ENECO ENERGY LIMITED

(the "Company")
(Company registration number 200301668R)
(Incorporated in the Republic of Singapore)

RESPONSE TO SGX QUERIES

The Board of Directors ("Board") of the Company refers to the announcement released by the Company via SGXNet on 13 August 2019 in relation to the Quarterly Financial Statements for the Period Ended 30 June 2019.

The Board is pleased to provide the Company's responses to queries raised by SGX-ST on 16 August 2019 in respect of the aforesaid announcement:-

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a. Please quantify the impact of adoption of SFRS(I) 16. If the amount cannot be quantified, please clarify whether the adoption of SFRS(I) 16 is expected to cause a material impact to the financial results of the Company.

As disclosed in Note 32(b) in our FY 2018 Annual Report, the Group has entered into commercial leases for properties and transport equipment. These operating leases have remaining non-cancellable lease terms of between 1 to 5 years with renewal options and rental escalation clauses in the contracts. Total operating lease commitments amounted to approximately $16.0 million.

The adoption of SFRS(I) 16, which is effective from 01 January 2019, introduces a single, on-balance sheet lease accounting model for lessees. The Group will recognise the right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Based on our preliminary assessment and subject to the review of the financial impact by our incoming Independent Auditors at the upcoming FY 2019 audit, we expect that the Group's right-of-use assets and lease liabilities will increase by approximately $12 to $13 million in our Group's statement of financial position. On adoption of SFRS(I) 16, the Group will increase its non-current asset and on the other hand, it is also more heavily indebted due to recognition of the future lease payments upfront.

From the perspective of the Group's consolidated statement of comprehensive income, total lease expenses, will now comprise of amortization of the right-of-use assets and interest expenses on the lease liabilities under SFRS(I) 16, will most likely be front-loaded despite cash rentals (i.e. the annual lease payments) being constant. This is due to higher interest expense in earlier years, similar to the effect of amortising a debt. Other than the change in classification to amortization expense and interest expense in the current year on adoption of SFRS(I) 16 as compared to operating lease expense in the past, we do not expect a material impact to the Group's performance.

From the perspective of the Group's consolidated cash flows, with annual lease expenses being substituted by amortization expense and interest expense, the presentation of the cash flows statement will be impacted as well. The rental payment will be reported as repayment of principal and interest of the lease obligation under "financing activities" in the cash flow statement, instead of the entire amount being included under "operating cash flows" under the old lease standard SFRS(I) 1-17.

b. It was mentioned in the Annual Report for the financial year ended 31 December 2018 that "On the adoption of SFRS(I) 16, the Group expects to choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

i) Its carrying amount as if SFRS(I) 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate as of 01 January 2019; or

ii) An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before 01 January 2019.

In this regard, please clarify how the Company has chosen to measure its right-of-use assets.

In compliance with SFRS(I) 16, the Group will adopt the practical expedient to recognise the amount of right-of-use assets equal to the lease liabilities as at 01 January 2019. Subsequent to the initial recognition, the Group will amortise the right-of-use assets over the shorter of the useful life of the right-of-use assets and the lease term and recognise interest expense on the lease liabilities.

c. Please provide an explanation for the delay in adoption of SFRS(I) 16, which is effective for the financial year beginning on or after 01 January 2019.

The Group had faced delay in the finalization of audited accounts for the year ended 31 December 2018 due to issues relating to the year-end audit namely: going concern assumption, impairment of investment in exploration and evaluation assets and receivables relating to West Jambi concession and amount due from a broker in which the Board subsequently decided to appoint an independent external reviewer to review the circumstances leading to the disbursement of fund to the broker.

All the above issues had caused delay in the finalisation of the adoption of SFRS(I) 16.

d. Please provide an explanation for the lower revenue recorded in the Logistics segment.

Logistics Indonesia had lost a key customer in early 2018 and the volume from subsequent new wins was not able to contain the loss for the period ended 30 June 2019.

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e. Please provide a breakdown of Oil & Gas Properties for both the current period and the comparative period and elaborate on the material variances on the individual line items.

	Group			
	30 Jun 19	**31 Dec 18**	**Variance**	**Variance explanation**
	S$'000	**S$'000**	**S$'000**	
Oil & Gas properties				
Production wells and related equipment	135	2,034	(1,899)	The decrease was largely due to farm-out of Lemang participating interest from 16% to 10% and depreciation
Abandonment and site restoration	265	333	(68)	
Development wells	6,067	9,903	(3,836)	
	6,467	12,270	(5,803)	

f. Please provide the breakdown for Other Receivables for both current and non-current categories. Please also provide the Board's assessment on the recoverability of the Group's Other Receivables and the bases for such an assessment.

	Group	
	30 Jun 19	**31 Dec 18**
	S$'000	**S$'000**
Other receivables (Non-current assets)		
Value Added Tax ("VAT")	5,618	7,190

Other receivables refer to VAT receivable on oil and gas activities which is reimbursable from the Indonesian government upon full recovery of the cost recovery pool.

	S$'000	**S$'000**
Other receivables (current assets)		
Deposits	763	860
Sundry debtors	610	690
Disbursement recoverable	361	297
Receivable from joint venture partner	5,049	-
	6,783	1,847

Deposits refer to refundable deposits placed for leases, tele-communication and utilities.

Sundry debtors include payment on behalf for custom clearance and export-import handling advance in which billing will be made upon job completion.

Disbursement recoverable refers to employees advances to meet operational needs.

Receivable from joint venture partner refers to the net funding balance used to settle outstanding cash calls till 30 September 2019. The increase in the receivable arose from the farming out of Lemang's participating interest of 6%.

The Board is positive that there is no material credit loss.

g. Please provide an elaboration of the West Jambi asset, including the status of the exploration permit and the various options being considered.

The West Jambi assets comprise of seismic and evaluation costs, wellsite and road access preparation, land clearance, open-hole electrical logging services, civil construction work and signature bonus.

The management has been in various ongoing discussions with Pertamina on the extension of the exploration permit, the last meeting being on 02 August 2019. Based on the latest discussions, the management believes that the exploration permit would be further extended for another 2 years, and that the extension would be finalised in the next 2 to 3 months.

The options being considered for the West Jambi assets include inviting potential joint venture partners to develop the asset or to monetise part of the assets.

By Order of the Board
ENECO ENERGY LIMITED

Colin Peter Moran
Executive Director cum Chief Executive Officer
20 August 2019