
RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED (“SGX-ST”)

Unless otherwise specified, all capitalised terms shall have the same meaning ascribed to them in the announcements dated 30 June 2022 and 29 July 2022. (“Previous Announcements”)

The Board of Directors (the “**Board**”) of Magnus Energy Group Ltd (the “**Company**” or “**Magnus**” and, together with its subsidiaries, the “**Group**”) wishes to inform that the Company has further received another set of queries raised by SGX-ST on 3 August 2022 in respect of the Company’s announcement on 29 July 2022 titled Response to SGX Queries.

The Company sets out its responses to the relevant questions by SGX-ST as follows:

No.	Questions	Responses
		<p>In response No 1, it was stated that “Key terms of SPA1: (a) Seller to sell an initial quantity of nickel ore amounting to 20,000 MT plus minus 10%,with Buyer having the option to increase purchase quantity as the number of shipments grows; (b) price sold by Seller to the Buyer is USD14/MT for nickel content 1.9% at pit, excluding cost of hauling, cost for utilizing the jetty, cost for administration of cargo documents, payment to independent surveyor, royalties and all ancillary costs to facilitate sale of the nickel ore”</p>
1	Please explain how the initial quantity of nickel ore 20,000 MT and the price USD14/MT are determined.	<p>The price of USD14/MT is the price at the mine-pit determined on the basis of the market price in Kolaka, Sulawesi as in July 2022.</p> <p>The initial quantity of 20,000 MT nickel ore arrived at is equivalent to two (2) shipments (each shipment is 7,500 MT based on the capacity of a barge typically used for delivery to the Smelter) with a comfortable cushion / buffer of 5,000 MT which the Company had estimated it would need to retain at its stockpile close to the jetty to ensure the continuation of supply for the next barge shipment.</p>
2.	Was any Independent Qualified Person’s Report prepared to support the above? Eg. the mine contains more than 20,000 MT nickel ore with nickel content 1.9%	<p>The Company wishes to emphasize that SPA1 only provides for the Buyers to purchase a stipulated fixed quantity of nickel ore from the Sellers, who owns the mining, operation and production permits for the mining sites. As part of the SPA1, PT MHI would need to make arrangements for the nickel ore to be hauled from the open-pit mines to the Company’s stockpile close to the jetty, and then to be loaded onto the barges for onward sale to the Smelter. At no point is PT MHI engaged in the conduct of any exploration, development or production activities of the nickel ore as part of SPA1. The Company is of the view that pursuant to the Nickel Ore Agreements, PT MHI’s role is as an intermediary to provide sourcing and supply service of nickel ore between the mine owners and the Smelter who will perform the</p>

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		<p>smelting and refining of the nickel ore for onward sale to other third-party customers. Accordingly, PT MHI does not hold any ownership interests in the nickel ore mining assets nor any right to conduct exploration, production or development activities at the sites.</p> <p>Given that the Buyers are purchasing nickel ore from the Sellers, the Company is of the view that the most important consideration would be to ensure that the grade of the purchased nickel ore i.e. at least 1.80% and above (any quantity of nickel ore with a grading below 1.80% would be rejected by the Smelter). To safeguard the Sellers’ and Buyers’ interests, there will be three (3) sampling tests conducted by independent and accredited surveyors. The first test will be conducted at the mine-pit before the ore is loaded on 14 MT trucks for transportation to the Company’s stockpile, close to the jetty anchoring the barges, followed by the second test at the barge after loading from the stockpile and before sailing to the Smelter and the third test after discharging the ore at the Smelter. For the first two (2) tests, the surveyor is engaged by the Company but the third test is done by an independent surveyor engaged by the Smelter.</p> <p>We did not engage any qualified person to do a report on the production capacity nor quality of nickel ore grade because: (1) the IUP holder (mine owner) would have done its due diligence with regard to the amount of nickel ore sitting in its mine before being awarded the IUP, we did not pay any upfront money, and in case of need, we have access to other similar mines; and (2) we engage a qualified and accredited surveyor to sample test the nickel ore for grade before collecting the ore from the pit.</p>
3.	What due diligence was conducted by the Company prior to entering into the SPAs?	The Company’s due diligence started with the conduct of several on-site visits to the active mines and smelters in the regency of Kolaka, Sulawesi which Management had identified earlier during its research and meetings with nickel ore experts and mine owners based in Jakarta over several months. Equipped with this information, and together with mining engineers and operations personnel familiar with the nickel ore business in Kolaka,

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		<p>Management then entered into serious discussions with certain third-party mines and smelters who have had no prior relationship with the Group. Management subsequently shortlisted, and eventually negotiated with them and the logistics & transportation providers to sign the necessary agreements.</p>
4.	<p>Which party is responsible for making payment to the seller? When is the party required to make payments to the seller?</p>	<p>The Sellers as the mine owners are paid directly by PT MHI. After the first sample test, the Sellers and PT MHI will agree on the quantity (tonnage) and price (amount), and payment to the Sellers is done at the start of the haulage by the trucks via usual electronic funds transfer based on invoice. It is recognised that there are commercial credit risks which exist between payment to the Sellers and receipt of funds from the Smelter, which in the Company’s view is part of the normal course of conducting such commodity trading business.</p>
<p>In response No 1, it was stated that “Joint Agreement: a joint sales & transportation agreement dated 13 June 2022 signed between PT MHI, as the party responsible for sourcing for the supply of nickel ore and Company A which holds the license to transport and sell the nickel ore to the Smelter.”</p>		
5.	<p>Please provide the information on flow of revenue to PT MHI / Magnus Group arising from sale of nickel ore to the Smelter, given the sales of nickel ore to the Smelter is governed under SPA2 pursuant to which the Smelter would make payments to Company A (instead of to PT MHI / Magnus Group).</p>	<p>The Company wishes to inform that PT MHI had, on 7 August 2022 entered into an amendment agreement (the “Amendment Agreement”) with Company A to amend and reflect, among others, the following:</p> <ul style="list-style-type: none"> (a) all revenues received from the sales of the joint operation pursuant to the Joint Agreement shall be deposited and maintained in Company A’s bank account (“Bank Account”) which has been established for the sole purpose of capturing payment flows from the Smelter to Company A; and (b) the authority to operate the Bank Account shall be vested jointly to designated representatives each from Company A and PT MHI (“Joint Signatories”), as a means to partly mitigate the risk of any non-receipt of payment by PT MHI from Company A; and (c) the details of the Bank Account and the respective representatives of Company A and PT MHI who will be the joint authorised signatories.

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		<p>Please refer to the Company’s announcement dated 8 August 2022 for more details of the Amendment Agreement.</p> <p>To clarify, pursuant to the joint operation with Company A, PT MHI will invoice Company A for each shipment loaded onto the barge while Company A will then invoice the Smelter for the exact same amount upon delivery of each shipment of nickel ore. Accordingly, PT MHI will record the amount invoiced to Company A as revenue. The profit-share due to Company A will be recorded as part of expenses incurred by PT MHI.</p> <p>The Company had engaged Company A to help bridge the relationship with the Smelter, given that Company A and the Smelter have had a long and close business relationship. Management, during its earlier research into the nickel ore business, had several interactions with Company A which subsequently became shortlisted as a potential partner to start a business relationship with. The Company understands that Company A had done its due diligence on PT MHI / the Group and was satisfied that the Group was a party suitable to do business with.</p> <p>Besides the relationship, Company A also has the relevant licenses to sell and transport the ore to the Smelter. While payment by the Smelter is directly to Company A, with the concurrence of Company A, the parties have set up the Bank Account with an Indonesian state-owned bank with the Joint Signatories arrangement in place.</p>
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In response No 2, it was stated that “PT MHI’s role is to source and supply nickel ore to Company A vide the Joint Agreement”

In response No 3, it was stated that “Under the terms of the Nickel Ore Agreements, the role of PT MHI (an 80%-owned subsidiary of MEG in Indonesia) is solely to source for, extract and supply nickel ore.

Accordingly, such activities are merely physical trade transactions which are of a revenue nature and are carried out as part of the Group’s ordinary business operations.”

In response No 8, it was stated that” The Company had previously sought and obtained shareholders’ approval at an extraordinary general meeting held on 29 October 2015 under resolution 2 for the proposed

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<p>diversification of the Group’s business to include, among others, investing and participating in the minerals and natural resources sectors.”</p> <p>In relation to the above responses,</p>		
6.	<p>Please explain if the entry into Nickel Ore agreements is the first such business since 2015’s shareholders’ approval, ie. source for, extract and supply nickel ore?</p>	<p>The trade of nickel ore as mentioned above will be the first time that the Group is handling nickel ore as a commodity. However, the Company reiterates that PT MHI is not engaged in any exploration, production or development of the nickel ore but merely hauling the nickel ore from the open-pit mines onto transport trucks. The nickel ore deposits are very close to the earth’s surface (hardly any over-burden) from open-pit mines for which nickel ore deposits are easily accessible using excavators to load the nickel ore onto the trucks.</p>
7.	<p>Please provide sponsor’s assessment and bases in relation to the applicability of Catalist Rule chapter 10. In addition, please provide computation as per Catalist Rule 1006, and explain why shareholders’ approval is not required.</p>	<p>The Sponsor notes that Catalist Rule 1002(1) of provides that the definition of “transaction” refers to, among others, the acquisition or disposal of assets and excludes a transaction which is, or in connection with the ordinary course of its business or of a revenue nature. Accordingly, the Sponsor is of the view that Chapter 10 should not apply to revenue contracts and as (a) the Agreements appear to be solely of a revenue nature and (b) the Group does not appear to have acquired / hold ownership interest of any asset(s), including any option to acquire / hold ownership interest of any asset(s) pursuant to the Nickel Ore agreements, Chapter 10 of the Catalist Rules, including but not limited to the computation of the relative thresholds under Catalist Rule 1006 should not be applicable.</p>
8.	<p>Please confirm if PT MHI’s role includes extraction of nickel ore given the inconsistency in response 2 and 3.</p>	<p>The Company wishes to clarify its earlier statement that the correct description of PT MHI’s role pursuant to the terms of SPA1 that should have been used is the haulage of nickel ore deposits from open-pit mines for transportation (via truck and barges) and onward sale to the Smelter.</p> <p>For the avoidance of doubt, and as previously stated in the Previous Announcements, the Company wishes to re-clarify the roles of the following parties:</p>

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		<p>(a) Under SPA1, the Sellers are the owners of the mining asset while PT MHI and Company A are buyers contracting to purchase a fixed quantity of nickel ore resources from the Sellers;</p> <p>(b) Under the Joint Agreement between PT MHI and Company A as joint business partners, PT MHI is responsible for procuring the supply of nickel ore and securing the transport/logistics to make ready the nickel ore to be transported from the mine and shipped out. Company A, as the holder of the license to transport and sell the nickel ore to customers, is responsible for, among others, conducting negotiations with the end customer and ensuring that all documentation, applicable regulations and laws, payment matters in relation to the sale of the nickel ore are properly handled / complied with (as the case may be); and</p> <p>(c) Under SPA2, Company A is selling the nickel ore purchased from the Sellers to the Smelter.</p>
<p>9.</p>	<p>Please provide the Board’s and Sponsor’s justification, with bases, as to whether the Nickel Ore agreements constitute activities of a MOG (mineral, oil & gas as defined under the Catalist Rules) company and accordingly, confirmation that the Magnus Group will comply with applicable Catalist Rules for MOG companies.</p>	<p><u>Company’s response</u></p> <p>At this juncture, the Company wishes to clarify that, through PT MHI and pursuant to the Nickel Ore agreements, it is providing an intermediary service of sourcing and supplying nickel ore between the mine owners and the Smelter, the process of which entails, among others, the haulage of nickel ore deposits from open-pit mines to a designated stockpile from which will transport the nickel ore onto barges for onward sale to the Smelter. Such arrangement pursuant to the Nickel Ore agreements is considered to be a form of trading activity and, for avoidance of doubt, PT MHI is not involved in any exploration, production or development activities of the nickel ore. As such, the Board is of the view that such activities conducted pursuant to the Agreements do not constitute activities of a mineral, oil and gas (“MOG”) company as defined under the Catalist Rules.</p> <p>Notwithstanding, the Company notes that under Practice Note 4C of the Catalist Rules, where the</p>

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		<p>MOG activities of the Group, based on the Company’s latest audited consolidated financial statements: (i) represents 50% or more of the total assets, revenue or operating expenses of the Group; or (ii) is the single largest contributor based on any of the tests in (i), the Company may be considered to be principally in the business of exploration, development or production of mineral, oil or gas assets. Pursuant to the requirements of Practice Note 4C, the Company will announce when any of the above situations occurs, and will thereafter comply with all the continuing listing rules in the Catalist Rules applicable to MOG companies.</p> <p><u>Sponsor’s response</u></p> <p>The Sponsor notes that under the “Definitions and Interpretation” section of the Catalist Rules, a MOG company is one whose principal activities consist of exploration, development or production of mineral, oil or gas. This excludes companies that purely provide services or equipment to other companies engaged in such activities. Based on the Board’s clarification and assessment above, the Sponsor is of the view that the activities conducted by the Group pursuant to the Nickel Ore agreements do not constitute MOG activities as defined under the Catalist Rules.</p>
10.	Please provide the Board’s assessment of potential risk associated with the Nickel Ore agreements. In addition, has the Board assessed potential ESG risk associated with the extraction of Nickel Ore?	<p>The Board has considered the following potential risks in relation to the revenue-driven activity conducted pursuant to the Nickel Ore agreements:</p> <ol style="list-style-type: none"> 1. Rejection risks of nickel grade falling below 1.80% due to the Sellers not being able to supply such a quality from the mining sites. The abovementioned three (3) tests largely mitigate this risk; 2. Payment risks due to (a) Company A siphoning the payment from the Smelter and not making payment the Company and (b) the Smelter failing to make good on its payment. The payment risk due to (a) is mitigated to a certain extent by the dual authorised signatories of the bank account which will be used to receive the payment from the Smelter. The payment risk due to

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		<p>(b) is not significant given the Smelter’s investment size and market reputation in Indonesia;</p> <p>3. Risks due to competition for barge hires. Magnus is in the process of entering into a charter with barge owners to reduce this risk;</p> <p>4. Risks of severe weather which could impact on road haulage and barge delivery; and</p> <p>5. The main ESG-related risk here is the making good of the pit after having been excavated which is the responsibility of the IUP license holder (mine owner) to the Ministry of Energy & Mineral Resources (ESDM). PT MHI has paid /will pay a fee as part of the USD14 per MT for the purchase of nickel ore to the Sellers to partly cover the cost of making good of the pit as part of the natural terrain.</p> <p>Having considered and assessed all available information and factors, the Board is of the view that the risks related to above transactions are acceptable and the Company should proceed with conducting these transactions.</p>
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Shareholders are advised to exercise caution when dealing with the Company’s securities. Shareholders should seek advice from their stockbrokers, bankers, solicitors, accountants, tax advisers or other professional advisers if they have any doubt about the actions that they should take.

BY ORDER OF THE BOARD

Charles Madhavan
Executive Director and Chief Executive Officer
11 August 2022

This announcement has been prepared by the Company and reviewed by the Company’s sponsor, Novus Corporate Finance Pte. Ltd. (the “Sponsor”), in compliance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited (the “SGX-ST”) Listing Manual Section B: Rules of Catalist.

This 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 Pong Chen Yih, Chief Operating Officer, at 7 Temasek Boulevard, #18-03B Suntec Tower 1, Singapore 038987, telephone (65) 6950 2188.