

Sumatec Resources Berhad Board Statement

On behalf of the Board of Directors and the Sumatec management team, we would like to take this opportunity to express our appreciation to our shareholders, partners and other stakeholders for their unwavering support.

The past 2 years were challenging times for oil and gas companies due to the industry downturn and Sumatec is no exception. Our challenges were further compounded by legacy issues due to our associated company, namely the Semua International Group.

Regardless, we have been striving hard to stabilise the company and expand our options to create value for our stakeholders. The challenges and our efforts have been reported by various media as highlighted below.

Table 1: Sumatec in the News

No	Date	Headline	Summary
1	26 May 2016	“Sumatec slapped with US\$13m petition” <i>The Star</i>	Received a winding up petition (Section 218) for RM53m in unpaid leasing charges incurred by an associate company (Semua Chemical). Sumatec is a corporate guarantor to Semua Chemical.
2	7 June 2016	“Sumatec to raise up to RM20.5mil through private placement” <i>The Star</i>	Proposal of private placement to raise an estimated RM21m to finance working capital requirements.
3	2 July 2016	“Sumatec to pay RM818mil for full ownership of Kazakh oil concession” <i>The Star</i>	Sumatec signed the Heads of Agreement to buy COG, to enhance the effectiveness and efficiency of operations at the oil and gas field.
4	17 February 2017	“Sumatec to raise RM400 mil to fund Kazakh projects, ventures into LPG production” <i>The Edge</i>	Sumatec has announced corporate proposals related to its projects in Kazakhstan, with plans to raise some RM400m, including via private placement, share issuance and rights issues with warrants, in the first phase. Simultaneously, Sumatec has inked an agreement with Ken Makmur Holdings Sdn Bhd and Markmore Energy Labuan Ltd to produce liquefied petroleum gas (LPG) and condensate, as it seeks a new source of income, in the second phase.
5	23 February 2017	“Sumatec set to expand Kazakh oil and gas facilities” <i>The Star</i>	Sumatec ready to ramp up the production of Kazakhstan operations towards optimal production of about 2,000 barrels of crude oil per day, from current extraction of about 500 barrels per day.

6	3 March 2017	<p>“Sumatec gets legal notice over RM121m loan default”</p> <p><i>The Edge</i></p>	<p>Received a legal notice from Maybank for allegedly defaulting on six term loans taken by Semua Shipping and one overdraft facility totaling RM121m. Semua Shipping is an associated company where Sumatec is a guarantor.</p>
7	28/29 April 2017	<p>“Sumatec to ramp up oil output as auditor warns of material uncertainties”</p> <p><i>The Star</i></p> <p>“Sumatec faces going concern uncertainties; associate forced to sell vessels to settle debt”</p> <p>“Sumatec to ramp up Rakushechnoye oilfield production”</p> <p><i>The Edge</i></p>	<p>Conducted a formal open tender exercise for the development of the oilfield to take advantage of the higher oil price (above USD 50) by embarking on a production enhancement programme which was shelved earlier when the oil price was low.</p> <p>The boost in oil production at Rakushechnoye oil and gas field will utilise COG’s 50% share of the profits to repay the non-current trade receivables (RM30m) to Sumatec</p> <p>According to SJ Grant Thornton, the material uncertainty of the recoverability of RM 185m trade receivable due from MELL as at 31st December 2016, may affect the Sumatec group or the company’s ability to continue.</p> <p>The group was experiencing negative cashflows of RM50m on operating activities for FY16.</p>
8	19 May 2017	<p>“Court orders Sumatec’s associate firm to be wound up”</p> <p><i>The Star</i></p>	<p>Associate company Semado Maritime Sdn Bhd of which Sumatec acts as a corporate guarantor, has been ordered by the High Court to be wound up.</p> <p>Semado Maritime Sdn Bhd forced to sell two vessels to settle a debt of RM143m owed to Bank Pembangunan Malaysia which secured a court to its application for a judicial sale of the assets to recover the sum owed.</p>
9	14 June 2017	<p>“Sumatec gets 25-year extension on Kazakhstan oil field mining lease”</p> <p><i>The Star</i></p>	<p>Kazakhstan’s Energy Ministry has extended the mining lease by up to 25 years, beyond the initial expiration date of August 2025. Drilling an additional 6 wells would entitle Sumatec and COG for a further 25 year extension.</p>
10	15 June 2017	<p>“Sumatec aborts plan to take control of Kazakh O&G field”</p> <p><i>The Edge</i></p>	<p>Sumatec will not be acquiring COG through MELL to instead focus on its gas utilisation plan and extracting LPG via the existing JIA, which it believes to be more viable in the future.</p>
11	28/29 June 2017	<p>“CaspiOilGas awards contracts worth US\$55mil”</p> <p><i>The Star</i></p>	<p>COG completes the open tendering exercise awarding RM237m worth of jobs to rejuvenate 12 wells, construct six deep exploratory wells and reconstruct central processing facility and surface facilities. COG will continue to fund this project on behalf of Sumatec, until Sumatec can raise its own funding.</p>

12	6 September 2017	<p>“Sumatec gets notice of demand for RM144m”</p> <p><i>The Star</i></p>	<p>Received a notice of demand for RM145m as guarantor after its associate Semado Maritime defaulted on its loan payment due to Bank Pembangunan Malaysia Bhd.</p>
13	20 September 2017	<p>“Sumatec’s partner to repay its debt after oil production hike”</p> <p><i>The Star</i></p>	<p>Sumatec told Bursa Malaysia that COG had not settled oil operations service fees due to Sumatec totalling RM30.4mil up to end of last year. Both are planning to ramp up oil production as the source of repayment depended on COG getting its 50% share of profits, which only begins after achieving two million barrels of oil production</p>
14	26/27 October 2017	<p>“Sumatec to acquire Markmore for RM1.55bil”</p> <p><i>The Star</i></p> <p>“Sumatec’s plan to take full control of Kazakh O&G field back on track”</p> <p><i>The Edge</i></p> <p>“Sumatec signs HOA with Markmore”</p> <p><i>NST</i></p> <p>“Sumatec eyes full control of Kazakhstan oil, gas field”</p> <p><i>The Sun</i></p>	<p>The proposed acquisition is expected to enable Sumatec to effectively own the entire O&G reserves at the Rakushechnoye Field in Kazakhstan.</p> <p>The proposed acquisition is expected to enhance the effectiveness and efficiency of operations at the field, increase the hydrocarbon reserves, and provide flexibility on future fundraising and strengthen its financial and cashflow position.</p> <p>A balance sheet reconstruction exercise proposed is to set off the accumulated losses and consolidate its shares. A rights issue will be held and the board will offer six free warrants and two free shares for every 15 rights shares subscribed.</p> <p>To settle its debts (mainly from its associate, Semua International Group) Sumatec proposes to issue Redeemable Convertible Preference Share.</p>

The Board recognises the news items above may have caused some confusion on the direction and stability of the Company. Rest assured the Company has developed a comprehensive plan to address and overcome these issues.

Once completed, the plan shall achieve the following:

1. **Acquire and own tangible oil and gas assets.** Under the previous Joint Investment Agreement (2012), the Company's role was limited to being an investor and operator of the Rakushechnoye Field.

Under this new arrangement, the Company will effectively own the entire oil and gas assets and reserves.

Item	JIA (2012)	Post Buy Out of MELL
2P Reserves	22.5 million barrels of oil	139.4 million b.o.e. of oil and gas
Sumatec's Role	Investor and operator	Full ownership of concession
Benefits	Share of profits	Title to 100% of reserves

Following the buy out, Sumatec will emerge as one of the largest independent Malaysian Exploration & Production oil company.

2. **Enhanced credit profile with greater flexibility on raising funding for future development.** By having full control of the assets and operations in the oil field, the Company will have more options for future fundraising.
3. **A fully funded field work programme, on track to achieve higher productivity.** Together with brighter industry outlook, we are confident of stabilising and improving the Company's financial position and cashflow.
4. **A clean slate where the Company's debts (including those related to Semua Shipping) and receivables are resolved.** This will remove any concerns by the Auditors and also resolve any outstanding or potential legal proceedings (eg. Section 218, winding up).
5. **A cohesive and synergistic operating structure.** The 2012 JIA arrangement has necessitated the setting up of our subsidiary, Sumatec Oil and Gas LLP, to act as the agent between Sumatec and COG. With the Proposed Acquisition, Sumatec will be able to consolidate its activities in Kazakhstan that eliminates duplication in functions, office facilities and potential conflict of interest as well as streamlining the line of reporting and co-ordination of work activities, which is expected to result in greater operations efficiency and cost saving.

The highlights of the plan are as follows:

1. Enter into a Heads of Agreement with Markmore Sdn Bhd to acquire 100% of Markmore Energy Labuan Limited (MELL) for a consideration of USD 370 million. This will increase the 2P reserves of the company by an additional 116.9 million barrels of oil equivalent (boe) to a total of 139.4 million boe.
2. Raise USD 60 million to fund the necessary capital expenditure and working capital requirements.
3. Issue up to USD 72 million of Redeemable Convertible Preference Shares (RCPS) in order to resolve:
 - a. Semua Shipping commitments; and
 - b. Outstanding advances and field development expenses
4. Settlement of receivables:
 - a. Performance deposit (USD 40 million) to be set off against royalty from production as stipulated under the terms of the JIA (2012);
 - b. Deposit for the acquisition of Buzachi (USD 30 million), guaranteed by a major shareholder, to be set off against outstanding payables due to the same shareholder; and
 - c. Gas Development Project Agreement (GDPA) of USD 45 million shall be consolidated after the acquisition of MELL.

The financial effects of the scheme on the Company as below:

	Audited as at 31 December 2016 RM'000	After Private Placement Announced RM'000	After Buy Out, Balance Sheet Reconstruction, Equity Fund Raising and Proposed Debt Settlement RM'000
Share capital	541,256	551,433	2,627,682
Shareholders' Funds/NA	637,729	647,906	2,658,148
Total Assets (RM'000)	832,303	842,481	2,666,323
Total Liabilities (RM'000)	194,574	194,574	8,175
No. of Shares ('000)	3,866,114	4,058,504	12,830,948
NA per ordinary share (RM)	0.16	0.16	0.21
Interest bearing borrowings (RM'000)	22,530	22,530	-
Gearing (times)	0.03	0.03	-

The Board is confident of the plan and is optimistic of the company's prospects moving forward. The Board would like to caution that the plan is subject to due diligence and approvals from the shareholders, authorities and creditors.