

30 March 2018

TO THE BOARD OF DIRECTORS:

Sumatec Resources Berhad

43-3, The Boulevard,
Mid Valley City,
Lingkaran Syed Putra
59200, Kuala Lumpur

Letter of Offer (“LOO”)

- **Scheme 1 : 1,000 bpd Oil Giveaway**
 - **Scheme 2 : Proposed Sale of 100% Equity Interest in A Special Purpose Vehicle (“SPV”) with a Condensate Extraction Plant (“CEP”) Business**
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We refer to the above matter.

We write to you to confirm that pursuant to the signed Joint Investment Agreement (“JIA”), Joint Investment and Agency Agreement (“JIAA”) and Investment Agreement (“IA”), Sumatec Resources Berhad (“SRB”) has been finding it difficult to fulfill certain stipulated obligations mainly arising from its debt position. Markmore Energy Labuan Limited (“MELL”) is desirous to realign the Agreements to achieve a workable solution.

The current proposed Corporate Exercise of COG acquisition as announced on 26 October 2017 has high investment cost and only a limited E&P funds going to the Field as new investment (approximately USD70mil only). It is made more difficult given the current investment and credit climate.

The proposed solution comprises 2 schemes:-

1.0 Scheme 1

1.1 MELL agrees that its subsidiary CaspiOilGas LLP (“COG”), will endeavor to give to SRB 1,000 bpd of oil for the next 15 years, net of cost. In this scheme, there will be no more Oil Exploration & Production (“E&P”) investment by SRB. This will be handled by MELL and COG. SRB may maintain its role in the E&P sector. This means it relieves SRB from E&P investment under the JIA.

SRB Portion	per year	per 15 years
Oil Production Share (bpd)	1,000	15,000
After Cost Revenue (USD/bbl)	25	25
Total Revenue (USD)	9,125,000	136,875,000

1.2 The net barrel to SRB shall be after all related costs has been deducted.

- 1.3 The current JIA will be realigned to the satisfaction of the Parties involved, i.e. SRB, COG and MELL.

2.0 Scheme 2

- 2.1 **SRB had on 17 February 2017 entered into a Framework Agreement with Ken Makmur Holdings Sdn Bhd (“Ken Makmur”) and MELL for the production of Liquefied Petroleum Gas (“LPG”) and condensate from the 100mmscfd of natural gas supplied from the Rakushechnoye Field (“the Field”).**

- 2.2 **MELL is now offering to SRB its Condensate Extraction Plant (“CEP” or “the Project”) in the Field. This can be done via MELL SPV or on its own. This CEP shall produce 5,000bpd of condensate and 332tpd LPG.**

MELL wishes to clarify that this CEP is different from the LPG plant that was earlier proposed by Ken Makmur dated 17 February 2017 where the condensate production is only 700bpd.

- 2.3 The Ministry of Energy of the Republic of Kazakhstan has a strict zero flaring policy. Oil companies are allowed to flare only a small quantity of gas during production. In order to extract more liquids from the Field, it is critical to invest in CEP.
- 2.4 Important information of CEP is as follow:-
- i. Location: In the Field, nearby the gas feedstock source.
 - ii. Construction period: 18 months.
 - iii. Phases: Divided into 3 phases. Construction and 2 plant capacity upgrades.
 - iv. Feedstock for extraction: 25- 80MMscfd
 - v. CEP Production Capacity: 332TPD of LPG and 5,000 bpd of condensates.
- 2.5 MELL agrees to provide 1,000bpd of condensate to SRB during construction period i.e Year 1 and Year 2.
- 2.6 SRB’s share of condensates post completion ranges from 2,000bpd from Year 3 to Year 4, 3,000bpd from Year 5 –to Year 6 beyond that 5,000 bpd.
- 2.7 The CEP plant should last at least 20 years.
- 2.8 Both MELL and SRB agree that the target IRR of the Project is 20% with payback period of 5 years.
- 2.9 Both MELL and SRB agree that the Financial Projection of CEP will be as attached.

- 2.10 Both MELL and SRB agree that the Project Consideration is USD 275mil which consists of USD155mil as the Entry Cost and USD 120mil for the Plant Cost. Entry Cost shall include free feedstock, free condensates for Year 1 and Year 2, project premium, opportunity cost and shared facilities.
- 2.11 MELL as the main shareholder of COG is agreeable that the mode of payment shall be by way of cash or shares or RCPS of SRB. MELL also recognizes that this transaction is subject to approvals from relevant authorities and shareholders.

No	Items	USD mil	Source of Funding
1	Entry cost	155	<ul style="list-style-type: none"> • Cash/shares/RCPS of SRB
2	Plant Cost	120	<ul style="list-style-type: none"> • USD60mil - Debt and internal cashflow • USD20mil - Intercompany offset. • USD40mil – Rights issue to the public
	Total Cost	275	

2.12 The Rationale

A. SRB Remains in E&P Business

- i. Given the current situation with the creditors, SRB has been finding it difficult to fulfill its obligations under the JIA.
- ii. This Project will allow SRB to remain in Exploration and Production as well as to participate in a viable CEP project.
- iii. SRB will be relieved from putting in new investments in E&P and SRB will continue to enjoy its share of production profits.
- iv. The current COG takeover proposal (See SRB announcement dated 26 October 2017) costs too high. SRB would have to raise a huge amount of funding but only a small amount will go towards the Field operations.
- v. With this proposal, SRB will be able to recover its original investments in full.

B. CEP

- i. Both MELL and SRB agree that the proposed CEP should be made attractive to the shareholders. For this purpose, the targeted IRR is 20% with 5 years payback period. This offer by MELL is financially attractive.
- ii. The CEP end products namely condensates (5,000bpd) and LPG (332tpd) are currently in high demand in the region.
- iii. The CEP has smaller CAPEX, smaller risk and better financial return compared to the current COG acquisition Corporate Exercise.
- iv. SRB recognizes that there has to be a smaller rights issue. For this purpose, rights issue will only be USD40mil.

- v. MELL agrees that feedstock is given at no cost throughout the project duration.
- vi. The Project is at an advance stage. Construction can start immediately.

C. SRB Creditor

- i. SRB and MELL recognize that it is difficult to go forward without a solution on outstanding debts.
- ii. SRB and MELL agree that this can be only achieved with a financially attractive project.
- iii. SRB and MELL agree that SRB creditors (including legacy debts) should be resolved.
- iv. At this juncture, SRB plans to issue RCPS at 2% for 6 years. Such plan is subject to the approval by the relevant authorities.

D. Comparison between CEP and LPG plant in Ken Makmur’s proposal

- i. The comparison of this Project to that of Ken Makmur LPG proposal is as follows:-

No.	Item	CEP	Ken Makmur/LPG
1	Entry Cost	USD155mil	USD205mil
2	Plant Cost	USD120mil	USD93mil
3	Total Cost	USD275mil	USD298mil
4	Feedstock cost	No Cost	To pay
5	Condensate production	up to 5,000bpd	700 bpd
6	LPG Capacity	332tpd	350tpd
7	Target Project IRR	20%	13.6%
8	Payback Period	5	7

- ii. Therefore, this CEP is better than Ken Makmur’s LPG proposal as it costs less (USD275mil vs USD298mil) and it provides higher share of condensates.

3.0 Conditions Precedents

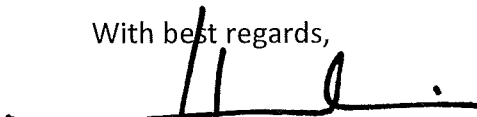
- 3.1 The obligations of the Parties to carry out the CEP are conditional upon the following Conditions Precedent being fulfilled within four (4) months of this LOO, or any extensions mutually agreed between parties:-

- (i) the approval of SRB and MELL's board of directors;
- (ii) the approval of SRB and MELL's shareholders;
- (iii) the satisfactory completion by Sumatec of a due diligence exercise;
- (iv) the execution of the definitive agreement to be entered into between MELL, SRB, MELL and COG for the supply of Gas to the CEP ("Gas Supply Agreement");
- (v) SRB executing the settlement agreements with the relevant parties to resolve the SRB group's debt and financial obligations;
- (vi) approval from all relevant authorities; and
- (vii) the assessment by an Independent Adviser.

We trust that the above proposal would be agreeable by SRB's Board and we look forward to a continued relationship.

Thank you.

With best regards,



TAN SRI HALIM BIN SAAD

CONFIRMATION OF ACCEPTANCE

We, Sumatec Resources Berhad (Company No. 428355-D), hereby acknowledge receipt of this Letter of Offer and agree to be bound by and to accept the terms and conditions as set out in this letter.

Company Stamp:

Name: *Dato' Khalid*
Designation: *Director*
Date: *30 MARCH 2018*

A handwritten signature in black ink, appearing to read 'Khalid', with a long horizontal stroke underneath it.