MAGNUS ENERGY GROUP LTD.
(Incorporated in Singapore)
(Registration No. 198301375M)

RESPONSE TO SIAS' QUESTIONS

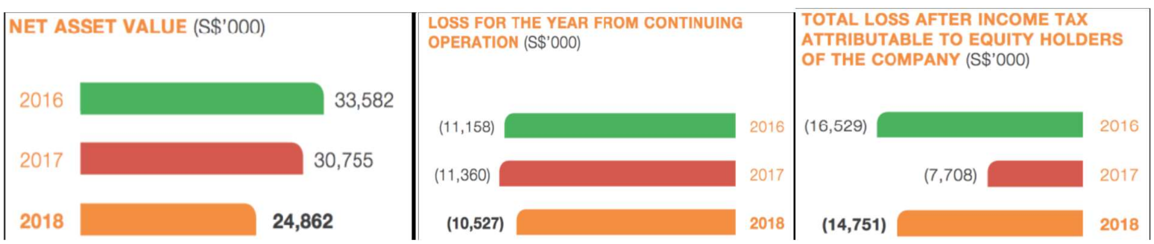
Introduction

Magnus Energy Group Ltd ("**Company**") and its subsidiaries ("**Group**") have received an email from the Securities Investors Association (Singapore) ("**SIAS**") on 25 October 2018 with the following questions as reproduced below. SIAS has embarked on an initiative to improve the quality of annual general meetings by raising relevant questions and this exercise is to help focus discussions at shareholder meetings and help companies to provide better accountability to shareholders.

The Company is pleased to provide the following responses to the questions below:

Question 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 S$	Coal mining (discontinued) S$	Waste water treatment S$	Renewable energy S$	Investment holding S$	Total 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)

RESPONSE TO SIAS' QUESTIONS

(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?

Response

The Board is mindful of the cumulative losses attributable to equity holders of the Company of approximately S$39 million over the past three years. Total losses, including minority interest, recorded for discontinued operations was S$20 million, of which losses from discontinued operations attributable to Equity holders of the Company was approximately S$12 million. The remaining cumulative losses attributable to Equity holders of the Company arise from provisions and/or write offs, which includes approximately S$8 million for inventory obsolescence and exploration expenses, provisions for receivables of approximately S$7 million, foreign exchange losses of approximately S$1 million, impairment of financial assets of approximately S$2 million and operating losses of approximately S$9 million.

Cumulative operating losses attributable to Equity holders of the Company approximate S$8 million for the past three years, being approximately S$2.5 million for 2016, S$2.9 million for 2017 and S$2.5 million for 2018. Administrative expenses have decreased 33% from approximately S$8 million to S$5 million in the period 2016 to 2018, and this shall continue to decrease with the ongoing cost reduction efforts.

The Board considers it opportune to carry out a strategic review of the Group's operations to reassess the core competencies of the group, its management team and its financial strength in order to fine-tune its strategy so as to create long-term sustainable value for all shareholders. Kindly refer to query 37 on the announcement dated 12 October 2018 for further details on the review that the Board will be undertaking.

(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.

Response

The Group made a decisive shift of its business focus to the supply of equipment and spares to the oil and gas industry with the acquisition of Mid-Continent Equipment Group Pte Ltd in 2004. The Group currently relies on the core business of oilfield equipment and spares supplies (about 80% of Group's total revenue) and sales of tubular products (about 20% of Group's total revenue) for its revenues and profits. Sales activities and revenue for the oilfield equipment supplies are expected to reduce from the ongoing restructuring exercise. However, losses are expected to reduce in line with the reduction of operating costs of the Asia Pacific businesses. The exit from the Asia Pacific business will enable the Group to operate with a leaner cost structure and frees up resources to allow the Group to focus on re-deploying such resources to the rest of its equipment and spares businesses worldwide. The Group expects the restructuring of the oilfield equipment and spares segment to contribute positively to the Group in the short to medium term.

The Group entered into waste water segment in September 2015 with the subscription of 60% shares with Flagship Ecosystems Pte Ltd and the business activities in the waste water segment have been minimised after the sale of our loss-making subsidiary in Indonesia as announced on 1st December 2016. Collaborations were initiated with several parties from Middle East and China in the past 12 months but were not successful as of to date. Nevertheless, expenses are kept to the minimum for this segment and the business remained dormant in FY2018.

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On 22 June 2016, the Group has embarked into a project to build and manage a microalgae oil cultivation facility ("**Project**") in Selangor, Malaysia. The microalgae cultivation project is at a testing phase and is not in production yet. The testing phase includes testing for growth rates and oil extraction rate. These have not yielded satisfactory and stable results yet due to various factors in cultivation methodology such as sunlight, rain and etc. The renewable energy segment has yet to generate revenue.

The Company's priorities for the near term would be to complete the restructuring exercise for the oilfield equipment supplies segment and to bring the microalgae cultivation plant to production.

(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?

Response

Though revenue has increased from S$14 million in 2017 to S$18 million in 2018, gross margin has decreased from 19% in 2017 to 15% in 2018 due to the reduction in market prices and increase of cash sale for lower margin. The Group expects activities of equipment and spares to pick up for our subsidiary in the USA, which is currently contributing positively to the Group.

(iv) Please also clarify if the group expects any further costs related to the discontinued coal mining segment.

Response

There is no further cost related to the discontinued coal mining segment. The cash and cash equivalent value of investments held in this segment was approximately S$0.2 million before the commencement of the reverse takeover exercise. The current value is approximately S$0.8 million after the completion of the reverse takeover exercise.

Question 2

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?

Response

The Group is undergoing cost restructuring and has brought down expenses significantly from S$9.1 million in FY2016 to S$5.4 million in FY2018 by rationalising the Group's operation structure. Expenses for FY2019 is expected to continue to reduce after the exit from the Asia Pacific business. The Group has a positive working capital of approximately S$12.4 million, which includes approximately S$6.2 million cash and S$2.6 million fixed deposits. The Group expects to keep its cash burn rate to below S$3 million per annum while endeavouring to generate cash from the existing projects and businesses of the Group.

The Board and management have evaluated the cash flow of the Group and are satisfied that the Group is able to operate as a going concern.

(ii) Has the board evaluated how the group could cut back on non-critical expenses and reduce its overhead costs?

Response

Kindly refer to above response under Question 2 (i).

(iii) What is the current cash burn rate?

Response

The Group expects to keep its cash burn rate to below S$3 million per annum while endeavouring to generate cash from the existing projects and businesses of the Group.

(iv) Has management evaluated its cost of capital?

Response

The Group endeavours to identify possible acquisition targets that have a lower payback period, positive cash flow, and historical recorded profits so that they can contribute to the bottom line and cash flow of the Group. In light of our market capitalisation and net asset size of the Group, the Group is unable to make sizable acquisition without going through a possible reverse takeover situation.

(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?

Response

The convertible notes program has been terminated since November 2017. The Company may explore raising funds from equity such as rights issue or private placement if the need arises. Improvement in cash generation essentially entails increasing revenue by focusing on its equipment and spares segment outside of Asia Pacific and reducing expenditures. The efforts to reduce expenses have shown good results as indicated under response Question 2 (i) and future efforts to generate cash from operations, inter alia, include efforts to increase profitability for oilfield equipment segment, ramping up efforts to existing projects to generate revenue for the Group and to acquire potential cash flow positive businesses. The Board has considered the dilutive impact of the issuance of new share/convertible securities, however, other mean of financing may cost more to the Company.

Question 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 totalled 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.

Response

The Board further notes the queries as announced on 12 October 2018. In the responses announced, the Board is of the view that the matters in relation to the past transactions can be resolved in part by the appointment of suitably qualified professionals and project manager(s), more rigorous oversight, stronger internal controls and more stringent investment mandates being put in place and adhered to. The Board shall also embark on a review of the past transactions set out in the said announcement, to assess the adequacy of the Company's policies, processes and procedures. The focus of the review would be on the investment processes, including the due diligence being carried out, execution, operational management, preventative steps taken, unforeseen occurrences, as well as any other deficiencies (if any) in the processes.

In conjunction with the above, the Board has also taken action to commence 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 which 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?

Response

The independent directors and the management are conscious of the disclosure requirements as required by the Catalist Rules. In addition, the Company endeavours to provide voluntary update disclosures as and when required, which is over and above the requirements of the Catalist Rules. Should the independent directors request for the voluntary update disclosures to shareholders, the necessary announcement will be made through the corporate secretary.

(iii) Can the sponsor help shareholders understand their role in the company's communication with shareholders?

Response

The sponsor has always worked with the Company to ensure it complies with the Catalist Rules and disclosure requirements through information provided by the Company to the sponsor.

(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?

Response

The Company shall continue to communicate with the shareholders by making the relevant announcements as required by the Catalist Rules and also on a voluntary basis. At every quarterly results announcement and when there are material developments to the matters raised by the sponsor and SGX-ST, the Company shall make such information available to the shareholders via the respective announcements.

The Company does not have an investor relation policy and shall undertake to establish a policy for future communications with all stake holders. The Board is also aware of the changes in the Code of Corporate Governance 2018, and shall endeavour to comply with the guidelines.

BY ORDER OF THE BOARD
Magnus Energy Group Ltd.

Luke Ho Khee Yong
Chief Executive Officer
29 October 2018

About Magnus Energy Group Ltd. (www.magnusenergy.com.sg)
Listed since 04 August 1999

Incorporated in 1983, SGX Catalist Board-listed Magnus Energy Group Ltd. ("**Magnus**") is an investment holding company with a diversified portfolio comprising oil, coal and gas assets, oil and gas equipment distribution, renewable energy and natural resources trading, property and infrastructure development, and industrial waste water treatment.

Magnus aims to maximise shareholder value through strategic investments in profitable projects and acquisitions globally with the goal of broadening the Group's earnings base and shareholder value.

The contact person for the Sponsor is Mr Bernard Lui.
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