
RESPONSES TO QUERIES BY SPONSOR AND THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

INTRODUCTION

Magnus Energy Group Ltd (the “**Company**” and together with its subsidiaries, the “**Group**”) have been requested by the Singapore Exchange Securities Trading Limited (“**SGX**”) and its continuing sponsor, Stamford Corporate Services Pte. Ltd. (“**Sponsor**”), to provide further updates and disclosures to shareholders of the Company (“**Shareholders**”) on the past and ongoing projects and activities of the Group pursuant to queries raised by both SGX and the Sponsor on 30 May 2018, 13 Jul 2018 and 11 Sep 2018.

Some of the responses contained herein address (a) issues raised by the former managing director of the Company to the Sponsor and (b) issues, allegations and questions raised by the former managing director and published in two separate Business Times news articles dated 31 May 2018 and 26 June 2018 (the “**BT Articles**”).

Please refer to the relevant tables that set out the relevant background and information on the queries and responses.

LOANS TO INDONESIAN CONTRACTOR, PT HANJUNGIN

This section deals with queries related to the loans to the Indonesian Contractor.

Nature, description and key terms of the Project	Company or Subsidiaries Involved	Key dates and developments of the Project to-date	Cash outflow from the Company as at to-date	Outstanding <u>receivables</u> due to Magnus and when	Relevant announcements (key)
Redeemable Convertible Loan of S\$5m at 9% per annum for a term of 18 months	MEG Global Resources Ltd	Signed on 22 May 2015	S\$5m	S\$5m due on 31 Aug 2020	22 May 2015 31 August 2017 28 May 2018
Road Project (I), Company to provide up to S\$1m for up to 6 months	MEG Global Resources Ltd	Signed on 16 Nov 2015	S\$1m	Road Project (I) received in full with approximately S\$0.02 million profit.	16 November 2015 18 May 2016 31 August 2017 28 May 2018
Road Project (II), Company to provide up to S\$2m	MEG Global Resources Ltd	Signed on 1 Feb 2016	S\$0.9m	S\$0.9m due on 31 Aug 2020	1 February 2016 18 May 2016 31 August 2017 28 May 2018
Dam Project Company to provide up to S\$5m for 1.5 years	MEG Global Resources Ltd	Signed on 23 Mar 2016 Terminated 20 Sep 2016	S\$4m	Dam project returned S\$3m, and S\$1m was spent on equipment. S\$1m due on 31 Aug 2020	23 March 2016 20 September 2016 31 August 2017 28 May 2018
Interest owing				S\$0.5m	
		Total	S\$10.9m	S\$7.4m* (principal S\$6.9m + S\$0.5m) all of which are collateralised by the 13.5 hectares of land title and 50 certificates of property title for the Kupang property development	

*Note: Announced on 6 Aug 18 that a provision for the entire sum has been made in the financial statements for the period ending 30 June 2018.

Query:

- The Company was mentioned in an article from Business Times dated 26 June 2018. We note from the article that S\$6.9m is outstanding from PT Hanjungin. What are the plans that the Company have to recover the said amount of money? Why did the Company not take steps to recover the monies from PT Hanjungin sooner?

Response:

Please refer to the announcements set out in the last column of the above table, which provides a more complete overview of the outstanding loan between the Company and PT Hanjungin. The Deed on Acknowledgment of Indebtedness was entered into on or around 31 August 2017.

With respect to the outstanding loan amounts, the Company has already taken steps as required and reiterates that it would not be in its interest to demand for immediate payment as this would put PT Hanjungin at risk of becoming insolvent and being unable to service the debt.

The outstanding amount owed to the Company must not be singled out and taken out of context in relation to the entire business relationship between the Company and PT Hanjungin. In addition, please refer to the response under query 2 on the land that has been provided as security for the redeemable convertible loan.

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Further, the Company has appointed Colliers International, a professional valuer, to perform a valuation on the land and houses. According to the valuation conducted, the gross development value is approximately S\$16 million and raw value of the land is estimated to be approximately S\$5 million. The property development remains a potentially good project and the Company is of the view that terminating this project immediately is not in the interests of the Group.

Query:

2. With reference to the SGX announcement dated 31 Aug 2017, "As collateral for the Deed, the Contractor has pledged 13.5 hectares of land title and 50 certificates of property title for the Kupang property development project to MEG and MEG **may enforce the security and apply the proceeds** against the Principal Debt and interest due **in the event the Contractor fails to pay the** Principal Debt on the Maturity Date and/or the **interest on each due date**".

Has PT Hanjungin been keeping up with the repayment of the restructured interest? Otherwise, has the Company considered enforcing the security and why?

Response:

*The amount of interest received by the Company as at the date of this announcement is approximately S\$0.5 million. PT Hanjungin has not kept up with the repayment of the restructured interest. This has prompted the Company to deliberate on the enforcement of the security. The Company is still in discussions with PT Hanjungin, who have demonstrated themselves to be reliable partners to date and have always responded promptly with updates. (Please refer to our response to query 1 above). When PT Hanjungin won the tender to sell 40 units of houses to the Government of Kupang, Indonesia, as announced in the Company's 1Q18 results announcement on 31 October 2017, the board of the Company (the "**Board**") took the view that PT Hanjungin should be given time to run through the selling process which will be beneficial to the Company as this would enable PT Hanjungin to repay the outstanding loans.*

Query:

3. We note that "the land in Timor held as collateral is also subject to a dispute". Please provide us with details in relation to the dispute and also provide us with information on how this would affect the Group. Notwithstanding that the Company is unable to determine how this might affect the Group, what is the alleged dispute, by whom and who are the parties involved?

Response:

PT Hanjungin is the legal owner of the 15 hectares of land under development. This 15 hectares of land sits within a larger land parcel of 75 hectares, which is the subject of the legal dispute arising from disagreements over inheritance. Other than the family members who are the parties in the legal dispute over the 75 hectares land, PT Hanjungin is now also a defendant/party to the dispute. Please refer to the announcement dated 6 August 2018 for further details.

*The Board is deliberating on the options of immediate possession of the collaterals and to attempt to dispose to whichever interested buyer or to wait out on the conclusion of the legal dispute. The Company has in place the power of attorney ("**POA**") to dispose of the land, of which Colliers International has valued at approximately S\$5 million and a gross development value of S\$16 million. Another POA has been granted to the Company to dispose of the 50 units of houses (land certificates) ("**2nd additional POA**") in addition to the existing POA to for the land. The Board has requested for a stronger collateral, and as such, the management has approached PT Hanjungin for the abovementioned additional collateral of 50 houses. The 2nd additional POA to dispose of the 50 houses has been prepared and is awaiting notarisation by a local notary. The Board shall also consider other options which may be made available from time to time.*

With regards to the 2nd additional POA, the Company has not obtained it as of the date of this announcement. The Company in the process of getting the POA, and the Company expects to receive it in the next two weeks, subject to local Indonesian notary process.

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Query:

4. Please provide us with detailed information in relation to the due diligence that was done before Magnus engaged PT Hanjungin in relation to the various construction projects.

Response:

The Company has conducted due diligence which included the review of past project references of PT Hanjungin in the areas of construction and engineering. As part of the commercial due diligence process, the Company was provided with the contracts of works between PT Hanjungin and the project owners as proof prior to agreeing to participate in the relevant projects.

*PT Hanjungin had been a subcontractor who had been contracted by main contractors to construct parts of an entire project. Continuous due diligence and review has also been performed by the Company by conducting site visits to track the progress of these projects. As announced, the Board is of the view that the first road project was successful and the Company has recovered its investment with approximately S\$0.02 million in profits. The second road project and the dam project were deemed as failed, and as such the Company has negotiated with PT Hanjungin to include the investment as part of the restructured loan with an effective higher rate of interest of 12% (compared to the previous 9% interest rate) and secured by the land measuring 150,000 square metres (the “**Collateral Land**”) in Kupang City.*

Query:

5. Please update us on the status of the redeemable convertible loan agreement between the wholly-owned subsidiary of Magnus, MEG Global Resources Limited, and PT Hanjungin as previously announced on 22 May 2015; and

Response:

The rationale and strategy of providing the secured convertible loan to PT Hanjungin is to enable the Company to manage risks and earn a minimum return of 9%, with the possible upside of converting the loan into equity when the project is successfully implemented. The amount of interest received by the Company is approximately S\$0.5 million. The said loan has been extended until 31 August 2020. Due to the recent legal dispute between third parties, the Board shall re-assess the situation and consider other alternatives to recover the said loan, which includes the possibility of exercising the POA to dispose of the collaterals.

Query:

6. Please confirm that PT Hanjungin still legally owns the Collateral Land in Kupang City.

Response:

Yes, PT Hanjungin still legally owns the Collateral Land in Kupang City as the legal case is still ongoing and there is no judgement contrary to that as at the date of this announcement.

MICROALGAE PROJECT

This section deals with queries related to the Microalgae Project announced by the Company on 22 June 2016.

Nature, description and key terms of the project	Company or Subsidiaries Involved	Key dates and developments of the Project to-date	Cash outflow from the Company to-date	Outstanding payables due from Magnus and when	Relevant announcements (key)
Project to custom build a micro algae cultivation plant with oil extraction facility harvesting machine.	MEG Management Sdn Bhd	The agreements on the Project were signed on 22 June 2016 and the microalgae facility is currently under construction and expected to be completed by August 2018.	US\$9.4m (S\$13.1m) Also refer to Query 15.	US\$3.4 million (S\$4.7 million) Only due IF balance 1,000 tanks and full cleaning equipment is delivered	22 June 2016 7 February 2017 17 July 2017 27 September 2017 22 October 2017 28 March 2018

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Query:

7. The Company stated that there is no universal standardized testing in relation to the production of microalgae crude oil. How would the new test procedures be designed? How would the company and professional firms be able to benchmark the test results and arrive at a conclusion?

Response:

The Company is still in the midst of discussing the test methodology with the relevant professional firms. The essential benchmark would be the rate of growth of the microalgae on a daily basis and the amount/percentage of oil produced from each batch of produced microalgae. The Company has announced on 28 May 2018 that some professional firms have been engaged to study the best method to carry out the tests. We would like to clarify that the professional firms have not been formally engaged as yet, but we have been engaging in discussions with them regarding the certification tests. As mentioned, as this is new in Asia, the professional firms are still in the process of studying which would be the best method to carry out the tests to best achieve the test standards. The Company has not formally entered into an agreement with any professional firm and is targeting to engage a professional firm for the above by the end of 2018.

These are renowned multinational professional certification companies which provides inspection, verification, testing and certification services. Through a global network of state-of-the-art facilities and industry-leading technical expertise, these professional firms provide innovative and bespoke Assurance, Testing, Inspection and Certification services to their customers. These professional firms have won numerous awards and offer testing and certification of renewable energy and biofuel (i.e. algae, wood, palm see, vegetable waste, etc.).

The professional firms have made specific requests not to disclose their names as the Malaysian office of the abovementioned professional firms have not dealt with microalgae per se despite them possessing the relevant expertise in testing and certifying other types of biofuel. Until such time when one of the professional firms has been selected to carry out the required tests, we are unable to disclose the names of these professional firms.

Query:

8. When is the test procedure likely to complete and when will the results be announced? What does the company intend to do with the results?

Response:

Please refer to the response to Query 7 above. The Company has not set a deadline for the new test procedures to be completed and will provide appropriate updates once a professional firm has been appointed.

The Company will use the completed report and its results internally to adjust and fine tune the cultivation process and methodology. Assuming that the report is encouraging, the contents would be shared with potential future investors who will be able to commit and invest in larger production facilities.

Query:

9. When does the Company intend to commence production?

Response:

Kindly refer to the response to Query 7. As the internal tests on oil extraction and growth rates produces varying results due to various issues, such as underground water quality, the Company is still in the testing phase. Once the results are stable, the aforesaid professional certification shall be carried out. The Company may adjust its sales and marketing plans, subject to production levels for its product. The Company shall provide the major milestones and updates when there are further meaningful developments. A major milestone would be the conclusion and certification of the oil content and growth rate test by a professional firm which is expected to be at the end of 2018. The continuing investments and cash flow for the operating costs before the full production would be capped at less than S\$0.05 million

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per month. Please refer to the responses to Query 10 and Query 11 for the cash flow required for capital expenditure. The Company is unable to commence production until a satisfactory stable test results have been obtained.

Query:

10. It was stated that “Further working capital shall be required for the Plant and the Company will be funding the same through a combination of internal resources and through other fund raising activities” – please provide details on the further working capital required for the Plant.

Response:

The outstanding amount owing to Algae Farm Engineering Sdn Bhd (“AFE”) is approximately US\$3.4 million. In the event that entire site is completed with 1,500 tanks and the required maintenance equipment has been installed, the balance owing shall be fully repayable. By way of clarification, being a modular design, the micro algae plant and site does not need be fully filled with 1,500 tanks to demonstrate the functionality of the plant.

The rationale for this strategy is to attract larger investments after the pilot plant is demonstrated to work and the same can be used as a reference or a research and development site rather than a full production site.

Query:

11. Where is the US\$3.4m classified within the 3Q18 results? What is this outstanding amount pertaining to? “In the event that entire site is completed with 1,500 tanks and the required maintenance equipment has been installed, the balance owing shall be fully repayable” – if the site is not completed with 1,500 tanks, how much would be repayable by the Company and when? How much funds have been invested into the AFE project thus far?

Response:

Approximately US\$9.4 million has been spent on the project since July 2016. The US\$3.4m is the balance amount from the entire project cost of US\$12.75 million. If the site is not completed with 1,500 tanks, approximately US\$3.2 million is not required to be paid as this amount pertains to remaining capital expenditures for the site. The Company does not accrue the said US\$3.4 million until it is being spent as there is no obligation to the Company to make good the amount, as payment is only required when there is further progress. The rationale and strategy is to work the existing 492 tanks and to prove and stabilise the efficiency of the machineries and production over several months before putting in the remaining capital expenditure as mentioned above.

REVENUE ANCHOR - CONVERTIBLE LOAN

The queries and responses under this section concern the Deed of Assignment between Revenue Anchor Sdn Bhd and MEG Global Ventures Pte Ltd (“MGV”) for the convertible loan agreement between GCM Resources plc (“GCM”) and Revenue Anchor Sdn Bhd (“Revenue”). Revenue has represented to the Company that the Convertible Loan Agreement between Revenue and GCM has been terminated in December 2017. This Deed of Assignment was previously announced on 28 April 2016.

Nature, description and key terms of the project	Company or Subsidiaries Involved	Key dates and developments of the Project to-date	Cash outflow from the Company as at to-date	Outstanding receivables due to Magnus and when	Relevant announcements (key)
<p>The Company had provided a loan to Revenue for the value of GBP510,000 and Revenue has provided a loan directly to GCM for a total value of GBP510,000 (“Revenue-GCM Loan”), which is part of the convertible loan between the two parties. Revenue has proposed payment to the Company in GCM shares sometime early 2017 which were issued by GCM to Revenue pursuant to the Revenue-GCM Loan and the Company accepted this in view of the possible development of the Phulbari Coal Mine, which will be a positive development for GCM, which the Company aims to benefit from.</p> <p>The delay in repayment was due to the moratorium of GCM shares until 30 June 2018. The moratorium has been separately agreed, as one of the termination terms, between Revenue and GCM on the termination of the Convertible Loan Agreement</p>	MEG Global Ventures Pte Ltd	<p>Signed on 28 Apr 2016.</p> <p>Completion expected in August/September 2018 once the share registrar of GCM has completed the share transfer.</p>	GBP510k (S\$1m)	Received	28 Apr 2016

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between themselves, resulting in GCM issuing shares to Revenue for the repayment of the Revenue-GCM Loan. The Company received the share certificate in Revenue's name and duly signed transfer form to be executed and transferred to Magnus. This is already in process and an announcement shall be released once the share registry of GCM has executed the share transfer. In addition, Revenue had represented to the Company that the negotiations took them more than half a year to complete, thus it had proposed the repayment during early 2017 and could only pay the Company now as the termination was delayed till end 2017 plus another 6 months of moratorium.					
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Query:

12. Please disclose the directors and shareholders of Revenue.

Response:

The sole director is Ahmad Faez Bin Yahaya and the sole shareholder is Rafi Bin Alwi and Ahmad Faez Bin Yahaya. They are not related to and in any way interested in the Group, its management, shareholders and directors.

Query:

13. We note that Clause 11.1 of the convertible loan agreement provides that Revenue must obtain the consent of GCM before any rights or liabilities can be assigned or novated. Please confirm that Revenue has obtained the consent of GCM before entering into the Deed of Assignment.

Response:

The Company had verbally communicated with Virtus Law prior to entering into the Deed and it was deemed that all legal formalities pertaining to the Deed were in order, and no further action was required by the Company. This was confirmed by Virtus Law.

The consent was not obtained because the convertible loan agreement was for the entire GBP3 million. If the entire loan was novated, a general takeover situation might arise in GCM Resources plc. In the process of due diligence work that was carried out, the Company has waived the required consent to avoid a general take over situation that may arise.

Query:

14. If Revenue did not obtain the consent of GCM to assign debt to MGV, is the deed of assignment valid and does MGV have rights to the GBP 510,000? What was the deed of assignment entered into in exchange? When and what steps did the Company take between 28 April 2016 and to-date to recover the GBP 510,000?

Response:

As mentioned above, there was no assignment as the relevant consent of GCM to assign debt to MGV was not obtained as partial assignment could not be executed. The information on the debt owing to Revenue is publicly announced by GCM and the Board is satisfied that Revenue shall be able to make good on its obligations to the Company.

While there has been no assignment, an amount of GBP 510,000 was disbursed separately by MGV to Revenue as a loan in May 2016. Nevertheless, the Company has obtained written confirmation from Revenue for the receipt of the loan as safeguard and assurance. The Board has urged the management to expedite recovery of the said loan both at formal and informal meetings since early 2017. The delays are caused by settlement discussions between GCM and Revenue of which the Company has no control over. The delays have since been resolved and Revenue has proceeded to repay the said loan. To repay the said sum, Revenue shall transfer GCM shares amounting to GBP 510,000. Revenue has given the executed transfer form and the share certificate for the value in excess of GBP 510,000 (approximately 2.4 million shares at 22.01 pence each) to the Company in July 2018. The share price of GCM has fluctuated between 17.50 pence to 23.75 pence since July 2018 till the date of this announcement. The Company has received the duly executed

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transfer documents. The documents, together with the share certificate have been sent to GCM's share registrar in London for processing.

The Company is of the view that receiving the shares in lieu of cash would present an immediate recovery of the said loan. The shares transfer has been completed on 30 August 2018 and the Company has received the physical certificate via mail on or around 19 September 2018.

JOINT INVESTMENT AGREEMENT WITH YANGTZE INVESTMENT PARTNERS

This section deals with queries related to the Joint Investment Agreement with Yangtze Investment Partners

Nature, description and key terms of the project	Company or Subsidiaries Involved	Key dates and developments of the Project to-date	Cash outflow from the Company as at to-date	Outstanding receivables due to Magnus and when	Relevant announcements (key)
Investment of US\$1m in pre-IPO shares of the Target Company	Company	Signed on 20 Aug 2015. Terminated 31 May 2017	US\$1m (S\$1.4m)	US\$1.2m (S\$1.6m) resulting from the termination of the Joint Investment Agreement as announced on 20 August 2015, being the aggregate of the principal sum and the 20% profit guarantee	20 August 2015 9 November 2015 19 February 2016 14 June 2016 30 November 2016 31 May 2017

Query:

15. Under the Joint Investment Agreement between Magnus Energy Group Ltd and Yangtze Investment Partners (“**Yangtze**”), Yangtze is to repay USD 1.2 million to the Company (resulting from the termination of the Agreement), being the aggregate of the principal sum and the 20% profit guarantee. Please confirm if the Company has claimed this outstanding amount.

Response:

The US\$1.2 million remains outstanding. The principal sum is US\$1m and Yangtze had confirmed the 20% profit guarantee on every audit confirmation requested by the Company although the profit guarantee was not set out in the Joint Investment Agreement. The Company has been offered the products that consists of solar panels, in lieu of the investment sum. The indicative value of these solar panels is US\$1.35 million. The value was extrapolated from a quotation for solar panels to be installed on the rooftop of our Kundang factory for the microalgae facility. These solar panels would enable savings on electricity consumption and reduce carbon emissions in the process of the micro algae oil extraction. This would be a factor that would contribute to the micro algae oil being certified as a sustainable fuel source in accordance with International Sustainability & Carbon Certification (ISCC) standards. Further, this shall also indirectly increase the cost of investment in the Microalgae Project by US\$1.2m.

Query:

16. Detailed information of the shares purchased under this Agreement- the investment portfolio.

Response:

*Referring to the announcement made on 20 August 2015, the investment in the relevant company (the “**Target Company**”) was made through Yangtze who is the direct pre-IPO investor and introducer to the investment. After deliberating on the information available, the Company is of the view that the conclusion of the public listing was near during the material time, resulting in the decision to invest through Yangtze. The Company shall only receive payment in the event of the successful completion of a public listing of the Target Company. The Board is weighing the options between commencing legal action against Yangtze or accepting the solar panels in lieu of cash. Negotiations are ongoing, and the Company is currently in favour of an amicable settlement instead of a long, drawn-out and expensive litigation of which the outcome may be in doubt.*

It was not stated in the agreement that if there was no successful listing of the Target Company, the Company will not receive cash at all (principal and profit guarantee).

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Query:

17. The Company announced the entering of the joint investment on 20 Aug 15 for a period of 3 months (i.e. till 20 Nov 15). The joint investment agreement was subsequently extended on 4 occasions to 20 Feb 16, 30 Jun 16, 30 Nov 16, 31 May 17. On 31 May 17, the Company announced the termination of the investment agreement. What is the reason for the multiple extensions? When was the offer of products been made to Magnus?

Response:

The Target Company had originally planned to undertake a reverse takeover of a listed public company in London. As announced by the Target Company, the reverse takeover has been aborted in May 2016. Subsequently, Yangtze advised that the Target Company had targeted to apply for a new listing in Nasdaq in September 2017. Neither exercise has been successfully completed. Thus, the Board had deliberated on the option of taking delivery of the products in satisfaction of the US\$1.2 million and to use the solar panels, which are fit for use at our Kundang microalgae facility during the February 2018 board meeting and the Company then made the proposal to Yangtze. Yangtze has agreed to deliver the products to Kundang, Selangor and the Company is currently waiting for the shipping arrangements to be confirmed which is estimated to be sometime end 2018, and installation shall take less than three months in view of logistical arrangements.

Query

18. Why was there no interest leveraged on the investment amount during the multiple extensions? Why was there no interest leveraged on the investment amount especially between termination of investment agreement in 31 May 2017 and to-date given the funds could otherwise be better utilised/invested?

Response:

No interest was charged during the multiple extensions as no interest component was included in the Joint Investment Agreement. As it is, there is already a 20% profit guarantee.

DISPOSAL OF SECURITIES/QUOTED EQUITIES

This section deals with queries related to the disposal of securities.

Nature, description and key terms of the project	Company Subsidiaries Involved or	Key dates and developments of the Project to-date	Cash outflow from the Company as at to-date	Outstanding receivables due to Magnus and when	Relevant announcements (key)
Disposal of securities held by the Company There is no deadline as to when the shares must be sold as this is solely dependent on market conditions.	MEG Global Ventures Pte Ltd	Begin trading in June 2017	Nil	Received S\$1.1m as at 17 July 2018. Balance to be received as and when the securities are disposed.	30 Aug 13 AR for FY17 8 Mar 17 21 Jun 17

Query:

19. Please identify the professional advisors;

Response:

The Company did not formally engage a professional advisor in this transaction. The Company sought out market participants such as traders to evaluate the options best suited to extract maximum value from the disposal of the securities (“Shares”) held by the Company.

Parties who had informally provided advice to the Company were traders and brokers who are member firms of the recognized stock exchange. Various options to dispose the Shares were considered and the Company was guided by the discussions with market participants who are familiar with the trading of securities on the recognized stock exchange.

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The market participants are mainly broking houses that make commission from trading the shares in the market and have no other interests.

Query:

20. Please confirm that the Sale was completed in two tranches on 8 March 2017 and 21 June 2017 as announced on the SGXNET.

Response:

Yes, we confirm.

Query:

21. Please confirm that MEG Global Ventures Pte Ltd has received the full consideration of S\$3.1 million pursuant to the Sale.

Response:

The Company has received the down payment of S\$0.3 million and to date has received a total of S\$1.1 million. The balance shall be paid as and when the Shares are sold. As the market is very illiquid, and it will take time for the Shares to be sold.

Query:

22. What accounts for the difference between the S\$3.1 million Sale consideration and the total receipt of S\$1.35 million?

The Company states that "During the financial year ended 30 June 2017, the Group disposed of 9,000,000 quoted equity to a third party for a consideration of approximately S\$3.1 million. As at 30 June 2017, S\$2.8 million remains outstanding and management of the Company expects to recover this balance within the next financial year ending 30 June 2018." – How do we reconcile this to the S\$1.35 million received?

Response:

The total receipt is S\$1.1 million, and not S\$1.35 million. The down payment of S\$0.3 million is approximately the difference in Singapore dollars between S\$3.1 million and S\$2.8 million. The Company has thus far received approximately S\$1.1 million which shall be reflected in the financial statements for the year ended 30 June 2018.

There are two technical considerations that must be considered: one, the Rule 704 announcement disclosing the fact that the shares are no longer held in the possession of the Company, and two, the accounting for profit and loss in the books. There is no contradiction to book a sale and accounts receivable to be received for the deemed sale. The final amount received by the Company shall be reported in the financial statements where profits or losses shall be accounted for. Operationally, the Company has to state a price for a trading firm to operate on. The trading firm's benefit would be any upside on the stated price, which in our case would be approximately S\$0.34.

During the disposal period from June 2017, there has been a substantial number of shares issued to the market to third parties that has caused considerable difficulties for the trader to market our block to in the open market. At this juncture, several options are available to the Company: one, to trade slowly to obtain the best possible outcome, two, to request the trading firm to return the 9 million shares and the Company shall refund the S\$1.1 million and three, which is worst of all, to instruct the trader to dispose all the shares immediately and take in whatever losses that might be incurred. The Company is in favour of the first option which will be in the best interest of the trading firm and the Company.

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Query:

23. Who is the legal owner of the shares – the trading firm or the Company? If it is the trading firm, are the shares held in trust for the Company? What are the terms of the trust agreement entered into and what are the rights of the Company as set out in the trust agreement in relation to the shares? How is it recorded in the Company's books and how does it affect the Company's Profit & Loss Statement? So has this hit the Profit & Loss Statement yet?

Response:

There are no other terms nor agreement entered into. The trading firm has been provided with an indicative price of approximately S\$0.34 to trade out the Shares of which any profit above approximately S\$0.34 per share shall be retained by the trading firm. The held in trust letter is an affirmation that the trader has received the Shares and shall proceed to trade out the Shares. The Shares have been recorded as sold, and the Company has recorded a receivable pegged at approximately S\$0.34 per share. The maximum impact to the P&L would be the maximum receivable. The Company has received S\$1.1 million to date, and so the maximum impact would be S\$3.1 million minus S\$1.1 million, assuming nothing else is to be received. For the avoidance of doubt, the sale is not finalized yet as the disposal of securities is still ongoing and the numbers have not impacted the Profit & Loss Statement as yet.

Query:

24. Please confirm that the shareholders and directors of trading firm are not related to and in any way interested in the Group, its management, shareholders and directors.

Response:

The Company confirms that the shareholders and directors of the trading firm are not related to and in any way interested in the Group, its management, shareholders and directors.

Query:

25. Please provide us with the Sale & Purchase Agreement entered into pursuant to the Sale.

Response:

A sale and purchase agreement is not required for trading of the Shares in the open market. The Company has in place a held in trust letter for the confirmation of the 9 million shares held in the trading firm's possession and the Shares were transferred to the trading firm by way of a share/securities transfer form. Correspondences exchanged have been provided as a basis to effect the block trade arrangement. The letter serves as confirmation of the trust relationship between the trading firm and the Company and the trading firm would be accountable should it deal with the Shares in a manner that is adverse to the interests of the Company. In such an event, the Company shall take such steps as appropriate to recover any losses. Further, the trading firm has provided an audit confirmation to our auditors over the past two financial reporting periods.

The Company would be required to transfer the Shares to block trade the Shares out in the open market. Once the Shares are sold, payment shall then be made. Thus said, the Company started by receiving a down payment of S\$0.3 million. To date, the Company has received S\$1.1 million. The payments shall continue until such time when all the Shares are sold out.

CEO AND DIRECTOR'S LOANS TO THE COMPANY

Query:

26. The announcement of 27 Apr 2017 states that the loans of S\$500,000 from Seet Chor Hoon (a director of the Company) and S\$150,000 from Luke Ho (the Chief Executive Officer of the Company ("CEO")) at 10% interest p.a. is for working

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capital requirements, and Business Times article dated 26 Jun 2018 states that loans are for microalgae oil cultivation facility. Is the interest rate of 10% the norm and/or market rate?

Response:

In April 2016, the Company entered into a secured loan from a financial institution with an interest rate of 10%. The Company is of the view that the interest rate of 10% for the unsecured loan to the Company is within the market rate.

PURCHASE OF COMPANY VEHICLE FOR CEO

Query:

27. We note that there is a car held on the Company's books with a net book value of S\$276,563 and it "was registered in the name of an unidentified key management personnel and "held in trust for the group"". Who was it registered under? What is the purpose of the car?

Response:

This is a company asset purchased in 2015 as part of the total compensation and benefits package for the CEO. It is registered under the name of Mr Luke Ho (CEO), and the car is used for the affairs of the Group. Mr Ho has also provided the Company a declaration of trust for the car. The said asset has been deployed to develop investment interests in all the projects of the Group.

To correct the BT article dated 26 June 2018, the net book value as stated in the annual report 2017 was S\$246,664 and not S\$276,563. The BT article suggested that the Company should sell the car to defray the expenses of the Company, to which the Board disagrees. The Board compares the value to be derived from disposing a three-year old car (with an approximate market value of S\$150k as compared to straight line depreciated book value of approximately S\$240k) to its current utility and is of the view that the said asset is better deployed for its current use instead of being sold.

FIXED DEPOSIT

This relates to a sum of S\$300,000 recorded as a Fixed Deposit on the books of the Company

Query:

28. Fixed Deposit account of S\$303,000 approximately. Please explain purpose of this fixed deposit account. Was it used to pay bail money?

Response:

Yes, the said sum is for the bail money for the CEO (then the chief financial officer ("CFO") in 2015).

The bail was offered by the Company as the CEO needs to travel to ensure the continuity of the business affairs of the Group. He had served the Company as its CEO and during the material time, the managing director, executive director and non-executive chairman had resigned (please refer to the announcements dated 22 May 2014, 20 June 2014 and 16 September 2014), and the Board was new. The CEO had to step in to manage the business affairs of the Group.

The Board had considered the CEO's length of service with the Company, his family connections and roots in Singapore and the fact that there was a need to retain his services in order to provide business continuity for the Company in arriving at the decision to provide bail for the CEO.

The CEO is currently assisting the investigations by the Commercial Affairs Department ("CAD") and has not been charged with any offence. Should the CEO be charged for any wrongdoing, this bail shall be cancelled and the said deposit shall be returned to the Company immediately.

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The Board has been monitoring the progress of the CAD investigations and assessed the risk to the Company in continuing to provide the bail. To date no events have arisen for the Board to reassess withdrawing the bail provided.

Query:

29. Please identify signatories of this account and who can access the funds.

Response:

Ms Seet Chor Hoon has been nominated by the Board to be the trustee of this fixed deposit. A letter of undertaking has been signed. The said sum shall be returned to the Company when the bail is released.

Query:

30. Please explain why the fixed deposit account is considered "restricted"?

Response:

The fixed deposit is restricted due to the bail.

Query:

31. It was stated in Annual Report ("AR") for FY15 that restricted deposits of S\$5.4m are pledged as security against bank overdrafts.

In AR for FY16, of restricted deposits of S\$5.4m, S\$303k in FY16 and S\$300k in FY15 was held in name by one of the directors holding in trust for the Group.

In AR for FY17, of restricted deposits of S\$2.5m, S\$303k in FY17 and S\$303k in FY16 was held in name by one of the directors holding in trust for the Group.

When was the S\$303,000 first given to the CEO for his bail? Is there interest charged on the S\$303,000 held in name by the CEO?

Is it a loan given to the CEO? Was appropriate IPT disclosures made in respect of the S\$303,000? Given that the Company took a loan of S\$150k from the CEO in 26 Apr 2017, why did the Company not offset the loan amount with the restricted cash of S\$303k bail money given and reduce interest expense?

Response:

This is not a loan given to the CEO, and as such there is no interested party transaction disclosure required. The S\$300k was the original amount held in trust by Ms Seet and is placed as an interest bearing fixed deposit in UOB Bank. The fixed deposit has been rolled over for the past years, and as such the amount became S\$303k. The amount is correctly reflected in the accounts as fixed deposit of the Company.

CESSATION OF MANAGING DIRECTOR

This section deals with queries arising from the cessation of the Managing Director and the BT articles.

Query:

32. The reasons for cessation are differences with management and board and cessation pursuant to contract – please provide the details and reasons on the differences with management.

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Response:

There were several differences, one of which was disagreement over the restructuring of the Group that had been proposed. The Board was of the view that this was unwarranted and unjustified, given that the former managing director had been appointed as managing director only since early April 2018.

Query:

33. In addition, who will be the MD (“Managing Director”) in the interim?

Response:

There is no managing director in the interim.

Query:

34. We note that Mr Madhavan joined Magnus on April 2, after a share placement raised his stake in the Company to 5.5%. Does he currently still hold any shares in the Company?

Response:

As per the last shareholder’s notification, Mr Madhavan is still a deemed shareholder of the Company. Mr Madhavan does not hold any shares directly under his name.

Query:

35. It was stated that “Mr Charles Madhavan has highlighted to that Sponsor some of his personal concerns regarding some of Company’s past transactions” – please provide details of the concerns highlighted.

Response:

The past transactions that the former managing director had disagreed with and had enquired into are as follows:-

- a. PT Hanjungin/Road and property development projects and subsequent debt restructuring for PT Hanjungin;*
- b. Algae Farm Engineering/EPC of Micro Algae Plant at Kundang, Malaysia;*
- c. Disposal of Securities;*
- d. Yangtze Pre-IPO investment and recovery of outstanding sums;*
- e. CEO and Director’s loans to the Company; and*
- f. Purchase of company vehicle for CEO.*

It is important to have regard to the time period and the purpose that these transactions were entered into, in order to have a full understanding of the rationale behind the decisions in relation to these transactions. It was therefore surprising to the Board and management that the former managing director had made allegations against the Board on these transactions and/or projects.

During 2015 to 2017, there was a slump in the oil and gas industry and the industry outlook was bleak with oil prices dropping to a historical low of US\$30 a barrel in 2016. Given the downward pressure on the price of oil since the start of 2015, the Board and management of the Group collectively took the view that there was a need to diversify the Group’s business and to avoid over reliance on its key core business and to seek new business opportunities and non-core business due to the weak sentiments in the oil and gas industry.

None of the business partners and introducing parties are related to the directors, management and substantial shareholders of the Company. Please also refer to all the queries and the responses above.

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Query

36. When is the EGM to be held to seek approval of shareholders to remove Mr Charles Madhavan as a director of the Company?

Response:

As the proposed circular for an extraordinary meeting may contain information with all the queries in this announcement, the Company is of the view that all these queries must be duly addressed before the said circular can be prepared.

However, as the annual general meeting (“AGM”) of the Company is drawing near, the Company intends to put the resolution for Mr. Charles Madhavan’s re-election as a director of the Company up to a vote by shareholders.

CASH BALANCE OF THE COMPANY

This section deals with queries on the cash flow of the Company.

Query

37. Cash balance of the Company

Net CF from (S\$’000)	FY15	FY16	FY17	3Q18
Opening cash balance	10,901	18,638	11,121	7,400
Operating activities	(264)	(3,422)	221	(2,450)
Investing activities	1,242	(19,017)	(1,272)	(1,284)
Other financing activities	(945)	(824)	(5,606)	(171)
Issuance of convertible notes / share issuance	7,500	17,500	2,500	3,179
Total movement	7,533	(5,764)	(4,157)	(726)
Exchange rate differences	204	(1,753)	436	(561)
Closing cash balance	18,638	11,121	7,400	6,113

The table above summarises the net cash flow movement from the financial year ended 30 June 2015 (“FY15”) to third quarter and nine months ended 31 March 2018 (“3Q18”) by activities. Cash balance of the Company has reduced from S\$18.6m to S\$6.1m in 3.75 years as the net cash flow arising from the operating activities of the Company has been lacklustre.

A total of S\$30.7m has been raised from the market in the span of 3.75 years. The issuance of convertible notes and share issuance has been the main means of providing cash flow/ liquidity for the Company. In the last 2 years, the Company have spent at least US\$9.4m on the latest Microalgae project in Kundang, Malaysia which began since Jun 2016 (from the cash flow statement in AR for the financial year ended 30 June 2017 (“FY17”)).

What is the Board’s opinion of the past transactions and does the Board consider it necessary to review the existing procedures and policies? Please provide the Board’s confirmation and justification that the decisions are in the best interest of the Company and shareholders.

Response:

Approximately S\$10.5 million has been disbursed for operational expenses since FY2014 to FY2018 and the remaining funds raised have been invested into the investments as stated in the above queries. There are no other outstanding debts arising from all the projects. Apart from the sum of US\$3.4 million payable to AFE, as referred to in the response to Query 11, the Company does not have any other payables, liabilities, nor estimated major cash outflows. While the Company shall continue its efforts to recover the investments, immediate funds are needed for both the continuation of the Microalgae Project and the general working capital of the Company.

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The Company intends to raise funds by way of a placement to address the ongoing working capital of the Microalgae Project and for general working capital needs.

The Company has investments, mergers and acquisition policies that provide guidance to the Board and management in dealing with all investments processes and decisions made by the Company. The investments made have also been reviewed on a quarterly basis during the quarterly board meetings. Depending on the investments being undertaken, the investment objectives and risk assessment, the policies may need to be adjusted accordingly as appropriate. Where there is deviation or diversification, the Company may convene a general meeting to seek shareholders' approval. As such, the Board is of the view that a continuous review of all the policies of the Company is critical to bring the Group forward and up to date with the latest best practices. The Company shall provide further announcement(s) in due course on the review and update of the investments, mergers and acquisition policies.

The Board and Audit Committee ("AC") has been involved in every project undertaken by the Company from inception. The Board and AC would review and discuss each project and at least one director would perform site due diligence, where applicable. The Board and AC would require the operational, financial and legal due diligences to be carried out either internally or by third party professionals. The Board and AC has its policies and processes to ensure that the management informs the Board for each disbursement made. The Board is cognizant that it is necessary to review and strengthen the existing procedures and policies to enhance the due diligence and review process of all future projects.

As the investments and projects undertaken have not produced any significant or financial returns, the board has maintained constant engagement with management on the status of each investment/project to understand the different challenges faced. Following extensive discussions with management, the preliminary view arrived at by the Board is that the current status of the investments/projects was due to a mixture of external and internal factors. In particular, the legal dispute on the developmental site in Kupang (please see announcement dated 28 May 2018), was an external factor beyond the control of the Company, or its partner. In terms of internal factors, the Board has identified lapses in the monitoring and management aspects of the investment/project, such as not having adequate staff on the ground at regular intervals.

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 this announcement, to assess the adequacy of the Company's policies, processes and procedures. The focus of the review 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.

The Company has approached external professional parties to review the investment policies on the past transactions and will determine an agreed upon procedure before appointing such parties to undertake the review. The review will be initiated internally by the directors and conducted by an external professional party, who will then report the findings to the AC. The findings of the external party, as well as the recommendations of the AC, will be disclosed to shareholders. Depending on the findings, the Board will take definite steps to address any concerns or issues raised by the external reviewer and recommendations will be sought to mitigate and minimise any impact (financial or otherwise) to the Company.

The Company is currently in discussions with external reviewers and expects to commence the review in November/December 2018, with an estimated time frame of 3 months from commencement, to the completion and finalisation of a report.

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

RESPONSES TO QUERIES BY SPONSOR AND THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

BY ORDER OF THE BOARD

Magnus Energy Group Ltd.

Luke Ho Khee Yong
Chief Executive Officer
12 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.

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, Stamford Corporate Services Pte. Ltd. (the "**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). The Sponsor has not independently verified the contents of this announcement.*

The announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement including the correctness of any of the statements or opinions made or reports contained in this announcement.

*The contact person for the Sponsor is Mr. Bernard Lui.
Tel: 6389 3000 Email: bernard.lui@morganlewis.com*