann (chairman), Mr Muhammad Sameer Yousuf Khan and Mr Dan Broström. The RC has noted that it had deviated from the Code of Corporate Governance 2018 (CG Code 2018) with the appointment of Mr Dan Broström as a RC member. The RC has stated that retaining a RC member who is in an executive position will not lead to a conflict of interest or impede the independence of the RC as no Director or member of the RC is allowed to participate in the deliberation, and has to abstain from voting on any resolution, relating to his own remuneration or that of employees related to him.

However, all 3 members of the RC received PSP shares. The two independent directors in the RC each received 780,000 and 900,000 shares respectively. Since no director was involved in the deliberation of his own remuneration, Mr Sin Boon Ann and Mr Muhammad Sameer Yousuf Khan would have deliberated and made the grant of 6.1 million shares to Mr Dan Broström (the executive chairman).

In a “round robin” format, Mr Dan Broström (the executive chairman) and Mr Muhammad Sameer Yousuf Khan would then award a grant of 900,000 PSP shares to Mr Sin Boon Ann.

Similarly, Mr Dan Broström (the executive chairman) and Mr Sin Boon Ann made the decision to grant Mr Muhammad Sameer Yousuf Khan 780,000 PSP shares.

It is noted that although there is a majority of independent directors in the RC, the specific grants of the 900,000 PSP shares to Mr Sin Boon Ann and 780,000 PSP shares to Mr Muhammad Sameer Yousuf Khan were administered by a subset of the RC/PSP committee that consisted of 1 executive chairman and 1 independent director, and not by a majority of independent directors.

(v) **Did the RC evaluate how effective it was at administering the PSP given that all three members received the PSP shares and one member of the RC was the executive chairman?**

COMPANY RESPONSE

The Board has evaluated the RC’s effectiveness at administering the PSP and has come to the satisfactory conclusion of the RC’s independence. The Board approved all awards of PSP shares recommended by the RC following good corporate governance to ensure that awards are not done under “sub-optimal circumstances”. SIAS has suggested that the members of the Company’s RC operate a “round robin format” by awarding themselves shares under the PSP. The Company would like to point out that this is incorrect and wishes to further clarify that the role of the RC, in respect of awarding any shares under the PSP, is to make recommendations to the Board. The RC does not hold the final decision to the awarding of the PSP. For the avoidance of doubt, the Board comprises mostly of independent directors.

(vi) **Would the RC be reviewing its composition?**

SIAS: It had claimed that retaining a RC member who is in an executive position will not lead to a conflict of interest or impede the independence of the RC although the grants of the PSP shares appear to be made under sub-optimal circumstances.

COMPANY RESPONSE

The RC will not be renewing its composition for the time being. As stated above, both the RC and the Board do not agree that grants of the PSP shares have been made under sub-optimal circumstances, but in line with good corporate governance practice. The reasons for appointing the Executive Chairman to the RC have been clearly stated in the Corporate Governance Report (page 64 of the Annual Report), of which the information has been extracted and is reproduced in italics below.

“Taking into account that the Executive Chairman would be able to provide relevant input and guidance to the RC, given his familiarity with the Group’s activities as well as industry and market practices (including remuneration packages which are in line with the current market standards and commensurate with the respective job scope and responsibilities of executives) in jurisdictions where the Group operates, the NC had recommended his appointment to the Board. The Board opined that as the RC continued to have majority representation of independent directors, the independent directors collectively, would have the decisive vote in relation to executive remuneration matters. Furthermore, retaining a RC member who is in an executive position will not lead to a conflict of interest or impede the independence of the RC as no Director or member of the RC is allowed to participate in the deliberation, and has to abstain from voting on any resolution, relating to his own remuneration or that of employees related to him. Based on the foregoing, the Board had approved Mr Dan Broström’s appointment as a member of the RC.”

By Order of the Board
Rex International Holding Limited

Kong Wei Fung
Company Secretary

19 May 2020

This announcement has been prepared by the Company and reviewed by the sponsor, Novus Corporate Finance Pte. Ltd. (the “Sponsor”), in compliance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited (the “SGX-ST”) Listing Manual Section B: Rules of Catalyst.

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made, or reports contained in this announcement.

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