ENECO ENERGY LIMITED

(the "Company")
(Co. Reg. No. 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 28 February 2020 in relation to the Company's Unaudited Financial Statements for the full year ended 31 December 2019 ("UFS").

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

a. Please provide the background and the rationale for the impairment of non-trade loans amounting to S$19.75 million that was recorded in respect of the previous financial year

As disclosed in Note 15 of the Annual Report for the financial year ended 31 December 2018 ("FY2018"), the Company has loans extended to subsidiaries which were unsecured and non-interest bearing. These loans were, in substance, a part of the Company's net investments in the subsidiaries since the settlement of these loans was neither planned nor likely to occur in the foreseeable future.

These loans were substantially extended to REL Oil and Gas Pte Ltd ("REL O&G"), which is an investment holding company and a wholly owned subsidiary of the Company. REL O&G is the penultimate holding company of the Group's oil and gas entities in Indonesia, namely, Ramba Energy West Jambi Limited ("REWJ"), Ramba, Energy Jatirarangon Limited and PT Hexindo Gemilang Jaya.

Management had subsequently recognised an impairment loss to write down the remaining carrying value of the investments in the books of REL O&G to "Nil" when we were finalising the financial statements of REL O&G for the FY2018. The finalisation of REL O&G's financial statements dated 24 July 2019 was later than the finalisation of the Company's Audited Financial Statements dated 10 June 2019. As a result, this impairment loss was not recorded in the Company's Statement of Comprehensive Income in FY2018 and this has resulted in a mismatch in the accounting treatment of the impairment loss recorded in the books of the Company and REL O&G. Management corrected this error by restating the Company's Statement of Financial Position and Statement of Comprehensive Income in accordance with the accounting standards.

As this adjustment relates to the impairment of intercompany loans there is no impact to the Group's Statement of Financial Position and Statement of Comprehensive Income.

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b. Please explain the decreases in the balances at the Group level in (i) oil and gas properties, (ii) plant and equipment, (iii) trade receivables.

	31 Dec19	31 Dec 18	Variance	Material Variance
	S$'000	S$'000	S$'000	
Oil & Gas properties	6,473	12,270	(5,797)	Largely due to farmout of 6% participating interest in the Lemang PSC in June 2019.
Plant and equipment	2,282	10,777	(8,495)	Largely due to reclassification of assets under finance leases to right-of-use assets in a separate line item in the statement of financial position following the adoption of SFRS(I) 16 – *Leases.*
Trade receivables	9,737	11,270	(1,533)	The decrease in Group's trade receivables is a result of lower sales recorded and better credit management by the Logistics segment.

c. Please clarify what the remaining associated assets and liabilities of the asset classified as held for sale relate to and provide a breakdown of the amounts of these remaining associated assets and liabilities.

Other than the carrying amount of the evaluation and exploratory assets recorded in the books of REWJ, no other assets or liabilities have been classified as held for sale.

On 17 January 2020, the Board announced that RISC A&D Pty Ltd ("RISC") has been appointed to assist REL O&G in divesting the 100% participating interest in West Jambi Kerja Sama Operasi ("West Jambi KSO") located onshore South Sumatra, Indonesia. The West Jambi KSO asset is 100% owned by REWJ. As at 31 December 2019, the carrying amount of West Jambi KSO was S$17.2 million (equivalent to US$12.6 million).

Management has classified its interest in the evaluation and exploratory assets in West Jambi KSO as a "non-current asset held for sale" in accordance with the relevant accounting standard. The accounting standard also requires management to measure the West Jambi KSO at the lower of the carrying amount or fair value less costs to sell. Management is of the view that the fair value of the West Jambi KSO is Nil on the basis that as at Balance Sheet date, (i) the exploratory permit for West Jambi KSO concession had expired and has not been renewed and (ii) the banker guarantee to be furnished to the concession holder to secure the extension of the exploratory permit has not been furnished. Accordingly, management has recorded an impairment loss of S$17.2 million in the Consolidated Statement of Comprehensive Income to Nil in respect of West Jambi KSO.

The remaining associated assets and liabilities of the West Jambi KSO related mainly to VAT receivable of $1.0 million and 3rd parties' payables totaling S$7.4 million.

d. Please provide a breakdown for trade and other receivables under current assets for both FY18 and FY19 and reasons for the variances by a line item basis. Please also provide the Board's assessment on the recoverability of the Group's trade and other receivables and basis for such an assessment.

	31 Dec 19	31 Dec 18	Variance	Material Variances
	S$'000	S$'000	S$'000	
Trade receivables	9,737	11,270	(1,533)	As per 1b(iii) above

	31 Dec 19	31 Dec 18	Variance	Material Variances
	S$'000	S$'000	S$'000	
Refundable deposits	578	860	(282)	Due to the refund of security deposits within the Logistics segment.
Sundry receivables	532	944	(412)	Reflecting lower accrued billing as a result of lower sales.
Disbursement recoverable	19	43	(24)	-
	1,129	**1,847**	**(718)**	

The Board is positive that there is no material credit loss as the receivables are well managed.

e. Please provide a breakdown for trade and other payables under the current liabilities for both FY18 and FY19, and reasons for the variances by a line item basis.

	31 Dec 19	31 Dec 18	Variance	Material Variances
	S$'000	S$'000	S$'000	
Trade payables	14,679	15,027	(348)	Largely as a result of lower operating costs within the Logistics segment.

Other payables (current liabilities)

	31 Dec 19	31 Dec 18	Variance	Material Variances
	S$'000	S$'000	S$'000	
Advances from joint venture partner	-	558	(558)	Advances from Lemang JV partner being repaid from 2019 via production proceeds.
Cash calls advanced from joint venture partner	657	3,668	(3,011)	Offset via farmout of 6% participating interest in the Lemang PSC in June 2019.
Accrued salaries & benefits	3,446	3,518	(72)	-
Sundry payables	5,214	3,741	1,473	Largely accrual for interest on borrowings in FY2019, offset by settlement of sundry payables.
Security deposits from tenants	8	8	-	
	9,325	**11,493**	**(2,168)**	

f. Please clarify the date of occurrence of the breach of the loan covenants.

This pertains to a loan facility with one particular Lender. From February 2019, the Company and the Lender had been engaged in active and good-faith negotiations to restructure the Loan. By a letter dated 9 April 2019 to the Company's then external Auditors, Messrs Ernst & Young LLP, the Lender confirmed that negotiations to restructure the loan were ongoing and that the Company was not required to remedy any breach of covenant that may have existed under the Facility Agreement as at 31 December 2018. In view of the negotiations, the Company ceased to make payments under the loan facility. The Company had made an announcement on 21 June 2019 in response to SGX's queries (under Note 2 of sub-point 2) to the effect that the Company was in on-going negotiation with the Lender. The Company remains in negotiation to restructure the Facility Agreement as at the time of this announcement.

By Order of the Board
ENECO ENERGY LIMITED

Colin Peter Moran
Executive Director cum Chief Executive Officer
06 March 2020