REX INTERNATIONAL HOLDING LIMITED
(Company Number: 201301242M)
(Incorporated in the Republic of Singapore)

UNAUDITED FINANCIAL STATEMENTS FOR FY2023 - RESPONSE TO SGX QUERIES

Unless otherwise defined, capitalised terms in this announcement shall have the same meaning given to them in the Company's announcement dated 28 February 2024 in relation to the condensed interim financial statements for the six months and full year ended 31 December 2023 of the Group (as defined herein).

Rex International Holding Limited (the "**Company**" or "**Rex**" and together with its subsidiaries, the "**Group**") has received the following queries from the Singapore Exchange Securities Trading Limited (the "**SGX Queries**") on 8 March 2024, in relation to the Company's announcement dated 28 February 2024 on the Condensed Interim Financial Statements for the six months and full year ended 31 December 2023 ("**FY2023 FS Announcement**"). The board of directors (the "**Board**") of the Company has provided the following responses to the SGX Queries.

1. Please disclose a breakdown of trade and other payables amounting to US$91,888,000 as at 31 December 2023 and US$129,536,000 as at 31 December 2023. For other payables, please disclose the aging and nature of these other payables and whether the counterparties are related parties. Please also explain the decrease of US$37,648,000 from FY2022 to FY2023.

Response

Breakdown of trade and other payables

	Group	
	2023	**2022**
	US$'000	**US$'000**
Trade payables (third parties)	3,505	26,576
Accruals	48,550	41,355
Advances from customer	39,413	30,209
Deferred consideration	–	29,512
Dividends payable to non-controlling interests	420	1,884
	91,888	129,536

Aging and nature of other payables and whether the counterparties are related parties

(a) Accruals – relates to accrual of operating expenses such as accrued production costs, employee-related accruals, director fees and audit fees.

(b) Advances from customer – relates to a prepaid amount received from a customer in Norway, in relation to crude oil sales in 2024.

(c) Deferred consideration – relates to consideration payable in relation to the acquisition of the Yme Field in Norway, that was settled on 3 February 2023.

(d) Dividends payable to non-controlling interests – relates to dividends due to non-controlling interests on declaration of dividends by subsidiaries.

(e) Other than employee-related accruals and directors' fees, none of the above balances are due to related parties.

Decrease from FY2022 to FY2023

Trade and other payables decreased to US$91.89 million as at 31 December 2023, from US$129.54 million as at 31 December 2022, largely due to the settlement of FY2022 balances which consisted mainly of the deferred consideration payable of US$29.51 million from the acquisition of the Yme Field in Norway, the settlement of trade payables outstanding related to the drilling campaign in Oman at end of 2022 and the settlement of accrued production costs in relation to production activities in both Norway and Oman. Please refer to the breakdown above for further details on the accruals and deferred consideration payable.

2. Please disclose:

(a) a breakdown of the Group's other receivables amounting to US$22,575,000 as at 31 December 2023 and US$25,040,000 as at 31 December 2022; and

(b) details of the Group's underlying transactions of these other receivables and the terms of the transactions.

Response

(a) Breakdown of other receivables

	Group	
	2023 **US$'000**	**2022** **US$'000**
Interest receivable	336	5
Working capital and receivable, joint operations/licences	8,690	20,902
Accrued revenue	10,264	1,456
Others	3,285	2,677
	22,575	25,040

(b) Details of underlying transactions and the terms of the transactions (if any)

(i) Interest receivables – relates to accrued interest income from bank deposits. Amount is receivable on maturity of short-term bank deposits in 2024.

(ii) Working capital and receivable, joint operations/licenses – relates to exploration and production activities in Norway.

(iii) Accrued revenue – relates to accrued sale of gas in Norway.

(iv) Others – relate to other short-term receivables.

3. It is disclosed in note 16 that the Group's loans and borrowings of US$101,109,000 as at 31 December 2023 consist entirely of Bonds issued by LPA through the tap mechanism in its existing Bonds.

Please provide the reason(s) for the bond issuance by the Group when the Group recorded cash and cash equivalent of US$95,439,000 as at 31 December 2023.

Response

The bond issuance was carried out to fund LPA's acquisition of a 10% interest in the producing Yme Field in Norway, to refinance its then existing bond from 2022 of NOK 500 million (approximately US$51 million), as well as for LPA's general working capital purposes.

The bond issuance was a non-dilutive fund raising; and was issued and ring-fenced at the subsidiary level since the funds raised from the bonds were entirely for LPA's use. The utilisation of the tap mechanism in LPA's existing Bonds also minimises equity injection from the Group. This is in line with the Company's prudent cash management strategy to cultivate 'self-sufficiency' and financial independence at the subsidiary level.

4. Please disclose:

(a) how the following impairment amounts were determined:
(i) Impairment of goodwill amounting to US$21,856,000 in FY2023
(ii) Impairment loss on exploration and evaluation assets amounting to US$19,544,000 in FY2023
(iii) Impairment loss on oil and gas properties amounting to US$11,786,000 in FY2023

(b) whether any valuation was conducted, the value placed on the relevant assets, the basis and the date of such valuation; and

(c) the Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment required for (i) goodwill; (ii) exploration and evaluation assets; and (iii) oil and gas properties, including its bases of assessment.

Response

(a) The impairment amounts were determined as follows:

(i), (iii) Management performed impairment assessment by assessing the recoverability of its oil and gas properties and resultant goodwill based on discounted future cash flows from the respective oil and gas properties as at

31 December 2023. Impairment loss is recognised when the recoverable amount of the Cash Generating Unit is lower than the carrying value.

Impairment loss on oil and gas properties amounting to US$11,786,000 is the result of difference between recoverable amount and carrying value of Yumna Field in Oman, due to an updated reserves review of remaining reserves in the field.

Impairment of goodwill amounting to US$21,856,000 in FY2023 is the result of difference between recoverable amount and carrying value of the Yme Field in Norway.

(ii) Exploration and evaluation assets relate to exploration and evaluation ("**E&E**") activity that involves the search for oil and gas resources, the determination of technical feasibility and the assessment of the commercial viability of an identified resource.

E&E costs are capitalised in respect of each area of interest for which the rights to explore (i.e. licences) are current and where:

A. the E&E costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or

B. E&E activities in the area of interest have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves; and active and significant operations in or in relation to the areas of interest are continuing.

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. Where a potential impairment is indicated, assessment is performed for each area of interest, in conjunction with the Group of operating assets (representing a Cash Generating Unit) to which the E&E is attributable. To the extent that capitalised E&E is not expected to be recovered, it is charged to profit or loss.

Impairment loss on exploration and evaluation assets amounting to US$19,544,000 in FY2023 has the following breakdown:

A. US$11,249,000 relates to all exploration licences in LPA that were decided to be discontinued during 2023.

B. US$5,879,000 relates to the Khufai Formation of the Yumna-4 Deep exploration well in Oman that was confirmed to be non-commercial in 2023.

C. US$2,416,000 relates to the offshore licences in Malaysia that were relinquished in 2023.

(b) Oil and gas properties and resultant goodwill – As at 31 December 2023, the Group has oil and gas properties and goodwill (resultant from the acquisition of the Yme Field in Norway) amounting to US$208,800,000 and US$8,203,000 respectively. The Group engaged independent qualified persons to estimate, where appropriate, the proved, probable and possible reserves for oil and gas properties, including the future net cash flows arising from such. Valuation was performed as at 31 December 2023. The assessment requires the exercise of significant judgement about and assumptions on, amongst others, the discount rate, oil reserves, expected production volumes and future oil prices, taking into considerations external or internal factors that could indicate an impairment.

Exploration and evaluation assets – No external valuation was conducted. See methodology for E&E assets as set out in para (a)(ii) above.

(c) Based on the actions and methodology undertaken by the management of the Group, which is consistent with international oil and gas industry practices and in accordance with International Financial Reporting Standards, the Board, with the concurrence of the Audit Committee, is of the view that the methodologies used to determine the value of the impairment required for (i) goodwill; (ii) exploration and evaluation assets; and (iii) oil and gas properties, including its bases of assessment, are reasonable.

5. It is disclosed on page 24 of the unaudited financial statements that, "In 2023, the Group recognised total impairment loss of US$19,544,000 with respect to exploration and evaluation assets, as a result of non-commercial exploration well in Oman, and relinquishment of certain licences in Norway and Malaysia. In 2022, the Group recognised total impairment loss of US$24,285,000 with respect to exploration and evaluation assets in Norway, as a result of the relinquishment of licences.".

Please disclose further details regarding these licences (including its nature) and explain what led to the relinquishment of licences in Norway and Malaysia for both FY2022 and FY2023.

Response

Norway Licences

The licences in Norway which were relinquished in FY2022 and FY2023 were exploration and evaluation licences.

For the licences relinquished in FY2022, please refer to pages 37 and 48 of the Company's Annual Report for the financial year ended 31 December 2022 ("**Rex Annual Report 2022**"). In addition to the information provided in Rex's Annual Report 2022, the decision to relinquish (A) PL937 (LPA: 15% interest) was due to the dry well in Fat Canyon and (B) PL1111 (LPA: 40% interest) was due to the risk of exploration being deemed to be too high to warrant drilling.

The following licence relinquishments were taken into account in FY2023:

PL867, PL867B (LPA: 20%) and PL818, PL818B (LPA: 30%)
Drilling operations on the PL867/PL867B Gjegnalunden prospect were concluded in February 2023, with a minor discovery. Further to what was disclosed in page 37 of Rex Annual Report 2022, work in 2023 has concluded that there is limited further prospectivity in the licences,

and the partnership has decided to relinquish the licences, along with the neighbouring PL818 and PL818B licences with the Orkja prospect.

PL838 B (LPA: 30%)
A decision was made to relinquish the licence after studies showed a low chance of success and small recoverable resources for various prospects in the licence.

PL1125 (LPA: 50%)
The licence was not renewed as LPA was unable to find a partner operator for the licence.

Malaysia Licences

Please refer to the Company's press release dated 30 August 2021 and announcement dated 20 June 2022, in relation to the production sharing contracts ("**Malaysia PSCs**") for the development and production of the Rhu-Ara and the Diwangsa Clusters located in offshore Peninsular Malaysia.

The reason for relinquishment of the Malaysia PSCs was stated in the Company's response to SGX queries announced on 28 September 2023:

> *Following feasibility studies conducted by the Group in Malaysia, the Company's indirect wholly owned subsidiary Pantai Rhu Energy Sdn Bhd made a Field Development Plan (FDP) based on the Group's internal financial viability threshold for the project. The FDP was submitted but not accepted. Under the terms of the Production Sharing Contracts ("**PSCs**"), in the absence of FDPs two years from the effective date of 1 September 2021, the PSCs were accordingly relinquished.*

6. Taking into consideration that the acquisition of Yme Field was completed on 31 December 2022, please disclose the reasons contributing to the impairment loss of US$21,856,000 made for the Yme Field just one year after its acquisition.

Please disclose:

(a) whether any valuation was conducted, the value placed on the Yme field, the basis and the date of such valuation at the point of acquisition;

(b) the findings from the due diligence performed on the Yme Field, if any;

(c) the identity of the parties engaged to perform the (i) valuation of the Yme Field; and (ii) due diligence performed on the Yme Field at the point of acquisition;

(d) whether the Board is satisfied and comfortable with the assumptions utilised in the valuation, where applicable.

Response

The main factor contributing to the Yme Field impairment loss is the lower production volumes in the early life of the Yme Field, compared to initial assessments. The lower production volumes are predominantly due to (i) unexpected production shutdowns due to technical issues and unforeseen equipment failure and (ii) unplanned delays in adding new production and injection wells to the field.

(a) LPA conducted due diligence on the asset, including an internal valuation in March 2022 based on an effective date of 1 January 2022 as the effective date for all oil and gas transactions in Norway is 1 January of the year of transaction. A final consideration of US$68.053 million, which is within the internal valuation range, was agreed with the seller and a sales and purchase agreement was signed on 10 August 2022. The valuation was based on production forecasts related to reservoir performance, production efficiency related to the platform performance, risk of increased operational expenditure, and other risks as identified in paragraph (b) below.

(b) Several general risk factors were identified and communicated, including:
   (i) Oil and gas price volatility;
   (ii) Uncertainty in oil reserve volumes;
   (iii) Third party risk in terms of operator and partners;
   (iv) Risks with future abandonment and decommissioning costs; and
   (v) Project delays and cost inflation.

   Main risks identified specific to the Yme Field were:
   (i) Risk of the subsea tank not being operable, adding operational expenditure;
   (ii) Premature water production lowering production rates and recoverable volumes;
   (iii) Risk of due diligence not uncovering all material facts.

(c) Valuation was done in-house. Technical due diligence on reservoir and production facilities was done in-house with assistance from long-term advisers. Legal due diligence was conducted by lawyers in Norway.

(d) Each member of the LPA key management has, on average, more than 20 years of experience in the upstream oil and gas sector and the LPA board of directors consists of individuals who each have over 30 years of experience in the upstream oil and gas sector. Based on the actions and methodology undertaken by the management and the board of directors of LPA, the Board is satisfied and comfortable with the assumptions utilised in the valuation.

7. It is disclosed on page 33 of the unaudited financial statements that “The contingent consideration arrangement requires the Group to commit capital injection of up to US$3,000,000 if 3 technical and sales milestones are achieved by Xer. On 15 January 2024, one of the milestones was achieved, and US$1,000,000 was paid by the Group. Based on the past milestones achieved by Xer, the Management considers the payment of the contingent consideration to be probable, and US$3,000,000 represents the estimated fair value of this obligation”.

   (a) Please disclose whether and how the contingent consideration amount of US$3,000,000 relating to capital injection in its subsidiary, Xer, is being recorded in the unaudited FY2023 financial statements.

(b) Please provide a status update on the completion of milestones set out in the Shareholders' Agreement as at 31 December 2023 and clarify whether the additional amount of US$3,000,000 has been transferred as at 31 December 2023.

Response

(a) The contingent consideration of US$3,000,000 is payable to Xer upon fulfilment of 3 technical and sales milestones ("**T&S Milestones**"). As at 31 December 2023, Xer is a subsidiary of the Group, held by the Company's wholly-owned subsidiary. Accordingly, intercompany balances between group entities are eliminated.

(b) As at 31 December 2023, the T&S Milestones had not been fulfilled. As such, as at 31 December 2023, the additional amount of US$3,000,000 had not been transferred.

8. Please explain why the Company's depletion of oil and gas properties increased 166% when its revenue only increased 22%. Please quantify and substantiate your response for a clearer understanding of the factors that caused the reduction in gross profit.

Response

The main reasons for the increase of depletion of oil and gas properties are:

(a) The Yme Field in Norway came into account in 2023. The 2022 numbers are for the Brage Field in Norway and Yumna Field in Oman only. The Yme Field has a higher depreciation ratio per barrel because of a higher book value ratio versus reserves than the Brage Field.

(b) Prices were reduced significantly in 2023 compared to 2022, which reduced revenues but not depreciation.

(c) The depletion rate increased per barrel of oil produced in Oman, due to a reduction in estimates of remaining reserves in the field.

9. It is disclosed on page 22 of the unaudited financial statements that, there are consultancy fees paid to companies controlled by directors amounting to US$104,000. Please disclose whether these constitute interested person transactions.

Please also explain if any of the related party transactions constitute an interested person transaction. If yes, please clarify whether and how the requirements of Chapter 9 have been complied with.

Response

The aggregate amount of US$104,000 in consultancy fees were paid to 3 companies in which different directors of the Company (or a family member of such director) have interests. The transactions with 2 of such companies are interested party transactions. The Company notes that Listing Rules 905(1), 905(2) and 906(1) do not apply to transactions below S$100,000. As none of the payments to each interested person was S$100,000 or above, no announcement was required in respect of the aforementioned transactions.

The other related party transactions in respect of transactions with directors and other key management personnel, as disclosed on page 22 of the FY2023 FS Announcement, relate to remuneration for key management personnel and directors (including the CEO). Listing Rule 915(8) states that directors' fees and remuneration, and employment remuneration (excluding "golden parachute" payments) are not required to comply with Listing Rules 905, 906 and 907 in relation to disclosure and shareholders' approval.

In view of the abovementioned, the Company is of the view that the requirements of Chapter 9 have been complied with.

10. It is disclosed on page 40 of the unaudited financial statements that, decommissioning provisions increased to US$215.66 million as at 31 December 2023, from US$190.66 million as at 31 December 2022, mainly due recognition of additional decommissioning provisions in relation to the Yme Field.

Please disclose the factors which led to the recognition of additional decommissioning provisions in relation to the Yme Field.

Please also submit checklist 5.7 Financial Statements via the RegCo Submissions portal for our review.

Response

The decommissioning provisions represent the present value of the cost of rehabilitating and decommissioning oil field assets and infrastructure such as wells, pipelines and processing facilities, which are expected to be incurred when the operations cease. The provisions have been created based on the Group's internal estimates and regular review of assumptions based on the current economic environment (including discount rates).

However, the actual decommissioning works required reflect the market conditions at the relevant time. Furthermore, the timing of decommissioning is dependent on when the fields cease to produce at economically viable rates. This, in turn, will depend on future oil and gas prices, which are inherently uncertain.

In 2023, as part of the Group's regular review, the main factors which led to the recognition of additional decommissioning provisions are: (a) updated estimate of expected future cost of removing installations and wells and (b) a change in principles of what type of cost is treated as asset retirement obligation ("**ARO**"). Certain costs of reusing well slots for new wells, which were previously considered as capital expenditure, have been included in ARO cost.

Checklist 5.7 Financial Statements has been submitted to the SGX via the RegCo Submissions portal.

BY ORDER OF THE BOARD OF
Rex International Holding Limited

John d'Abo
Executive Vice Chairman

12 March 2024