MAGNUS ENERGY GROUP LTD.
(Incorporated in Singapore)
(Registration No. 198301375M)

RESPONSES TO QUERIES BY THE SPONSOR AND THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED (“SGX”)
- MICROALGAE PROJECT
- UPDATE TO CAPITAL REDUCTION EXERCISE OF SUBSIDIARY

A. RESPONSES TO SGX QUERIES ON THE MICROALGAE PROJECT

The Board of Directors of Magnus Energy Group Ltd (the “**Company**" and, together with its subsidiaries, the “**Group**”) refers to the earlier announcement dated 12 October 2018 and wishes to provide its responses on the follow-up queries sent by SGX on 20 February 2019, 5 March 2019, 7 March 2019 and 22 March 2019.

Unless otherwise defined, all capitalised terms used in Section A of this announcement shall bear the same meanings as in the Company’s announcement dated 12 October 2018.

1. When was the contamination of the microalgae first discovered? What is the cause of the contamination? Would the contamination have any financial impact on the PPE/books of the Company?

Company’s Response:

Contamination is expected in the open cultivation methodology and setup. The microalgae project in Kundang attempted to start production in early 2018 with 12 tanks and grew into 60 tanks. Contamination occurred and resulted in declined growth rate. Pursuant to the Company’s studies, contamination occurred in the primary water source from the underground which required a filtering process to clean the water and the insects from a farm nearby had laid eggs which consequently became worms feeding on the nutrients and microalgae (thereby affecting the growth of the microalgae). Other strains of algae that are airborne also started to grow in the tanks, thus competing to consume the nutrients. The Company is aware of, and assessing methods to mitigate the environmental risks surrounding the cultivation of microalgae in an open field **(Please refer to the indicative timeline set out in the Company’s responses under Query A3 below for further details)**. This is a biological issue and does not affect the PPE hardware. However, due to the delay in production, the Company’s auditors and the management team have been studying the value of the project in the balance sheet and may propose a technical provision for the year ending 30 June 2019.

2. What is the Company’s and Sponsor’s view as to the materiality of this piece of information (i.e. contamination) considering that the microalgae project is Magnus’ core project moving forward and a total of S$13m has been spent on this project thus far?

Company’s Response:

The Company has not made any announcement to inform the shareholders on the start of the production for the project. Thus, the Company is of the view that none of the information disclosed to the shareholders thus far, is misleading to encourage any market activities. However, the Company wishes to highlight that contamination remains an inherent risk of the microalgae risk and needs to be properly managed. **Please refer to the Company’s responses under A3 below for the Company’s plans moving forward.**

Sponsor’s Response:

The Sponsor is of the view that as the contamination has now led to the overall delay of the microalgae project, the Company should publicly disclose this information.

3. Further, in responses to SGX RegCo’s queries on 12 Oct 2018, in response to when the Company intends to commence production of oil extraction, the Company has responded that “The Company shall provide the major milestones and updates when there are further meaningful developments. A major milestone would be the conclusion and certification of the oil content and growth rate test by a professional firm which is <u>expected to be at the end of 2018</u>”.

In the Company’s announcement on 11 Feb 2019 of the 1H19 results for 6 months ended 31 Dec 2018, it was updated that “The current status of the plant remains at growth testing phase and oil extraction test phase. The professional certifications of the said tests have not been conducted as the test results have not been stable. The Group will provide further updates to our shareholders when there are material developments.”

The microalgae project has begun since June 2016, and it has been 1.75 years since, and the plant remains at growth testing phase. Can the Company provide shareholders with a realistic timeline with major milestones anticipated to be achieved for the project, and failing which, the alternative plans that the Company will take? What is the Board and AC's views of whether such plans are in the best interests of the Company?

Company's Response:

The Company has informed the Sponsor and the SGX that the Company is in the midst of discussions with a Singaporean scientist to set up a laboratory in Singapore to identify higher oil content strains. This is one initiative and effort to tackle contamination and production inefficiency. The identification, production and supply of cultures in the Singapore laboratory may improve the harvesting and production inefficiencies in the open cultivation setup. While the growth test is still in progress, the Company is unable to provide a firm timeline on the start of the production. We seek the understanding that a change in one variable will require several weeks to prove whether the change is effective to the growth rate. As at the date of this announcement, no formal agreement has been entered into between the Company and the aforementioned Singapore scientist.

The Board and AC are of the view that the collaboration with the Singapore scientist may be critical to the success of the project. However, there is no assurance that this will provide the ultimate success that has been anticipated. Further, the investment required to establish the laboratory in Singapore may be substantial even though the Company may also able to apply for grants from government agencies. As the Company is still in the midst of negotiations with the Singapore scientist, the Company will update shareholders as and when there are material developments on this.

Given the current circumstances and taking into account the potential environmental and biological risks associated with the microalgae project, the Company wishes to provide an indicative timeline as follows;

Indicative Timeline	Events	Remarks
Current	1. Studying ways to mitigate contamination, including but not limited to, the modification of the production site to be semi-closed and evaluating the optimal conditions for growth of the microalgae (e.g. assessing salt concentration levels to limit contaminants) 2. Discussion with various parties for collaborations 3. To provide quarterly updates on the project	
June'19	1. Technical provisions may be made in view of delayed production 2. To provide quarterly updates on the project	To reflect the fair value of the microalgae project in the books
September'19	1. Target to resolve the growth rate issues 2. The Board shall make an assessment on the viability of the project 3. To provide quarterly updates on the project	To update shareholders on whether the growth issues have been resolved as well as the Board's assessment on project viability at this juncture
December'19	Target to start production	

As this area involves a great deal of research and development, the Company is also exploring collaborations with investors and scientists as potential sources of funding and expertise respectively, and will continue its efforts in the microalgae project. The Company shall monitor the development of the microalgae project closely and will provide shareholders of the Company with prompt updates as and when available, in addition to the quarterly updates. The timeline above shall be reviewed on a monthly basis and shareholders shall be updated accordingly, should there be further delays and/or material developments with respect to the microalgae project. In an event the Company is not able to achieve any of the milestones above, the Company will provide shareholders with timely updates on the reasons for the delay and the steps that the Company will be taking at that juncture to address the impediments to the microalgae growth. Some plausible methods may include the re-testing of the microalgae growth (provided there are sufficient funds in place) and stepping up its efforts to collaborate with scientists on growth optimisation methods.

B. RESPONSES TO SGX QUERIES ON UPDATE TO THE CAPITAL REDUCTION EXERCISE OF SUBSIDIARY

The Board of Directors of the Company refers to the earlier announcements dated 6 March 2019 and 12 November 2018 (the "**Earlier Announcements**") and wishes to provide its responses on the follow-up queries sent by SGX on 20 February 2019, 5 March 2019, 7 March 2019 and 22 March 2019.

Unless otherwise defined, all capitalised terms used in Section B of this announcement shall bear the same meanings as in the Earlier Announcements.

1. **The Company had on 12 Nov 2018 announced the capital reduction of Mid-Continent Equipment Group Pte Ltd. In the announcement, it was stated that "The Capital Reduction Exercise was completed on 18 September 2018, upon the fulfilment of the requisite publication period and lodged with the Accounting and Corporate Regulatory Authority." Please clarify what the Company meant when it said that the Capital Reduction Exercise was completed on 18 September 2018.**

   <u>Company's Response:</u>

   The Company wishes to clarify that the completion on 18 September 2018 was with reference to the requisite ACRA filings. Publication of the Capital Reduction notice and the lodgment of notice of resolution has been completed with ACRA. For the avoidance of doubt, the distribution of capital (in cash or in specie) and the cancellation of the share certificates have not been completed.

2. **What was the Company's effective shareholding in Mid-Continent Equipment Inc. (Houston) ("MEI") and Mid-Continent Equipment LLC (Houston) ("MELLC") prior to the Company opting to receive the excess capital of S$5.589m due under the Capital Reduction Exercise partly in cash and partly in the form of shareholdings in MEI and MELLC?**

   <u>Company's Response:</u>

   The Company holds 55.89% of Mid-Continent Equipment Group Pte Ltd ("**Mid-Con Group**") which in turn holds 99% of MELLC (the remaining 1% in MELLC is held by MEI). Thus, the effective shareholding of the Company in MELLC is approximately 55.33%. The shareholding structure of MEI is such that 20% of MEI is held by an individual who is the General Manager of MEI. As the remaining 80% of MEI is held by Mid-Con Group, the effective shareholding of the Company in MEI is approximately 44.71%.

3. **In the Annual Reports for FY 2015 and 2016, Ong Eng Kee was listed as a consultant to Mid-Continent. In the diagram, he is also listed as the shareholder of Ekong Investment Pte Ltd, which in turn is a 43.58% shareholder of Mid-Continent.**

   (a) Is he still a consultant/related to Mid-Continent or any other entities in the Group?

   <u>Company's Response:</u>

   Yes, Mr Ong Eng Kee ("**Mr Ong**") is presently still the consultant of only Mid-Continent Equipment Group Pte Ltd. Mr Ong is not a director nor employee of any of the subsidiaries.

   (b) When did the arrangement of having Ong Eng Kee hold on behalf Magnus's 55.89% shareholding in MELLC being, and why?

Company's Response:

This is a historical setup since 30 September 2004. In addition, there is a formal Declaration of Trust entered into between Mr Ong and Mid-Continent Group on 30 September 2004. MELLC is established as a partnership primarily for tax reasons, following legal advice from a lawyer based in the United States who had advised Mid-Continent Group that such a structure is for tax reason. Nevertheless, the Company is satisfied with the legal instrument applied to protect the interests of the shareholders.

4. **(i) What is the NTA position and financial performance (profit/loss) of the immediate preceding year of MEI and MELLC?**

Company's Response:

The NTA position of MEI and MELLC for the immediate preceding year are as follows:

	MELLC	**MEI**
NTA as at 31 December 2018	US$0.3m (approx. S$0.41m)	US$1.7m (approx. S$2.3m)
Cost per share as at 31 December 2018	N/A	US$17 (approx. S$23.22) (1)
Cost per share as at 28 February 2019	N/A	US$19.38(2) (approx. S$26.16)

Notes:
(1) Based on the net tangible asset value as at December 2018 divided by 100,000 being the total number of issued shares in MEI
(2) Based on the NTA of MEI of approximately US$1.938 million as at 28 February 2019

Valuation of MEI and MELLC:

MEI is valued at book value (essentially cash, inventory and accounts receivables/payables and MELLC is valued based on the existing market value for the business property (held under MELLC) which is situated in Houston, Texas. Whilst the net book value of MELLC has been at US$0.3 million (approx. S$0.41m) since 1994, the independent valuation report prepared on 21 December 2018 in relation to this property provides for a market value indication of US$770,000 (approx. S$1.04 mil).

Financial Performance of MEI and MELLC:

Mid-Con USA (comprising MEI and MELLC) has become the key subsidiary operating in Mid-Con Group, achieving almost half the total sales of the entire Mid-Con Group. Mid-con USA has been profitable for the past three years with an average profit of approximately US$0.2 million (approx. S$0.27 million). The remaining subsidiaries in the Mid-con Group namely Mid-Continent Equipment (Australia) Pty Ltd, Mid-Continent Enterprises, LLC, Mid-Continent Equipment, Inc. and Mid-Continent Environmental Project Pte Ltd have recorded losses or are dormant. The latest half year ended December 2018 has recorded that Mid-con USA contributed more than 50% of the group revenue with a net profit of US$0.2 million.

(ii) How did the Company arrive at the additional percentage shareholding to be acquired in lieu of a cash repayment?

Company's Response:

For the avoidance of doubt, as the Company does not have any direct stake in both MEI and MELLC before acquiring shares in these entities, there is no *additional* percentage shareholding to be acquired. The Company has decided to receive approximately S$2.5 million cash and has opted for the residual of approximately S$3 million to be obtained via shares in MELLC and MEI in lieu of cash. Through the transfer of shares in MEI and MELLC, the Company shall own an overall 99% direct shareholding interest in MELLC and 80% shareholding interest in MEI.

The methodology employed was to first estimate the liquidated value which is the net cash value of MEI and MELLC, and using that said value as part of the distribution sum of S$5.589 million (as disclosed in the Earlier Announcements). Thus, the Company shall obtain a direct shareholding interest of MEI and MELLC which is computed at 80% of the value (for MEI) and 99% (for MELLC) based on the valuation of shares set out as follows:

- MELLC has an NTA of approximately S$1.04 million. As such the Company shall receive shares in MELLC of a total value of: S$1.04 million (approximate valuation) x 99% (shareholding) ≈ S$1 million

- MEI has an NTA of approximately S$2.6 million. As such the Company shall receive shares in MEI of a total value of: S$2.6 million (approximate valuation) x 80% (shareholding) ≈ S$2.1 million

Please refer to the Company's responses to Query B5 below for the Board's view and underlying rationale for the issuance of shares in MELLC and MEI in lieu of cash.

Effectively, Magnus is purchasing the 99% shareholding in MELLC and 80% shareholding in MEI from Mid-Con Group.

(a) What are the purchase prices allocated for the respective stakes in MELLC and MEI? What are the percentage premium/discount of the purchase prices in MELLC and MEI when referenced to its NTA? Otherwise, how are MELLC and MEI valued

Company's Response:

The purchase prices allocated for the respective stakes in MEI and MELLC are approximately S$2.1 million for MEI and MELLC at approximately S$1 million. **Please refer to the Company's response under Query B4(i) above for further details on the basis of valuation.** For the avoidance of doubt, there is no premium/discount of the purchase prices in MELLC and MEI on the basis of the NTA valuation.

(b) Post-capital reduction and distribution in specie, and after Magnus purchases 99% shareholding in MELLC and 80% shareholding in MEI from Mid-Continent, what would be the NTA of Mid-Continent and what are the key assets held by Mid-Continent? What is the cash balance of Mid-Continent before and after the capital reduction exercise?

Company's Response:

Before
The cash held in Mid-Continent Group before the Capital Reduction Exercise is approximately S$8 million, excluding the impending sales of three warehouses. The total net book value of the warehouses as at 31 December 2018 are approximately US$3.8 million (approx. S$5.2 million). Further, taking into account the independently appraised value of approximately S$1 million of the property held by MELLC (which shall continue to be used for carrying out the business of Mid-Con USA), (the NTA of Mid-Con Group (including its' subsidiaries) as at 31 December 2018 was around US$11.5 million (approx. S$15 million).

After
Pursuant to the Capital Reduction Exercise, the cash due to the Company shall be approximately S$2.5 million and S$4.4 million to the other substantial shareholder of Mid-Con Group (Ekong Investment Holdings Pte Ltd). A total of S$53,000 shall be distributed to the remaining shareholders of Mid-Con Group.

The cash balance of Mid-Con Group following the Capital Reduction Exercise would be approximately S$0.5 million, with an estimated NTA of S$5 million. This estimated NTA is subjected to the eventual sale of the aforesaid warehouses.

None of these has been distributed as at the date of this announcement.

5. **What are the Board's consideration in deciding to receive the S$5.589m due under the Capital Reduction Exercise partly in cash and partly in the form of shareholdings in MEI and MELLC?**

Company's Response:

Each of the management of the Company and Mid-Con Group has discussed with the Board regarding the ongoing group business, after which the Board has decided to take over MEI as a direct operating subsidiary. Following the previously announced disposal of the South-East Asia business, the Company notes that MEI has been the best performing subsidiary. Comparatively amongst all subsidiaries of Mid-Con Group, MEI has been recording increasing sales and/or profits for the past years, as well as a stable cash position.

Having regard to the sales and profit forecasts of MEI, and historical sales and profit figures of MEI and MELLC, the Board and Audit Committee of the Company are of the view that obtaining shareholdings in MEI and MELLC in lieu of cash are in the best interests of the Company.

6. **Why are the Board's consideration in increasing its stake in MELLC from an indirect effective stake of 55.33% to a direct shareholding of 99% then?**

Company's Response:

The Board is of the view that MEI and MELLC should be collectively viewed as Mid-con USA. MELLC serves as a holding company for the premise that MEI is functioning in. Thus, when the Company acquires shareholdings in Mid-con USA, it is in the interest of the operations of MEI to take over MELLC concurrently. Moreover, the Board wishes to highlight that the freehold property held by MELLC is fully paid, with no outstanding loan.

7. **How much of the excess capital (of S$5.589m) did the Company opt to receive in cash? When will this cash amount be received?**

Company's Response:

The remaining portion to be distributed amounts to approximately S$2.5 million in cash. This cash amount is expected to be received around Dec 2019 or as and when cash flow of Mid-Con Group permits.

8. **It was stated in the announcement that the completion of legal transfer of the shares in MEI and MELLC will be on/about 31 Mar 2019. Why is the cash amount only expected to be received around Dec 2019? Further, what does 'as and when cash flow of Midcon group permits' represent? It was stated in the announcement of 12 Nov 2018 that the Capital Reduction Exercise was carried out so as to return to its shareholders surplus cash excess of what is required by Mid-Continent and approved by its shareholders on 24 Jul 2018.**

Company's Response:

The Company seeks to explain that the Mid-Con Group still has the tubular segment operating in Singapore. When the Capital Reduction Exercise was carried out, Mid-Con Group was expected to dispose of its warehouses immediately. However, due to the wind down of the equipment and spares trading businesses in Australia and Singapore, this has taken longer than expected. Out of the four properties that the Group has intended to dispose, only the property in Coopers Basin has been sold at market valuation of about A$0.3 million (approx. S$0.3 million). Marketing for the warehouses only commenced in 2019, subsequent to disposal of South East Asia business and its spare and equipment inventory. The said EGM was conducted in July 2018 and Midcon has swiftly started to market the sale of South East Asia business. This step must be completed prior to the commencement of marketing of the warehouses. The Company acknowledges that the Capital Reduction Exercise ought to have started with the realisation of assets into cash first before obtaining the approval for the said distribution. However, the Company is of the view that approval ought to be obtained by shareholders of Mid-Con Group prior to realising the assets into cash. In this regard, the relevant approval of the shareholders of Mid-Con Group had been obtained at an extraordinary general meeting that was convened, approving the realisation of assets into cash and distribution of capital simultaneously. As the timeline of property disposal is subject to a number of external factors, the Company is expecting the disposal will need around 12 months to complete.

As this juncture, the Company would also like to clarify that the cash balances announced in the financial statements of the Company, are in subsidiaries that are not wholly owned by the Company. A substantial amount of cash is currently in fixed deposits, with some amount being set aside for trade facility purposes.

Mid-Con Group today has sufficient operating cash, of which majority are in fixed deposits, with the last maturity date being January 2020. Subsequently, when the warehouses are sold, the Company is of the view that further distributions can be made at this stage. The Company will update shareholders of the Company as and when there are material developments with regards to the disposal of the warehouses.

BY ORDER OF THE BOARD
Magnus Energy Group Ltd.

Luke Ho Khee Yong
Chief Executive Officer
4 April 2019

About Magnus Energy Group Ltd. (www.magnusenergy.com.sg)
Listed since 04 August 1999

Incorporated in 1983, SGX Catalist Board-listed Magnus Energy Group Ltd. ("**Magnus**") is an investment holding company with a diversified portfolio comprising oil, coal and gas assets, oil and gas equipment distribution, renewable energy and natural resources trading, property and infrastructure development, and industrial waste water treatment.

Magnus aims to maximise shareholder value through strategic investments in profitable projects and acquisitions globally with the goal of broadening the Group's earnings base and shareholder value.