

## **GENERAL UPDATE**

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The Board of Directors of Magnus Energy Group Ltd (the "**Company**" and, together with its subsidiaries, the "**Group**") refers to the announcements dated 6 August 2018, 12 October 2018, 12 November 2018, 6 March 2019, 4 April 2019, 28 June 2019, 23 August 2019, 30 September 2019 and 31 December 2019 (the "**Previous Announcements**") and wishes to provide a general update on the ongoing affairs of the Group.

*Save as otherwise defined, all capitalised terms shall have the same meaning as the Previous Announcements.*

### **GENERAL UPDATE (JANUARY –MARCH 2020)**

At the extraordinary general meeting of the Company held on 9 January 2020 (the "**EGM**"), resolutions regarding the removal of the members of the Board immediately preceding 9 January 2020, were passed<sup>1</sup>. A team of Directors<sup>2</sup> proposed by the requisitioning shareholders, was voted in to deal with the business and financial affairs of the Group and the issues highlighted in the Provenance Report<sup>3</sup>.

A summary of the two months progress since the current Board took over on 10 January 2020, is outlined below:

### **FINANCIAL AFFAIRS**

From 1<sup>st</sup> November 2019<sup>4</sup> to 9 January 2020<sup>5</sup>, the Company had cumulative accounts payables of \$721,255.36. For the same period, the Company disbursed cumulative payments totaling \$783,224.43. This amount was used to pay legal and corporate expenses related to the preparation of EGM, audit fees, IT and regular administrative expenses including severance pay for Mr Luke Ho Khee Yong, the former Chief Executive Officer ("**CEO**").

### **CAPITAL REDUCTION**

Out of the S\$5.589 million that the Company was to receive from the Capital Reduction Exercise, approximately S\$3.1 million was to be received in the form of fully paid-up and issued shares in MEI and MELL. The transfer of shares has been completed, as announced on 28 June 2019. The balance of approximately S\$2.5 million was to be received in the form of cash, with approximately \$0.8 million already received as per the general announcement dated 31 December 2019. This left an outstanding of approximately S\$1.7 million that was satisfied in the following ways:

1. On the maturity date of a fixed deposit placed by Mid-Continent Equipment Group Pte Ltd., the Company received S\$1,123,800 on 22 January 2020 as partial settlement of the amount due to the Company.
2. On 13 March 2020, the Company received the remaining amount of S\$524,056 being the final payment for the Capital Reduction Exercise was made to the Company and this was cleared into the bank accounts of the Company on 17 March 2020.

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<sup>1</sup> All resolutions proposed at the annual general meeting of the Company held on 30 October 2019 were not passed, including resolutions regarding the re-election of the previous board of directors. The remaining independent director who was not put up for re-election due to her re-election the previous year, subsequently appointed a new independent director who took over as Chairman of the two-person board (the "**Previous Board**"). The Previous Board was constituted to oversee the convening of an extraordinary general meeting to be held 45 days after the aforementioned annual general meeting in October. The former CEO of the Company, tendered his resignation and effectively ceased to be the CEO on 9 January 2020. The Previous Board approved a severance payment of S\$107,000 for his early termination on 9 January 2020.

<sup>2</sup> Independent Chairman Mr. Anthony Kuek, Independent Director, Mr. Christopher B. O'Connor, Executive Director and CEO, Mr. Charles Madhavan and Non-Independent Non-Executive Director Mr. Edward Ong.

<sup>3</sup> The Report on the Review of Selected Transactions prepared by Provenance Capital Pte. Ltd dated 21 August 2019 and released on the SGXNET on 23 August 2019 (the "**Provenance Capital Report**").

<sup>4</sup> Following the annual general meeting of the Company on 30 October 2019, for the financial year ended 30 June 2019.

<sup>5</sup> Being the date of the EGM at which the current Board was elected.

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### **ASSET DISPOSALS**

The Company inherited two asset disposal processes which were initiated and approved by the Previous Board and former CEO, being the sale of Mid-Continent Equipment (Australia) Pty Ltd (“**MEA**”)’s warehouse in Perth and the sale of equipment of the microalgae plant in Kuala Lumpur.

#### MEA’s warehouse in Perth

In the quarterly update announcement dated 31 December 2019, the Company disclosed that no formal valuation was undertaken with regard to the sale of MEA’s property in Perth. MEA had later confirmed to the current Board that an independent third party had signed a “contract for sale of land or strata title by offer and acceptance (commercial)” to purchase the property at A\$1,020,000, with the settlement date slated for 28 February 2020. To ensure accountability and compliance with the rules of the Listing Manual Section B: Rules of Catalist, the current Board engaged the services of an independent valuer registered with the Royal Institution of Chartered Surveyors, who thereafter conducted a desktop valuation, and appraised the value of the property at A\$1,100,000. The sale was completed with full payment on 3 March 2020 and an announcement was made by the Company on 5 March 2020.

#### Equipment of microalgae plant in Kuala Lumpur

A disposal process for the microalgae equipment had been initiated by the former Board. The current Board understands that only a few parties had viewed the microalgae equipment and as they were made specifically for the microalgae project, they had to be sold off on a piece-meal basis. The microalgae equipment is currently stored on leased land, for which such lease had been extended until 30 June 2022, as informally arranged by verbal agreement by former management.

The current Board has sought advice on the viability of the microalgae project from Dr. Schonna Manning, PhD, a research assistant professor from the Department of Molecular Biosciences, College of Natural Sciences of The University of Texas at Austin. Through electronic communications to Dr. Schonna Manning by the current Board consisting of photographs of the microalgae and the microalgae equipment<sup>6</sup>, Dr. Schonna Manning responded to queries raised by the current Board in relation to the microalgae project on 30 January 2020 and is of the opinion that the project is non-viable due to inappropriate technical design and the use of an unsuitable algae species.

Given the feedback received from Dr. Schonna Manning, the current Board is of the view that the microalgae project should not be continued, and considers it necessary to speed up the disposal of remaining microalgae equipment to minimize the costs in extending the lease and additional maintenance expenses.

As of the date of this announcement, some of the equipment have been sold off as scrap metal and the forklift and the vehicle has been sold off as well. The total proceeds received from such disposals is approximately RM35,000 so far.

Due to the current situation on the Covid-19 virus, the Board is uncertain of the completion of the full closure of the microalgae project pending the disposal of the remaining microalgae equipment. The Group had provided for an impairment of the microalgae project amounting to S\$12,974,966 for the year ended 30 June 2019. No further impairments were provided for in the financial statements for the period ended 31 December 2019. As at 31 December 2019, the value on the books attributed to the microalgae project was S\$52,113.

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<sup>6</sup> For the avoidance of doubt, Dr. Schonna Manning conducted her review based on the photographs and information received from the Company and has not visited the microalgae plant.

**MAGNUS ENERGY GROUP LTD.**

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**UPDATE ON LEGAL DISPUTES ON INDONESIAN CONTRACTOR, PT HANJUNGIN**

The executive director, Charles Madhavan, has instructed the current director of PT MEG Harta Indonesia, Mr. Rudy Santoso, to travel to Kupang to further investigate the situation and make attempts to meet with the current shareholder of PT Hanjungin, Mdm. Linda Liudianto, who has been sentenced to 8 years' of jail for fraud in Indonesia. Mr. Rudy Santoso will attempt to retrieve the Land Title Deeds from Mdm. Linda Liudianto, which will give the Company an opportunity to sell the plot of land which is around 13.5 hectares. Failing that, the Company will decide on the next course of action. It is noted that Mdm. Linda Liudianto is also involved in investigations by local authorities in Kupang for other fraud and corruption cases. The Company will evaluate whether legal actions are viable and cost effective after it receives Mr. Rudy Santoso's reports and findings on the situation.

However, due to the travel restrictions imposed as a result of the ongoing Covid-19 virus, Mr. Rudy Santoso is unable to make a trip to Kupang at the moment. Mr. Rudy Santoso will update the board and commence on the trip when the Covid-19 situation eases up sufficiently for him to travel.

**THAMES CAPITAL**

Although the Company has not appointed any lawyers in London, the Company has instructed Eldan Law LLP<sup>7</sup> to connect with various lawyers from London to discuss and assess the best course of action against Thames Capital. The current Board will keep the shareholders updated in the event any lawyers are appointed for any actions to be taken against Thames Capital.

**ACCOUNTABILITY AND LEGAL PROCESSES**

The current Board is committed to pursue accountability for the Group's sustained losses over the years. A writ of summons was filed by Eldan Law LLP, on behalf of the Company on 3 March 2020 against its former directors and the former CEO of the Company for, amongst others, breaches of duties owed to the Company. Please refer to the announcement dated 4 March 2020 for further information.

On 29 February 2020, the Board received a letter of demand from a Mr. Thong Soon Seng regarding a loan allegedly entered into by former CEO Mr. Luke Ho Khee Yong. The Company has no records of this transaction, as announced on 3 March 2020. As announced on 20 March 2020, Eldan Law LLP had responded to the letter of demand on 5 March 2020, and had received a reply from Mr Thong's solicitors on 11 March 2020. A police report was filed on 20 March 2020 against the former CEO, Mr Luke Ho Khee Yong. Please refer to the announcement dated 20 March 2020 for further information.

More recently, Eldan Law LLP has, on 30 March 2020, responded to Mr Thong's reply on 11 March 2020, denying allegations set out in the letters dated 29 February 2020 and 11 March 2020.

The Company also clarified that during the alleged periods in which Mr. Thong had extended the alleged sums amounting to S\$4,000,000, there were no records of any such alleged loan entered into the Company's accounting books, nor any records of any transactions entered into with Mr. Thong directly. Mr. Thong's records also do not show any approval granted by its then-directors for the alleged loan agreement.

To the best of the directors' knowledge, no legal proceedings have been commenced against the Company at this stage.

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<sup>7</sup> Eldan Law LLP acted on behalf of the requisitioning shareholders in their requisition and has since then continued to be retained by the current Board as the legal advisor. As at the date of this announcement, the Company is following up on the relevant documentation to be provided to Sponsor for its review of the suitability of the appointments of Eldan Law LLP by the Company for its various actions, pursuant to SGX RegCo compliance guidelines dated 16 July 2019.

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**UPDATE ON MID-CONTINENT EQUIPMENT, INC. (USA)**

An exploratory visit to meet the Mr. Maung Thein Htike, President of Mid-Continent Equipment, Inc. (USA) (“MEI”) was carried out by Mr. Charles Madhavan and Mr. Christopher O’Connor from 22 February 2020 to 2 March 2020. The visit coincided with the impact of Covid-19 on the global economy and falling oil prices. Pursuant to the visit, Mr. Charles Madhavan and Mr. Christopher O’Connor have a better understanding of MEI’s distribution business on promoting selected brands of drilling equipment to customers. The Company will work with MEI to diversify the business base with a view of pursuing the opportunities of direct distribution to oil drilling companies operating in Asia and Middle East.

The Company would like to highlight to its shareholders that with the recent decline and volatility in oil prices, there is a likelihood that there would be less demand for oil field equipment which could adversely affect the business prospects and revenues of our only operating subsidiary, Mid-Continent Equipment, Inc (USA).

**CORPORATE GOVERNANCE**

The current Board was constituted following the EGM and faced transitional challenges due to the change in the entire board composition and management, the inheritance of the ongoing sale of the Perth property, a pressing legal process against the Previous Board and management, and dealing with a sizeable amount of accounts payable. The current Board also encountered problems with retrieving past correspondences and financial records.

The current CEO, Mr. Charles Madhavan, is the sole key management for the Company. As a result, the current Board has extended a wide range of assistance to the current CEO in relation to the day to day functioning of the Company. This is viewed as necessary by the current Board as the current CEO has insufficient staff, with the staff currently comprising an administrative executive with experience in corporate secretarial work, a finance manager and his assistant. This team has been multi-tasking to accomplish wide range of tasks as set out above. This managerial setup is likely to continue for some time until the Company is able to generate sufficient financial resources to meet the manpower required to manage a fully operational listed company.

The recommendations outlined in the Provenance Capital Report laid out areas for the Company to improve on, including corporate governance and the appointment of suitably qualified legal/professionals. The current Board has reviewed the recommendations in the Provenance Report and undertakes that it will engage professionals to carry out due diligence in to facilitate its appraisal of business opportunities, including in areas of technical requirements, financial risk management and internal controls, legal, environmental and project-specific requirements, as needed. The current Board will also separately review and evaluate existing guidelines on Sustainability and Corporate Governance Reports, be mindful of the current limited business and where appropriate, engage internal auditors to further strengthen these aspects of the Company’s functions.

The current Board is cognizant of the current challenging environment and the Company’s resource constraints, and management continues to take a cautious approach in recruiting a full fledged multi-disciplinary staff team in the absence of a sustainable business model.

The current Board believes that the suspension of the Company’s shares since last August is an impediment to the Company’s operations. However, it also notes the ongoing concerns regarding the Company, and notes that beyond that stated in the trading suspension announcement dated 23 August 2019, the suspension of the Company will continue until amongst others, (1) the matters raised by the Provenance Capital Report, and (2) the matter relating to the letter of demand and loan from Mr Thong, have been satisfactorily addressed.

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The current Board and management will continue to work towards addressing the abovementioned matters to lift the trading suspension on Company's shares in consultation with the SGX RegCo, to restore confidence and liquidity for the Company.

**BY ORDER OF THE BOARD**

Magnus Energy Group Ltd.

Charles Madhavan  
Executive Director and  
Chief Executive Officer  
31 March 2020

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*This announcement has been reviewed by the Company's sponsor, Stamford Corporate Services Pte Ltd (the "Sponsor"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (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.*

*The contact person for the Sponsor is Mr. Bernard Lui.  
Telephone: +65 6389 3000. Email: [bernard.lui@morganlewis.com](mailto:bernard.lui@morganlewis.com)*