

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

RESPONSES TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RESPECT OF THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

Unless otherwise defined, all terms and references used herein shall bear the same meanings ascribed to them in the annual report issued to shareholders on 30 March 2023 (the "Annual Report").

Rex International Holding Limited (the "**Company**") and together with its subsidiaries, the "**Group**") would like to provide the following information in response to queries from the Securities Investors Association (Singapore) ("**SIAS**").

1. **SIAS:** On 30 March 2023, the company announced that its subsidiary, Lime Petroleum AS ("**Lime**"), had been pre-qualified as an operator on the Norwegian Continental Shelf (NCS) by the Norwegian Ministry of Petroleum and Energy on 28 March 2023. The pre-qualification process began in April 2022.

(i) **What are the operational and financial benefits of Lime obtaining NCS operator pre-qualification status?**

COMPANY RESPONSE

The pre-qualification of Lime as operator on the Norwegian Continental Shelf (NCS) is a confirmation that Lime has built a competent organisation for all major functional areas. Lime will now be allowed to assume operatorship of concessions on the NCS, and operate licences on behalf of licence partnerships. As an operator, Lime will have more authority and control in regard to the direction of a concession and decisions made in concessions, which from Lime's point of view, will result in better decisions. Lime will have more independence and flexibility when actively seeking new opportunities to enhance its asset portfolio, both in farm-ins and in licence application rounds, be it exploration or production assets, and thus more opportunities will open up.

(ii) **What is the duration of the pre-qualification status?**

COMPANY RESPONSE

There is no expiry date for the pre-qualification status.

(iii) What opportunities are available in Norway in the next 18-36 months?COMPANY RESPONSE

Lime has been continually looking at potential opportunities to expand its portfolio of licences through farm-ins or submissions for the annual awards from pre-defined areas (APA) rounds in Norway. To this end, in 2022, Lime acquired a 10% interest in the producing Yme Field. Lime also acquired 40% interests, which were subsequently farmed down to 30% interests, in two discovery licences during the year. Announcements will be made should there be material developments regarding Lime's portfolio.

2. SIAS: Would the board/management provide shareholders greater clarity on the following operational and financial matters? Specifically:

- (i) **Operations:** OKEA ASA and Repsol Norge AS are the operators of the Brage Field and Yme Field respectively. **Given the group's minority stakes, what is the extent of management's influence over day-to-day operations, if any?**

COMPANY RESPONSE

As partner company in any licence on the Norwegian Continental Shelf, Lime has a "see-to-it" duty that all parties involved in the operations comply with the requirements specified in the Health, Safety and Environment (HSE) regulations and that their activities are conducted in a prudent manner. This "see-to-it" duty comes in addition to each player's responsibility to comply with the regulations, and is a general and over-riding obligation to follow up. To fulfil this duty, Lime has an in-house team of engineers and other experts, whose task is to conduct ongoing independent work on all licences and follow up with the operator. Lime participates actively in licence meetings, using its technical skills and analyses to influence licence decisions. Ultimately, decisions are made through voting, where typically a decision is based on majority votes of at least 50% interests held by two or three partners.

- (ii) **Rex Virtual Drilling (RVD): What is the level of success achieved in commercialising this technology outside of the group? How transformative is the RVDv5 upgrade, and does it incorporate artificial intelligence (AI)?**

COMPANY RESPONSE

The Company and its subsidiaries use high-quality seismic data and RVD, together with conventional seismic attributes and analysis of the petroleum systems, for de-risking its exploration prospects. There have been several instances of RVD analysis services being provided to parties outside of the Group. However, demand for such de-risking tools had been dampened during the oil price crisis and the subsequent Covid-19 pandemic, when oil & gas companies sought to cut spending on exploration.

RVDv5 analyses more attributes and is more resilient to seismic data processing and provides a higher degree of predictive capability and accuracy. RVDv5 does not incorporate artificial intelligence. Possible upgrades of RVD are under constant review, and in the future, artificial intelligence might be a contribution.

- (iii) **Malaysia:** The development of field plans for the group's 95% participating interest in two Production Sharing Contracts for the Rhu-Ara and Diwangsa Clusters in Malaysia is ongoing. An arranger of financing has been appointed. **Assuming everything goes according to plan, what is the estimated timeline for the recovery of the first barrel of oil?**

COMPANY RESPONSE

Achieving first oil in Malaysia is dependent on the availability of rigs and other equipment, third party financing, and at a pricing level that would make the project economically viable. The drawing up of field development plans is still in progress, amid the changing geo-political and global economic environment, which had already affected original plans. The Company will make an announcement when development plans are firm.

- (iv) **Profitability:** Despite higher revenue of US\$170.3 million, the net profit for the year was \$353,000 in FY2022, with a total comprehensive loss of \$(4.7) million. NAV per share slipped from 15.30 US cents to 14.47 US cents. Production and operating expenses increased to \$73.96 million in FY2022, up from \$25.55 million in FY2021. The increase in production and operating expenses of \$48.4 million outpaced the revenue increase of \$11.8 million. **Can management provide a detailed breakdown and/or a waterfall chart to show the changes in revenue and net profit between 2021 and 2022?**

COMPANY RESPONSE

Please refer to the Consolidated Statement of Comprehensive Income on page 161 of the Annual Report for a detailed breakdown for changes in revenue and net profit between 2021 and 2022.

As stated in the Company's press release dated 1 March 2023, "the Group's revenue in FY2022 was higher than that in FY2021, due to the inclusion of oil liftings from the Brage Field in Norway and an increase in the average realised oil price for the sale of crude from the Yumna Field in Oman, from US\$67 per barrel in FY2021 to US\$88 per barrel in FY2022. The increase in revenue was partially offset by a decrease in the volume of oil lifted and sold from the Yumna Field in FY2022, due to production stoppages for the planned major change-outs and upgrades of production facilities from February 2022 to April 2022 and unforeseen operational issues in June and November 2022 in both Oman and Norway. These factors, including impairment of exploration and evaluation assets resulting from the relinquishment of three assets in Norway, contributed to the decrease in Group's FY2022 profit after tax. Nonetheless, the Group posted a strong positive EBITDA, positive cash flow and strong cash position for FY2022."

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	Note	Group	
		2022 US\$'000	2021 US\$'000
Revenue:			
Sale of crude oil	23	170,259	158,444
Service revenue	23	-	30
		170,259	158,474
Cost of sales:			
Cost of services		(780)	(742)
Production and operating expenses		(73,961)	(25,552)
Depletion of oil and gas properties	5	(28,252)	(36,238)
Exploration and evaluation expenditure	4	(27,510)	(14,613)
Gross profit		39,756	81,329
Administrative expenses		(28,567)	(29,114)
Other expenses		(3,444)	(1)
Other income		617	20,830
Results from operating activities		8,362	73,044
Finance income	24	744	728
Finance expense	24	(14,766)	(3,643)
Foreign currency exchange loss		(1,451)	(707)
Net finance expense		(15,473)	(3,622)
Share of profit of equity-accounted investees, net of tax	10	503	-
(Loss)/Profit before tax	25	(6,608)	69,422
Tax credit	26	6,961	9,517
Profit for the year, net of tax		353	78,939
Other comprehensive (loss)/income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences from foreign operations, representing total other comprehensive (loss)/income for the year, net of tax		(5,057)	1,033
Total comprehensive (loss)/income for the year, net of tax		(4,704)	79,972

3. **SIAS:** On 26 March 2023, the company posted an announcement on SGXNet containing a reply to an open letter published in the Business Times. In the reply, the company restated the group's achievements on the oil fields and explained the rationale for diversifying outside of oil and gas.

The reply could be read here:

https://links.sgx.com/FileOpen/20230326_RIH_ReplyOpenLetterinBT_Final.ashx?App=Announcement&FileID=751010

Would the board/management provide further clarification to the issues raised? Specifically:

- (i) **Independent directors: What were the roles of the independent directors in the proposed transactions? Specifically, who led the negotiations with Moroxite T AB and Xer Technologies Pte. Ltd. and how were the valuations determined?**

COMPANY RESPONSE

As stated in the Corporate Governance Report on pages 94 and 95 of the Annual Report, investments or divestments and interested person transactions exceeding a S\$100,000 threshold are material transactions that require the Board's approval. The respective management teams of Moroxite T AB ("MTAB") and Xer Technologies Pte. Ltd. ("Xer") presented their business cases to the Board and answered the Board's queries. The Board, including the independent directors, discussed the proposed transactions over several board meetings held in the third and fourth quarters of 2022. Dr Karl Lidgren and Dr Mathias Lidgren, the interested persons in the proposed transactions, recused themselves from decision-making regarding the transactions. Management, excluding the Chief Executive Officer Mr Måns Lidgren, led the negotiations with MTAB and Xer.

The consideration for the MTAB deal was arrived at after arm's length negotiations between Moroxite Holding Pte Ltd and Moroxite AB, and on a willing-buyer, willing-seller basis, taking into account, *inter alia*, the Group's analysis of the value of sale shares as at the financial position and performance of MTAB for FY2022, the potential and business plan of MTAB, the rationale for the proposed acquisition as well as the payout structure of the consideration.

As a condition to completion of the Xer acquisition (the "Acquisition"), Rex Technology Investments Pte Ltd ("RTI") is to enter into a revised shareholders' agreement with Xer's other shareholders ("Shareholder's Agreement"), pursuant to which, RTI shall commit to inject a capital amount of up to US\$3 million (notwithstanding the Acquisition), subject to the achievement of certain technical and sales milestones by Xer. The initial consideration of US\$1 million and subsequent capital commitment of up to US\$3 million (collectively, the "Consideration"), to be fully satisfied in cash, was determined based on a willing buyer willing seller basis after negotiations between Xer and RTI, and taking into consideration the rationale for the Acquisition, the achievement of milestones following RTI's initial investment in 2021 and the potential of Xer.

- (ii) **Rex Technology Investments Pte Ltd: How does the group carry out its "venture" investing? Has the board established the investment and valuation framework for such investments?**

COMPANY RESPONSE

The investment and valuation framework for such investments are done on a case-by-case basis, given the different nature of businesses involved.

- (iii) **Low-risk projects with unicorn business potential: Can the board explain its deal sourcing process to find "low-risk projects with unicorn business potential"? Would such projects be too good to be true, or would they come with extremely high valuations?**

COMPANY RESPONSE

The intention of adding additional investments outside of the oil and gas industry is to provide diversification and make the Company future proof. The Company recognises the negatives associated

with fossil fuels and the need for long-term diversification out of this industry. Diversification investments should not fundamentally change the risk profile of the Company and allow for the Company to maintain substantial control over the direction of the investment. This implies high equity stakes and influence over the management and board of the investee companies. The investments should also have the potential to have a meaningful future financial impact on the Company's business whilst the investment sum itself should be as small as possible. Such investments are by nature hard to find. In order to find investments that have these characteristics, the Company needs to rely on the network of its major shareholder, its board of directors and its management. Such investments need to be found at source, off-market through contacts and not through a competitive process (in which the Company would inevitably come up short due to its limited investment capacity and track-record). The Company has been fortunate to secure two such investments: Xer (heavy duty drones) and Moroxite (advance med-tech) through the network of its major shareholder. These investments have been possible to conclude at attractive valuations and the Company has been able to gain significant control over the direction of these investments.

SIAS: Separately, it is noted that Resolution 5 in the notice of annual general meeting calls for shareholders to approve additional remuneration to the non-executive directors, including the independent directors, of \$135,000 each, pursuant to the achievement of the performance targets, set and approved by the remuneration committee and the board.

- (iv) **Can the board help shareholders understand if it is a recommended corporate governance practice or a best practice to pay “performance bonuses” to non-executive directors, including independent directors?**

COMPANY RESPONSE

While the non-executive directors are not involved in the day-to-day management of the Group, they bring with them their wealth of knowledge, business expertise and contacts in the business community. They play a crucial role in helping the Group shape the business strategy and further the business interest of the Group by allowing the Group to draw on their different backgrounds and diverse working experiences. The non-executive directors, in their role as Board members, participate to:

- (i) Provide entrepreneurial leadership guidance, set corporate strategic objectives and directions for Management, which should include appropriate focus on value creation, innovation and sustainability;
- (ii) Set the appropriate tone-from-the-top and desired organisational culture, and to ensure proper accountability within the Company;
- (iii) Ensure that the necessary resources are in place for the Company to meet its strategic objectives;
- (iv) Establish and maintain a sound risk management framework to effectively monitor and manage risks, and to achieve an appropriate balance between risks and company performance;
- (v) Constructively challenge Management and review its performance;
- (vi) Instil an ethical corporate culture and ensure that the Company's values, standards, policies and practices are consistent with the culture; and
- (vii) Oversee the overall corporate governance of the Group and ensure transparency and accountability to key stakeholder groups.

It is to be noted that matters that require the Board's approval include, amongst others, the following:

- Overall Group business and budget strategy;
- Annual and half-yearly financial reports and announcements on quarterly use of funds/cash by mineral, oil and gas companies;
- Capital expenditures exceeding certain material limits;
- Investments or divestments;
- All capital-related matters including capital issuance;
- Significant policies governing the operations of the Company;
- Corporate strategic development and restructuring;
- Interested person transactions exceeding a S\$100,000 threshold; and
- Risk management strategies

Over and above the quarterly board and board committee meetings, the non-executive directors are very involved in the decision-making process for the matters listed above. The complexity of the Group's businesses and the span of the Group's operations across various jurisdictions and time zones, require more effort and involvement from the non-executive directors.

Furthermore, the oil and gas industry is highly litigious, as evidenced by the legal cases that the Company had been involved in over the years, for which some directors have been sued.

Taking into the consideration the abovementioned, besides various metrics on the Company's financial performance, the Company's share price and ability to pay out dividends, the performance targets for the non-executive directors also pertain to *inter alia*, the non-executive directors' qualitative contributions to strategic and other values of the Group as mentioned above.

The performance-based aspect of fees to non-executive directors allows the Company to flexibly augment fees paid to directors, taking into account factors such as the economic conditions and the Company's performance. A fixed high-base director's fee would not provide the Company with such flexibility.

Further, the performance bonus to non-executive directors will allow the Company to attract and retain experienced and qualified persons from different professional backgrounds to join the Company and incentivise the non-executive directors to take extra efforts to promote the interests of the Company and/or the Group.

As explained above, such performance-based bonuses do not compromise the independence of the non-executive directors. On the other hand, since the performance targets were set well in advance for the benefit of the Company, the independent directors are aligned with the other directors in ensuring that the agreed upon targets are achieved over time to ensure a positive impact on the Company including but not limited to improving the shareholders' value of the Company. In any event, performance bonuses paid to non-executive independent directors under certain conditions, including where shareholder approval is required, should not be seen as prejudicial to their independence.

- (v) **In addition, given the performance targets are set and approved by the remuneration committee, would the remuneration committee members be waiving their bonuses (if approved) as it would appear that they are setting their own remuneration?** In the corporate governance report, the company has stated that no director or member of the RC is allowed to participate in the deliberation,

and has to abstain from voting on any resolution, relating to his own remuneration or that of employees related to him/her.

COMPANY RESPONSE

The Board has evaluated the RC's effectiveness at setting performance targets and has come to the satisfactory conclusion of the RC's independence. The Company would like to clarify that the role of the RC, in respect of determining the remuneration of individual members of the Board, is to make recommendations to the Board. The RC does not hold the final decision on director remuneration. For the avoidance of doubt, the Board comprises a majority of independent directors.

SIAS: If approved, the proposed quantum of \$675,000 will be distributed equally to the 5 non-executive directors, each receiving \$135,000. It is noted that the additional remuneration is for the financial year ended 31 December 2022.

Mr John d'Abo, Ms Mae Heng and Dr Mathias Lidgren were each appointed on 4 May 2022. Since they served on the board for less than eight months, linking their contributions over eight months to the group's performance targets may be tenuous. Even if such a link could be established, a fairer system would be to prorate the amount. Lastly, it does not seem like there are high-water mark or clawback mechanisms related to the award of the performance bonus to the non-executive directors. This could lead to situations where the decision-making of the non-executive directors may be impaired, or perceived to be impaired, especially when the group is making investments into new business opportunities with "unicorn business potential".

- (vi) **In the interest of practicing good corporate governance, could the board provide further explanation and clarity for the basis of Resolution 5 and better explain the rationale of paying \$135,000 to all the non-executive directors? The board should provide more transparent information on the rationale for this resolution for shareholders to make an informed decision before voting. If the board requires more time to provide such information, will the board consider putting on hold this resolution?**

COMPANY RESPONSE

Please see response to Question 3(iv) above.

The Group has had an eventful FY2022 with major developments such as:

- Move from Catalist to Mainboard
- Change-out of production equipment and drilling campaign in Oman
- Acquisition of 10% interest in Yme Field in Norway
- Successful Issue of Bond in Norway
- Capital reduction exercise
- Two business diversification investments

On financial performance:

- i) The Company declared final dividend of US\$4.54 million for FY2022 despite reduced net profit;
- ii) Strong cash generation by the Group with an adjusted EBITDA of US\$61.7 million; and
- iii) Increase in cash and quoted investments to US\$138.8 million in the year ended 31 December 2022 (up from US\$86.9 million the year ended 31 December 2021).

The above considerations were taken into account when recommending that additional remuneration to non-executive directors and additional Directors' fees should be paid out for FY2022.

By Order of the Board
Rex International Holding Limited

Kong Wei Fung
Company Secretary

21 April 2023