
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 23 October 2017 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

On 6 October 2017, the company announced that the auditors of the company, Moore Stephens LLP, has expressed a qualified opinion on the financial statements of the Company and its subsidiaries for the financial year ended 30 June 2017.

The Basis for Qualified Opinion is as follows:

The Auditor’s Report dated 7 October 2016 on the consolidated financial statements for the previous year ended 30 June 2016 contained a qualified opinion with regards to the opening balance of the Group’s investment in Coal Concession Rights of S\$21.8 million and related deferred tax liability of S\$6.3 million and the consequential effects on the impairment loss of S\$15.0 million recognised for the Group’s investment in the Coal Concession Rights in the Group’s profit or loss for the year ended 30 June 2016. Accordingly, our opinion is modified because of the possible effect of this matter on the comparability of the current year’s figures and the corresponding figures.

For the financial year ended 30 June 2016, the Basis for Qualified opinion were:

- (i) We were not able to satisfy ourselves as to the validity and appropriateness of the carrying amount of the Group’s investment in the Coal Concession Rights of approximately S\$21.8 million and the related deferred tax liability of approximately S\$6.3 million as at 30 June 2015 because the outcome of the ongoing legal proceedings relating to the Group’s ownership interest in PT Batubara Selaras Sapta (“PT BSS”), which holds the Coal Concession Rights, was uncertain.*
- (ii) We were not able to satisfy ourselves as to the recoverability of the Company’s investment in, and the amount due from APAC Coal Limited (“APAC”), the holding company of PT BSS, of approximately S\$492,000 and S\$1,054,000, respectively as at 30 June 2015 as the ability of the Company to realise its investment in, and the amount due from APAC, is largely dependent on the successful outcome of the legal proceedings as referred to in paragraph (i) above.*
- (iii) As at 30 June 2016, the Group’s investment in the Coal Concession Rights, and the Company’s investment in, and the amount due from APAC, have been classified as assets held for sale, for the reasons as explained in Note 20 to the financial statements. Consequently, an impairment loss of approximately S\$15.0 million was recognised for the Group’s investment in the Coal Concession Rights in the Group’s profit or loss for the current year. The impairment loss is net of the related deferred tax credit of approximately S\$6.1 million.*

The Audit Committee (AC) comprises Mr. Ong Chin Chuan (as Chairman), Mr. Kushairi Bin Zaidel, Ms. Seet Chor Hoon and Mr. Ong Sing Huat.

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Mr Ong Chin Chuan is a fellow member of the Association of Chartered Certified Accountants (UK), a Chartered Accountant of Malaysian Institute of Accountants and a CFA charterholder. Mr Zaidel graduated with a Bachelor of Business (Accountancy) from University of South Australia. He is a Certified Public Accountant registered with CPA Australia.

In the Director's Statement (page 58), the directors have stated that, in the opinion of the directors:

(a) the consolidated financial statements of the Group and the statement of financial position of the Company are drawn up so as to give a true and fair view of the financial positions of the Group and of the Company as at 30 June 2017 and the financial performance, changes in equity and cash flows of the Group for the year then ended;

a) In view of the basis for qualified opinion as noted by the Independent Auditors, can the board explain the basis for its opinion that the accompanying statements together with the notes thereon are drawn up so as to give a true and fair view of the financial position of the group and the company as at 30 June 2017?

Response

The directors of the Company (the "Directors") note that the independent auditors ("Auditors") have expressed an opinion that, save for the qualification issued, the accompanying financial statements provide a true and fair view of the financial position of the Group and the company as at 30 June 2017. The Directors share the same view.

The Directors have arrived at this view having considered the following – the Directors note that in the financial statements for the financial year ended 30 June 2016, there has been a full provision of the carrying value of the Coal Concession Rights and a full impairment upon the value of the investment in our Australian Stock Exchange-listed subsidiary APAC Coal Limited ("APAC"). Consequent upon such provision and impairment, the Coal Concession Rights do not have any carrying value in the Statement of Financial Position as at 30 June 2017. Consequently, uncertainty in the legal status, which forms the basis for the Auditors' qualification, will not have a material adverse impact on the financial statements and similarly, will not have any material impact upon the true and fair financial position of the Group.

The Company wishes to provide a summary of the legal proceedings and efforts undertaken by the Group in respect of the Coal Concession Rights to the shareholders of the Company ("Shareholders"). This summary is based on information that has been previously disclosed in the announcements and/or annual reports of the Group. The Coal Concession Rights is held under APAC. APAC became aware since 2009 that the Coal Concession Rights had been expropriated and the Group has attempted to recover its Coal Concession Rights in the local courts in the Republic of Indonesia during the period 2010 to 2013 and has not been successful. Consequently, the Group has sought further legal advice and has also submitted its Request to Resolve Investment Dispute Through Consultations and Negotiations and Deliberations and Consensus to the Republic of Indonesia in furtherance of our claims over the Coal Concession Rights in 2015. As no amicable resolution was reached, the Group had contemplated the initiation of international arbitration against the Republic of Indonesia pursuant to the agreed procedure as stipulated in the agreement between the Government of Australia and the Government of the Republic of Indonesia on the Promotion and Protection of Investments dated 17 November 1992, and the agreement between the Government of the Republic of Singapore and the Government of the Republic of Indonesia on the Promotion and Protection of Investments dated 16 February 2005. Nevertheless, the Group has not embarked on the said international arbitration due to the high legal costs this would entail. Kindly refer to the updates on the Coal Concession Rights on all the Company's quarterly results announcement since 2010.

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b) Would the Audit Committee (AC) explain its efforts and involvement in the audit of the financial statements for the financial year ended 31 March 2017? In particular, what were the efforts by the AC to facilitate the independent auditors to get "sufficient and appropriate audit evidence" to resolve the matter brought up in the basis for the qualified opinion?

Since the audit report dated 12 October 2011 on the financial statements for the financial year ended 30 June 2011, the auditors have included a modified opinion/qualified opinion in each and every of the Independent Auditors' Report.

Response

We wish to clarify that the Company's financial year ended on 30 June 2017 instead of 31 March 2017.

The concerns of the Auditors have been raised since the Audit Report dated 12 October 2011 on the financial statements for the financial year ended 30 June 2011. The Directors efforts have been focused on resolving the legal uncertainties, which constitutes the basis for the Auditors qualified opinion, in respect of the Coal Concessions Rights. The Auditors opinion is not due to insufficient documents or information being provided.

The Audit Committee has had numerous discussions and meetings with both the Auditors and the management, including meetings with the Auditors without the management. The management has provided unfettered access to the Auditors to obtain all the documents for every annual audit process.

In addition, having considered the status and uncertainties relating to the Coal Concession Rights, the Directors have therefore made a full provision and impairment as set out above.

c) Can the audit committee explain its efforts to resolve the matters flagged out by the Independent Auditors?

Response

Please see the responses above. The Audit Committee's efforts have been directed towards resolving the legal uncertainties.

Question 2

As noted in the Director's Profile, Ms Seet Chor Hoon joined the Board as an independent Director in August 2014. She is also the Chairman of the Remuneration Committee and a member of the Audit Committee and Nominating Committee.

As disclosed on page 54, in the Interested Persons Transactions section, Ms Seet Chor Hoon, being an independent director of the Company, a member of the AC, NC and RC, has \$500,000 in aggregate value of all interested person transactions with the group during the financial year ended 30 June 2017.

a) Please disclose, in detail, the nature of the transaction between Ms Seet Chor Hoon and the group.

Guideline 2.3 calls for the evaluation of the independence of Directors especially if there is a relationship (business or otherwise), in the current or past three financial years, with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent judgment with a view to the best interests of the Company.

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Ms Seet provided an unsecured interest-bearing loan of S\$500,000 to the Company. The interest payable on the loan is 10% per annum, calculated on daily rests based on 365 days a year, payable in arrears on the last date of each calendar month. The amount of interest payable on the said loan is less than 1% of the Group's latest audited net tangible assets. Please refer to the announcement of the Company released on 27 April 2017 for details and the nature of the transaction disclosed.

b) Can the company disclose the director's fees for Ms Seet Chor Hoon?

Response

The Directors' fees range between S\$25,000 to S\$40,000 for each Director.

c) Has the nominating committee evaluated the relationship Ms Seet Chor Hoon has with the company, taking into account the amount involved in the Interested persons transactions?

Response

The Nominating Committee's view is that Ms Seet is independent. The board of the Company has reviewed the relevant loan agreement and are satisfied that the terms and conditions were not prejudicial to the interests of the Company and its minority Shareholders. The said loan has been classified as Interested Person Transactions and disclosed accordingly. However, approval of the Shareholders is not required as the interest payable on the Loans is less than 5% of the Group's latest audited net tangible assets.

Question 3

Further, as noted under Principle 9 of the Corporate Governance Report, it was disclosed that:
In FY2017, a total of 975,753,200 share awards (the "Awards") have been granted to all the Directors and employees of the Company in accordance to the Magnus Energy PSP.

a) Can the remuneration committee (RC), which administers the Magnus Energy Performance Share Plan (the "Magnus Energy PSP"), justify awarding a total of 975,753,200 share award during the financial year?

Response

The Magnus Energy PSP has been approved by the Shareholders at the Extraordinary General Meeting of the Company held on 31 October 2016 (the "**2016 EGM**"). The share awards further strengthens and aligns the interests of the Directors and the management with the Shareholders and the Company. The number of shares issued pursuant to the Magnus Energy PSP has taken into account the market value of the shares, the level of remuneration of the management and Directors and the improvement in the financial position and cash flow of the Group since 2013.

b) As shown on page 60 (Directors' Statement), all the Directors received share awards during the financial year.

As the RC members are also recipient of the PSP share awards, can each member of the RC confirm that no director was involved in the award of his/her own PSP shares?

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Each member of the Remuneration Committee, namely Ms Seet Chor Hoon, Mr Kushairi Bin Zaidel, Mr Ong Chin Chuan and Mr Ong Sing Huat, confirms that no Director was involved in the award of his/her own share awards.

c) Can the RC justify the grant of 695,102,000 share awards to Luke Ho Khee Yong?

Response

The share awards granted to the Chief Executive Officer and the Directors are part of Remuneration Committee's total pay policy to remunerate equitably for each of their contribution and responsibilities. The Remuneration Committee always ensures that its pay policy is in line with market bench mark data as this is of key importance in attracting talents and retaining staff.

d) Can the RC clarify if there are limits to the maximum number of share awards given to any single individual under the PSP?

Response

Subject to the 15% cap on the existing issued shares of the Company pursuant to the terms of the Magnus Energy PSP as approved by the Shareholders at the 2016 EGM, there are no further limits to the maximum number of share awards given to any single individual under the Magnus Energy PSP.

BY ORDER OF THE BOARD

Magnus Energy Group Ltd.

Luke Ho Khee Yong
Chief Executive Officer
27 October 2017

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.

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