

Agreement to divest interest in Thai assets – Additional information



3 MARCH 2014

Further to the announcement on 3 March 2014 where the Company advised that it has entered into a Sale and Purchase agreement to divest half of its 40% interest in the Thailand concessions L44/43, L33/43 and SW1A (Thai assets), we attach the Loyz Energy Limited statutory filing with the Singapore Stock Exchange.

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Yours faithfully

A handwritten signature in black ink, appearing to read "Adrian Cook".

Adrian Cook
Managing Director
Carnarvon Petroleum

LOYZ ENERGY LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No. 199905693M)

PROPOSED ACQUISITION OF PETROLEUM INTERESTS HELD BY CARNARVON THAILAND LIMITED

1. INTRODUCTION

The board of directors (the “**Board**” or the “**Directors**”) of Loyz Energy Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that the Company’s wholly-owned subsidiary, Loyz Thailand Oil Pte Ltd (“**Loyz**”), entered into a sale and purchase agreement (the “**Agreement**”) dated 28 February 2014 with Carnarvon Thailand Limited (“**Carnarvon**”) (each a “**Party**”, and collectively the “**Parties**”) pursuant to which Carnarvon has agreed to sell and Loyz has agreed to acquire the Sale Assets (as defined below) (“**Acquisition**”) for an aggregate consideration of US\$65 million (“**Consideration**”), (equivalent to S\$81.9 million based on an exchange rate of US\$1:S\$1.26). Subject to Completion (as defined below) taking place, Loyz shall be entitled to beneficial ownership of, possession and control of the Sale Assets and be responsible for costs and liabilities in relation to, and the risks in and benefit of such assets on and from the last day of the month prior to the month in which Completion occurs (“**Effective Date**”).

Carnarvon is a limited company incorporated and existing under the laws of the British Virgin Islands and its address is 1322 Hay Street, West Perth, Western Australia 6005. Carnarvon is unrelated to the Company or any of its subsidiaries. It is involved in oil and gas exploration and has operations in Thailand and Australia. Carnarvon is a wholly-owned subsidiary of Carnarvon Petroleum Ltd, a company listed on the Australian Securities Exchange.

Currently, the Sale Assets are producing at a rate of around 1,200-1,400 barrels of oil per day (“**bopd**”) in total. Based on the field development plans in place by the operator, being ECO Orient Energy (Thailand) Ltd and ECO Orient Resources (Thailand) Ltd, Loyz expects the production rate to rise to 3,000 bopd by June 2014 and 5,000 bopd by December 2014, barring any unforeseen circumstances.

The operator has planned for a new drilling programme for 15 wells for the Sale Assets. Three (3) wells have been drilled so far in 2014. All three (3) produced oil shows and testing results are pending. From the information provided by the operator, Loyz expects the remaining 12 wells to be drilled within the next 12 months, which will likely to increase daily production. The cashflows from their production are expected to fund the entire drilling programme.

2. PRINCIPAL TERMS OF THE AGREEMENT

2.1 Sale Assets

Pursuant to the terms of the Agreement, Carnarvon will sell, and Loyz will acquire, the Sale Assets, which consists of:

- (a) the petroleum 24 interest, comprising a 20 per cent. beneficial ownership of petroleum concession (“**PC**”) No. 1/2527/24 and participating interest in and under the international

operating agreement (“**IOA**”) for PC No. 1/2527/24 dated 29 February 2008 between ECO Orient Energy (Thailand) and Carnarvon pertaining to exploration block SWIA in central Thailand which includes the Wichian Buri Production Area and the Na Sanun Production Area;

- (b) the petroleum 60 interest, comprising a 20 per cent. beneficial ownership of PC No. 3/2546/60 and participating interest in and under the IOA for PC No. 3/2546/60 dated 29 February 2008 between ECO Orient Resources Thailand Limited (“**ECO Resources**”) and Carnarvon; and
- (c) the petroleum 62 interest, comprising a 20 per cent. beneficial ownership of PC No. 5/2546/62 and participating interest in and under the IOA for PC No. 5/2546/62 dated 29 February 2008 between ECO Resources and Carnarvon,

(each a “**Petroleum Interest**”, and together with any other concessions, granted in replacement, substitution or renewal of any of the Petroleum Interests and, which would have been acquired by Carnarvon but for the Agreement, the “**Petroleum Concessions**”).

Based on the audited financial statements for the financial year ended 30 June 2013 (“**FY2013**”) provided by Carnarvon, the net profit attributable to the Sale Assets was A\$2,598,796 (equivalent to S\$2,928,944 based on an exchange rate of A\$1:S\$ 1.127039 (“**Exchange Rate**”).

2.2 Consideration

The Consideration shall be paid by Loyz to Carnarvon as follows:

- (a) US\$33 million to be satisfied in full by the date of Completion (“**Base Purchase Price**”); and
- (b) the remaining US\$32 million (“**Post Completion Receivable**”) to be satisfied as a debt due and payable after the date of Completion by way of post completion receivable payments (“**Post Completion Receivable Payments**”).

The Post Completion Receivable is subject to adjustment, should the working capital attributable to the Sale Assets vary in a manner agreed between the Parties as stipulated in the Agreement.

Each Post Completion Receivable Payment shall fall on 30 November each year, with the first payment date being 30 November 2015 and the final payment date being the earlier of (i) the date when Loyz has made an overall Post Completion Receivable Payment of US\$32 million; or (ii) the 20th anniversary of the Effective Date.

The Consideration was arrived at on a willing seller willing buyer basis after the Parties took into consideration the qualified person’s report prepared for the operator of the Sale Assets by Chapman Petroleum Engineering Ltd dated 1 January 2013, stating that the gross (100 per cent.) 2P oil reserve as at 31 December 2012 was 29.3 million barrels of oil and the valuation (NPV-10) of these oil reserves amounted to approximately US\$492.3 million. Pursuant to the Acquisition, the Group will effectively have a beneficial ownership of 20 per cent. of the oil reserves. (NPV-10 refers to net present value of the oil reserves using a discount rate of 10% with certain assumptions in relation to the cash flow projections.)

The Consideration will be funded by internal resources of the Group and through external fund raising. The Board is considering the different options for such external fund raising, which may include recourse to bank financing, debt or equity, or a combination of the foregoing.

2.3 Conditions Precedent

Pursuant to the terms of the Agreement, the Agreement is conditional upon the following conditions (“**Conditions**”) being satisfied or waived:

- (a) the relevant participant (“**IOA Participant**”) in the relevant IOA giving Carnarvon written consent to sell the Petroleum Interests under the relevant IOA;
- (b) the relevant IOA Participant agreeing to the form of the new deed to be entered into under the relevant IOA by an incoming IOA Participant, under which it agrees to be an IOA Participant as to the interest being acquired by it (“**IOA Assumption Deed**”);
- (c) the trustees of the Sale Assets agreeing to the form of and executing the trust deed to be entered into between Loyz and the said trustees prior to Completion, providing for Loyz’s beneficial interest in the Sale Assets (“**Buyer Trust Deed**”);
- (d) the trustees of the Sale Assets agreeing to the form of and executing the trust deed of amendment to be entered into among Carnarvon and the trustees prior to Completion (“**Trust Deed of Amendment**”); and
- (e) Carnarvon providing to Loyz the qualified person’s report on the reserves and valuation in relation to the Petroleum Concessions dated 31 December 2013 (“**QPR**”), in a form acceptable to the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) and which is in compliance with the Catalist listing requirements for mining, oil and gas companies.

The Parties agree to use their best endeavours to ensure that the Conditions are satisfied as soon as reasonably practicable within 60 days from the date of the Agreement.

2.4 Completion

Completion will take place as soon as practicable, and in any event within seven (7) days, after the date on which the last of the Conditions as stated in paragraph 2.3 have been satisfied or waived, or such other date as the Parties may agree on in writing (“**Completion**”).

- (a) Prior to Completion and as soon as practicable following the execution of the Agreement, Carnarvon shall:
 - (i) prepare the IOA Assumption Deeds, in the form required under the relevant IOA;
 - (ii) prepare and provide to Loyz the parent company guarantee in a form agreed between the Parties prior to execution of the Agreement, pursuant to which the Company shall guarantee and indemnify Carnarvon in respect of the Post Completion Receivable Payments to be made by Loyz under the Agreement (“**Parent Company Guarantee**”); and
 - (iii) procure a copy of the QPR from the relevant operator.
- (b) At Completion, the following shall take place:
 - (i) Loyz will pay Carnarvon the Base Purchase Price;
 - (ii) Carnarvon to deliver:

- (1) the IOA Assumption Deeds executed by it and by the relevant IOA Participant, if applicable; and
 - (2) a copy of the Trust Deed of Amendment, to amend the Trust Deed, with respect to the remainder of the assets not sold to Loyz, executed by Carnarvon and the trustees;
- (iii) Loyz will deliver:
- (1) the IOA Assumption Deeds executed by it;
 - (2) a copy of the Buyer Trust Deed, vesting the beneficial interests of the Sale Assets in Loyz, to be executed by Loyz and the trustees; and
 - (3) an executed copy of the Parent Company Guarantee.
- (iv) Parties will sign an acknowledgment in a form to be agreed, confirming that:
- (1) Completion has taken place and the date on which Completion has taken place; and
 - (2) Loyz continues to owe Carnarvon the Post Completion Receivable as a debt due and payable, pursuant to the terms of the Agreement.
- (c) On and after Completion, the Parties will execute such documents and do such acts and things (in addition to those specifically contemplated under the Agreement) as may reasonably be required by the other Party to effect the sale and purchase of the Sale Assets thereunder and otherwise carry out the true intent of the Agreement.

2.5 Limitation on Claims

Pursuant to the Agreement, Loyz's right to make any claims against Carnarvon for any breach of Carnarvon's warranties and undertakings or for any other breaches under the Agreement is limited as described below:

- (a) Carnarvon's maximum aggregate liability with regard to any and all claims against it shall be limited to 50 per cent. of the Consideration;
- (b) Carnarvon shall have no liability in respect of any claims against it unless its liability in respect of any such claims exceeds US\$250,000;
- (c) Carnarvon shall have no liability in respect of any claims against it unless full particulars of any such claims are given to Carnarvon within 12 months from the date of Completion, and legal proceedings in respect of any such claims have been commenced within 24 months from the date of Completion; and
- (d) Loyz shall ensure that all reasonable steps are taken and all reasonable assistance is given to avoid or mitigate any loss in respect of any claims, or any possible claims, arising under or in connection with the Agreement against Carnarvon.

3. RATIONALE FOR THE ACQUISITION

The acquisition of the Sale Assets, which are profitable with 2P oil reserves, is expected to contribute positively to the Group's oil production as well as the Group's financial results and cash flow. In

addition, the Acquisition is in line with the Group's strategy of adding prime assets to its existing portfolio.

4. FINANCIAL EFFECTS

The pro forma financial effects of the Acquisition are set out below, assuming that:

- (a) the Acquisition had been effected at the end of the financial year ended 30 June 2013 for the computation of the effect on the net assets value per ordinary share ("**Share**") of the Group;
- (b) the Acquisition had been effected at the beginning of FY2013 for the computation of the effect on the earnings per Share ("**EPS**"); and
- (c) the expenses incurred relating to the Acquisition are approximately S\$10,000.

Given that the pro forma effects set out below are theoretical in nature and only for illustrative purposes, they do not represent the actual financial position and/or results of the Group.

The net profit attributable to the Sale Assets for FY2013 is S\$2,928,944 (based on the Exchange Rate). Assuming that the Acquisition had been effected on 1 July 2012, the net losses attributable to the owners of the parent from continuing operations for FY2013 amounted to approximately S\$4,000.

Assuming that the Acquisition had been effected on 30 June 2013, there would be no material impact on the net asset value per ordinary share of the Group ("**Shares**") for FY2013.

Assuming that the Acquisition had been effected on 1 July 2012, the impact on the EPS of the Group for FY2013 is as follows:

	As at 30 June 2013	Before the Acquisition	After the Acquisition
Consolidated loss attributable to owners of the parent (S\$'000) from continuing operations	(2,933)	(2,933)	(4) ⁽³⁾
Weighted average number of the Shares	317,766,992	395,267,209 ⁽²⁾	395,267,209 ⁽²⁾
Consolidated EPS (Singapore cents)	(0.92) ⁽¹⁾	(0.74)	(0.00)

Notes:

- (1) Basic consolidated EPS is calculated by dividing consolidated loss attributable to owners of the parent with the weighted average number of Shares for FY2013 for continuing operations only.
- (2) Adjusted for (i) the issuance of 15,000,000 Shares from the conversion of convertible preference shares of Loyz into Shares in July 2013, (ii) the issuance of 50,000,000 Shares pursuant to a placement agreement in October 2013, (iii) the issuance of 240,000 Shares pursuant to the Loyz Energy Performance Share Plan, and (iv) the issuance of 12,260,217 Shares pursuant to the acquisition of 49 per cent. in Loyz Rex Drilling Services, LLC in January 2014.

- (3) Taking into consideration the net profit attributable to the Sale Assets of S\$2,928,944 for FY2013 (based on the Exchange Rate).

5. RULE 1006 OF THE LISTING MANUAL SECTION B: RULES OF CATALIST OF THE SGX-ST (“CATALIST RULES”)

The relative figures for the Acquisition computed on the bases set out in Rule 1006 of the Catalist Rules are as follows:

Bases of calculation	Size of relative figures (%)
Rule 1006(a) The net asset value of the assets to be disposed of, compared with the Group's net asset value.	Not applicable
Rule 1006(b) The net profits attributable to the assets acquired compared with the Group's net profits.	-101.5 ¹⁾
Rule 1006(c) The aggregate value of the consideration given or received, compared with the issuer's market capitalisation based on the total number of issued shares excluding treasury shares.	55.2 ⁽²⁾
Rule 1006(d) The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not applicable
Rule 1006(e) The aggregate volume or amount of proven and probable reserves to be disposed of, compared with the aggregate of the Group's proven and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets.	Not applicable

Notes:

- (1) Based on the six-month period ended 31 December 2013, the net profit attributable to the Sale Assets of approximately S\$1,466,000 (based on the Exchange Rate) and the Group's net loss of approximately S\$1,444,000.
- (2) The Company's market capitalisation of approximately S\$148.4 million was computed based on the Company's existing issued share capital of 411,281,127 Shares and the volume weighted average price of the Company's shares of S\$0.3608 on 27 February 2014, being the last traded day preceding the date of the Agreement.

Having regard to the above, all except Rule 1006(b) of the Catalist Rules relative figures are below the threshold of 75%. Although the relative figure under Rule 1006(b) of the Catalist Rules is a negative number, pursuant to Rules 1014(2) and 1015(8) of the Catalist Rules, no shareholders' approval is required as the Sale Assets are profitable.

6. DOCUMENTS FOR INSPECTION

A copy of the Agreement, the qualified person's report issued by Chapman Petroleum Engineering Ltd dated 1 January 2013 is available for inspection for shareholders of the Company during normal business hours at the registered address of the Company at 15 Hoe Chiang Road, #19-01, Singapore 089316 for three (3) months from the date of this announcement.

7. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company in connection with the Acquisition. Accordingly, no service contract is proposed to be entered into between the Company and any such person in connection with the Acquisition.

8. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Other than interests held through the Company as shareholders, none of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the Acquisition.

9. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm, after making all reasonable enquiries, that to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts about the Acquisition, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this announcement misleading. Where information in this announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this announcement in its proper form and context.

10. CAUTIONARY STATEMENT

Shareholders and potential investors should exercise caution when trading in the Shares in relation to this announcement as there is no certainty that the Agreement will be completed as it is subject to the fulfillment of terms and conditions set out in the Agreement and/or any approval as deemed necessary. We wish to highlight that the qualified person's report prepared for the operator of the Sale Assets by Chapman Petroleum Engineering Ltd is dated 1 January 2013 and a new QPR dated 31 December 2013 will be issued in due course. Hence, the reserves and any information therein may be updated or amended. When in doubt as to the action they should take, shareholders and potential investors should consult their financial, tax or other advisers.

11. ANNOUNCEMENTS

Further announcements on the Acquisition will be made in due course as and when appropriate.

By order of the Board

Lee Chye Cheng, Adrian
Managing Director
Date: 3 March 2014

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

This announcement has been reviewed by the Sponsor. 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 Alex Tan, CEO, Canaccord Genuity Singapore Pte. Ltd. at 77 Robinson Road, #21-02, Singapore 068896, telephone number (65) 6854 6160.