Issuer: KrisEnergy Limited

Security: KrisEnergy Limited

Meeting details:
Date: 26 April 2019
Time: 9.00 a.m.
Venue: Cinnamon Room, Level 5, Novotel Clarke Quay Singapore, 177A River Valley Road, Singapore 179031

Company Description

KrisEnergy Limited is a Singapore-based investment holding company. The Company is an independent upstream oil and gas company with a portfolio of exploration, appraisal, development and production assets focused on the geological basins in Asia. The Company holds interests in 13 licenses in Bangladesh, Cambodia, Indonesia, Thailand and Vietnam covering a gross acreage of approximately 33,124 square kilometers. The Company operates nine of the contract areas. The Company's portfolio contains three producing assets: B8/32 and G10/48 in the Gulf of Thailand, and the onshore Bangora gas field in Block 9 in Bangladesh. Average working interest production in FY2018 was 10,691 barrels of oil equivalent per day.

1. Would the board/management provide better clarity on the following cash flow/financing matters? Specifically:

(i) Capital expenditure (Capex): While the group has projected a capital expenditure in the first quarter of FY2019 of US$22.3 million, what is the projected full year capex? What are the minimum levels of exploration activities as accorded in the group's contracts? Can management provide the figures by concession?

In previous years, the Company has provided an annual capital expenditure forecast, which would be updated with actual spend versus original forecast in the half-year financial statements.

Given the Company's financial condition, we have curtailed capital expenditures in line with a constrained capital structure, focusing more on those expenditures which will lead to near-term or immediate cash generation. We are also in live discussions with parties relating to development financing for third-party contracted services. Given the number of variables, and until terms are final, and to avoid misleading guidance, we believe it is prudent to provide forecasts on a quarterly basis for 2019, which is in full compliance with SGX regulations.

In 2019, the only exploration commitment is a 1,850 sq. km 3D seismic acquisition program in the Andaman II production sharing contract offshore Sumatra, Indonesia. KrisEnergy holds a non-operated 30.0% working interest in the exploration block. The operator commenced the acquisition program in February 2019 and it is expected to be completed in early May 2019.

(ii) Cash flow: Has the group carried out a sensitivity analysis of the cash flow based on the crude oil benchmark prices?

Yes. Management tests future cash flow based on a range of IPE benchmark Brent crude oil prices according to analysts' forecasts and reviews the output for any impact on capital allocation.

(iii) Oil prices: Despite the volatile prices in the year, the group realised a 39.9% increase in its average selling oil price in 2018. How does the group manage the market risk of oil prices? Does it enter into hedging/futures/forward contracts?

The Company does not currently have a hedging program in place and reviews market conditions from time to time as well as the cost associated with undertaking hedging programs. With the steep and prolonged downturn in oil prices in late 2014 to 2017, and the continued volatility in the markets, it has become restrictively capital intensive to undertake hedges for KrisEnergy's working interest Thai crude oil production.

(iv) Operations: Would management slow down or halt its oil production if prices are too low?

Operating costs for offshore oil and gas fields are fixed in nature. Whether a field is in operation or not, operating expenditure for platforms, equipment and vessels etc. remains constant. It is unlikely that an operator would shut-in offshore production due purely to oil price. In addition, an operator would be required to consult with the host government on such decisions as a production shut-in on economic grounds would impact revenues to the government.

(v) Headroom: With the recent announcement on 4 April 2019, the group's revolving credit facility was increased such that the total commitments do not exceed US$200 million. Can

management clarify how much headroom is available? How is the group going to deleverage and reduce its borrowings?

The revolving credit facility ("RCF") was increased by US$31.7 million to a maximum of US$200 million as documented in the announcement *KrisEnergy announces upsize of revolving credit facility* dated 4 April 2019. Page 10 of the *2018 Annual Report* (published on 9 April 2019) sets out the Group's *Loans & borrowings* and indicates that as of 31 December 2018, US$148.3 million was drawn on the RCF and there was an additional Bridge Upsize under the RCF facility of US$20.0 million. An update on the Company's loans and borrowings will be provided in the first-quarter 2019 financial statements.

As stated during the release of the 2018 financial results, the Company has appointed a financial advisor to work with management and the board to investigate all available options to improve the financial condition of the Group. This is an ongoing process and announcements will be made to all stakeholders at the appropriate time.

2. The company has experienced high level of management changes with several experienced key management personnel leaving the group.

On 18 April 2019, Mr Kiran Raj, the chief financial officer, announced his departure effective immediately with his last day of service on 17 October 2019. Mr Raj was appointed to the role 9 November 2017. On 11 April 2019, the company also announced the cessation of Mr James Parkin as chief operating officer (with effect from 3 October 2019).

Other cessations included:
- Chan Hon Chew (as director)
- Michael Chia Hock Chye (as director)

On the other hand, the team has also been strengthened with:
- Ong Leng Yeow (as director)
- Joanne Ang Sui Keng (as interim CFO)

Mr Kelvin Tang Chih Hao was promoted from his position of COO to the CEO on 1 September 2017.

(Company's note: Mr Raj was appointed as (i) chief financial officer on 1 March 2013 and (ii) alternate director to Mr Kelvin Tang on 9 November 2017.)

(i) Can the board help shareholders understand if the group's operations had been affected by the changes in the board and to the key management team?

Group operations have not been affected by changes in the Board nor in the key management team due to the depth and breadth of experience within the Company and its Board.

The composition of Board members remains a balance of executive, non-executive and independent directors with diversity of experience and skillsets between geoscience, engineering, legal, commercial and finance.

Regarding the management team, the Company possesses a group of vice presidents and senior professionals across all disciplines with 20+ years of experience in their respective fields. As detailed in the announcements for the CFO and COO resignations, notice periods for senior positions tend to six months, which provides ample time for transition and handover.

(ii) Has the board evaluated if the group has the necessary human resources in place for the group to meet its objectives?

Yes, the Board has evaluated and believes that the Company has the necessary human resources within the Group to meet its objectives. In addition, where we have realigned strategic focus, for example reduced exploration and appraisal activities in Indonesia and Vietnam, we have redeployed human resources to other projects where appropriate, which reflects the depth and breadth of the skillsets within the Group.

(iii) What guidance has the board given to management to further improve on the execution of the group's strategic plans?

The Board meets every quarter during which sessions are held with management regarding business updates and technical matters. Outside formal Board meetings, the Board and management convene regularly to discuss matters that may arise in the interim and implementation of plans and strategies with due consideration of the interests of all stakeholders.

(iv) For the benefit of new and long-standing shareholders, following the changes to the management team and to the board, would the company provide shareholders with an updated holistic overview of the group's strategies and identify the key value drivers.

Given the Company's financial position as disclosed in the 2018 Audited Consolidated Financial Statements, the Board and management have engaged advisors to assist to investigate all available options to strengthen the Group's capital structure and map out a strategic plan to improve the Group's financial condition. We are unable to provide any detail at this point but will inform all stakeholders at the appropriate time.

3. At the annual general meeting scheduled to be held on 26 April 2019, the company is seeking shareholders' approval for the sum of US$592,500 (S$814,658) to be paid to all non-executive directors as directors' fees for the financial year ended 31 December 2018. (2017: US$600,000 (S$807,366)).

The group has been loss-making and has seen extensive erosion of its equity to US$22.7 million at the end of 2018. The year-end carrying value of debt amounted to US$459.1 million while gearing increased to 95.5%. The group is kept in business with the support of its banker who had upsized the group's revolving credit facility. In the words of the chairman, the group continues to face significant hurdles.

(i) Has the board reviewed if the proposed directors' fees (both the quantum and the cash based nature) are appropriate given the circumstances?

(ii) Have the directors considered the positive impact of them taking a voluntary haircut or waiver of the directors' fee? It would demonstrate the directors' commitment to the group and boost the morale of the team. Doing so would also give the directors the moral authority to make difficult decisions and persuade and encourage other stakeholders to support the group during this difficult period.

(iii) Would the directors also consider receiving the fees in shares (if there is a voluntary haircut) to alleviate the group's cash flow problems and to show their commitment to the group as the same time?

The following response addresses all three of the above enquiries.

Directors' fees were initially set at average levels from benchmarking against industry peers. In 2015, recognising the downturn in the business environment and the Company's results, all directors voluntarily took a 20.0% reduction in fees along with staff. These reductions have not been reinstated. The directors intend to review fee levels and payment arrangements going forward.