



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Magnus Energy Group Ltd.

Security: Magnus Energy Group Ltd.

Meeting details:

Date: 30 October 2018

Time: 10.00 a.m.

Venue: National Service Resort & Country Club, The Leaders Room, 10 Changi Coast Walk, 499739

Company Description

Magnus Energy Group Ltd., an investment holding company, supplies products and services for oil and gas, shipbuilding and offshore fabrication, petrochemicals plants, marine, and environmental waste treatment industries. The company supplies equipment, tools, and accessories used in the oil drilling business; distributes tubular products, equipment, and spares; provides environmental and waste management services; fabricates and installs control systems; tests valve actuation; offers management services; trades in energy and natural resources; trades in chemical materials; develops property and infrastructure; and sells and rents decanters. It distributes drilling equipment and spares, drilling consumables, handling tools, general hardware, safety equipment, production equipment and accessories, pipeline products, meters and gauges, and special steel products; oil country tubular goods; pipes for the transmission of oil and gas; and drill pipes for rotation in the drilling of the well. The company also provides drilling fluids systems, such as solid removal, barite recovery, and cutting wash. In addition, it holds a warehouse property. The company operates in Singapore, Australia, Malaysia, Indonesia, the United States, the United Arab Emirates, and internationally. Magnus Energy Group Ltd. was incorporated in 1983 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=41S)

1. The group's performance in the last three financial years is shown in the Financial highlights section (page 4 of the annual report) and reproduced below.



(Source: Adapted from Company annual report)

As seen from the charts above, the group has cumulative losses attributable to equity holders of the company of approximately \$39 million in the past three years.

In 2018, the drop in net asset of \$5.9 million was less than the FY2018 loss due to the issuance of new shares and the conversion of convertible notes (which raised approximately \$4 million).

The group has 5 operating segments, namely Oilfield equipment supply and services, Coal mining (discontinued), Waste water treatment, Renewable energy and Investment holding. Only the Oilfield equipment supply and services segment generated revenue in the year.

As seen in Note 36(a) (page 139 – Segment information: Business segments), all 5 segment reported losses (reproduced below for reference).

Business segments (Continued)

	Oilfield equipment supply and services	Coal mining (discontinued)	Waste water treatment	Renewable energy	Investment holding	Total
	S\$	S\$	S\$	S\$	S\$	S\$

Group

2018

Segment revenue and results

External revenue	18,941,346	-	-	-	-	18,941,346
Loss from operations before interest, income tax and depreciation	(1,238,277)	(4,597,837)	(33,047)	(117,227)	(8,913,411)	(14,899,799)
Depreciation	(214,630)	(63)	(800)	-	(59,976)	(275,469)
Loss from operation before interest and income tax	(1,452,907)	(4,597,900)	(33,847)	(117,227)	(8,973,387)	(15,175,268)

(Source: Company annual report)

- (i) **Would the board consider it opportune to carry out a strategic review of the group's operations to assess the core competencies of the group, its**

management team and its financial strength and to fine-tune its strategies so as to create long-term sustainable value for all shareholders?

- (ii) For the benefit of both new and shareholders, can the board provide a detailed overview and an update of the group's main operations, i.e. the Oilfield equipment supply and services, waste water treatment and renewable energy segments?**

Please provide the utilisation rates/yield from cultivation tanks, the order book (if appropriate), pipeline projects, opportunities and management's priorities in the coming 6-18 months.

- (iii) Has the gradual increase in oil prices led to more business enquires and a potential pick-up in business activities in the core segment of oilfield equipment supply and services?**
- (iv) Please also clarify if the group expects any further costs related to the discontinued coal mining segment.**

2. As seen from the Consolidated statement of cash flows (pages 73 to 74), after generating \$221,399 from operating activities in 2017, the group's cash outflow from operating activities was \$(1.8) million in 2018.

Investing activities over the two years resulted in the cash outflow of more than \$(3.2) million. The net cash flow used in financing activities for the two years was more than \$(0.55) million mainly due to the group redeeming a convertible loan, issuing new shares and the issuing and subsequent conversion of convertible loans.

As at the end of the year, the group's cash and cash equivalents stood at \$6.2 million.

- (i) Can management help shareholders understand the cash flow projections required to support the operations of the group?**
- (ii) Has the board evaluated how the group could cut back on non-critical expenses and reduce its overhead costs?**
- (iii) What is the current cash burn rate?**
- (iv) Has management evaluated its cost of capital?**
- (v) The group has been issuing convertible notes and new shares to provide cash flow for the group. Can the management explain how it intends to improve the cash generation from its operations? Has the board considered the dilutive impact of the issuance of new share/convertible securities?**

3. On 12 October 2018, the company announced its response to queries raised by the Singapore Exchange Securities Trading Limited ("SGX") and its continuing sponsor,

Stamford Corporate Services Pte. Ltd. This was to facilitate better disclosures to shareholders of the company on the past and ongoing projects and activities of the group.

The number of queries totaled 37, and covered the following issues:

- Loans to Indonesia contractor, PT Hanjungin
- Microalgae project
- Revenue Anchor Sdn Bhd– convertible loan
- Joint investment agreement with Yangtze Investment Partners
- Disposal of securities/quoted equities
- CEO and director’s loans to the company
- Purchase of company vehicle for CEO
- Fixed deposit
- Cessation of managing director
- Cash balance of the company

The company’s responses to the queries were 16-pages long.

In the Corporate Governance Report, the responsibility of ensuring effective communication with shareholders was tasked to the board (page 55, Guideline 14.1 – Shareholders’ right & Guideline 15.1 – Communication with shareholders) and to the chairman (page 36, under role of the chairman).

- (i) Would the board consider a review of the current practices and guidelines on the company’s communication with shareholders, especially on providing shareholders with material updates of the ongoing projects?** This would include all operational, financial and strategic issues relating to the group’s operations.
- (ii) What is the role played by the independent directors in the company’s communication with shareholders?**
- (iii) Can the sponsor help shareholders understand their role in the company’s communication with shareholders?**
- (iv) Going forward, can the company tell shareholders its plans how it will be providing regular updates to the matters raised by the sponsor and SGX-ST?**



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A copy of the questions for the Annual Report for the financial year ended 30 June 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Magnus%20Energy%20Group%20Ltd>

The company's response could be found here:

https://sias.org.sg/media/qareport/1509329824_Magnus_Response-to-SIASQueries_Final.pdf