

## **SUMATEC RESOURCES BERHAD ("SUMATEC" OR "COMPANY")**

### **- THE ENTERING INTO A FRAMEWORK AGREEMENT FOR THE PROPOSED AWARD OF THE PRODUCTION SHARING CONTRACT FOR RAKUSHECHNOYE OIL AND GAS FIELD ("ALSO KNOWN AS SHELLY OIL FIELD") IN KAZAKHSTAN TO FORM AN INTEGRAL PART OF THE PROPOSED REGULARISATION EXERCISE OF THE COMPANY**

#### **1. INTRODUCTION**

M&A Securities Sdn Bhd on behalf of the Board of Sumatec wishes to announce that the Company had on 29 November 2011 entered into a framework agreement ("Framework Agreement") with Markmore Energy (Labuan) Limited ("MELL") for the proposed award of the production sharing contract ("PSC") by CaspiOilGas LLP ("COG"), an effective wholly-owned subsidiary of MELL, to Sumatec for the development and extraction of hydrocarbon in the Shelly Oil Field ("Proposed PSC"). COG is the concession holder and operator of the Shelly Oil Field.

The Proposed PSC is part of the Company's initiative to restore Sumatec onto stronger financial footing via, amongst others, a balance sheet reconstruction, injection of new funds and settlement with the group's creditors. The Company is currently finalising its regularisation plan under Practice Note ("PN") 17 of Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements and will announce its Requisite Announcement i.e. details of the proposed regularisation exercise ("Proposed Regularisation Exercise") upon finalising the terms of the Proposed PSC.

#### **2. THE PROPOSALS**

##### **2.1 Information on MELL**

MELL was incorporated in Labuan on 4 March 2005 under the Offshore Companies Act 1990. Presently, its issued share capital is USD22,382,286 comprising 22,382,286 ordinary shares of USD1.00 each. The existing directors of MELL are Tan Sri Halim Bin Saad and Abu Talib Bin Abdul Rahman.

MELL is a wholly-owned subsidiary of Markmore Sdn Bhd ("Markmore"), a company principally involved in investment holding. The directors of Markmore are Tan Sri Halim Bin Saad and Abu Talib Bin Abdul Rahman. Tan Sri Halim Saad holds 99.99% equity stake in Markmore.

MELL is principally involved in investment holding and petroleum exploration and production. MELL is the sole shareholder of Markmore Central Asia B.V. ("MCA"), a company incorporated and registered under the laws of the Netherlands. MCA in turn wholly-owns COG which is a limited liability partnership incorporated and operating in Kazakhstan.

## **2.2 Information on the Shelly Oil Field**

COG is the concession owner and operator of the Shelly Oil Field and the said field covers an area of approximately 354.45 km<sup>2</sup> and is located onshore next to Caspian Sea within the Mangyshlak peninsula in the south-western Manghystau province, Kazakhstan. Shelly Oil Field is a 25-year oil and gas concession awarded to COG by the Ministry of Energy and Mineral Resources now known as Ministry of Oil and Gas of Kazakhstan on 26 August 2000.

SRK Consulting (Australasia) Pty Ltd ("SRK"), a mining consultant, has provided an assessment on the Shelly Oil Field reserves as at 1 January 2011. The methodology used in their assessment conforms with the accepted standards in the industry. SRK has estimated that the Shelly Oil Field has 'Proved plus Probable' (2P) hydrocarbon reserves of 122.3 million barrels of oil equivalent (mmboe) consisting 33.0 million barrels (mmbbl) of Proved plus Probable oil reserve and 89.3 million barrels of oil equivalent (mmboe) of 'Proved plus Probable' (2C) gas resource. The majority of these reserves are located within the early production area of 33 km<sup>2</sup> (9% of the total field area) located on the northern part of the field, which has been fully explored and appraised. It is expected that reserves will be substantially increased when the southern part is fully appraised.

The PSC to be awarded to Sumatec includes the whole 354.45 km<sup>2</sup> area of the field, northern and southern areas.

## **2.3 The Proposed Regularisation Exercise**

Under the Framework Agreement, the Company is required to implement the Proposed PSC and a regularisation exercise under the following parameters and the exercise is expected to comprise:-

- (a) Proposed par value reduction pursuant to Section 64 of the Companies Act, 1965 of Sumatec's existing issued and paid-up share capital of RM75,027,477 comprising 214,364,221 ordinary shares of RM0.35 each to RM37,513,739 comprising 214,364,221 ordinary shares of RM0.175 each in Sumatec ("Sumatec Shares"), by cancelling RM0.175 of the par value of each existing share ("Proposed Capital Reduction"). The credit arising from the Proposed Capital Reduction will be used to set off accumulated losses of the Company;
- (b) Proposed issuance of New Sumatec Shares to raise gross proceeds of up to RM15.0 million after the Proposed Capital Reduction by way of placement to new third party investors ("New Investors") to be agreed and identified by MELL and the Company ("Proposed Placement");
- (c) Proposed renounceable rights issue of Sumatec Shares at par to the entitled shareholders to raise gross proceeds of up to RM445.0 million after the completion of the Proposed Capital Reduction and Proposed Placement ("Proposed Rights Issue"). For avoidance of doubt, the New Investors shall be entitled to the Proposed Rights Issue; and

- (d) Thereafter, Sumatec proposes to implement a formal scheme of arrangement and compromise pursuant to Section 176 of the Companies Act, 1965 in respect of the amounts owing to certain unsecured creditors of Sumatec and its subsidiary Sumatec Corporation Sdn Bhd ("SCSB") ("Creditors") amounting to approximately RM65 million via issuance of RM32.5 million worth of new Sumatec Shares "Proposed Debt Restructuring").

(the Proposed PSC and the above proposals shall collectively be known as "the Proposed Regularisation Exercise")

### **3. SALIENT TERMS OF THE FRAMEWORK AGREEMENT**

#### **3.1 The PSC**

The PSC which essentially is a 50:50 profit sharing venture after cost recovery shall be entered into between Sumatec and COG wherein COG shall appoint Sumatec as the production contractor to undertake the commercial scale development of Shelly Oil Field for the production of oil and gas under the following salient terms:-

**1. Parties to the PSC**

- a) Concession Owner ("Owner"): COG  
b) Contractor: Sumatec

**2. Terms of Contract:**

Until 25 August 2025 (subject to extension) ("PSC Term")

**3. Sumatec's share of Profit Oil<sup>^</sup>**

- a) Year 1 and Year 2 of the PSC Term: 100%  
b) Year 3 onwards of the PSC Term: 50%

<sup>^</sup> *Profit Oil is defined as the sales proceeds of the crude oil, condensate and/or natural gas minus subsurface taxes to the Government, royalties to COG and cost recovery of the Contractor*

**4. Payments to Owner:**

The Contractor is required to pay the Owner signature bonus, performance deposit and reimbursement of COG and MELL's cost of exploration and development of the Shelly Oil Field, the final quantum of which are subject to negotiation and due diligence.

### **3.2 Condition Precedents**

The Framework Agreement is conditional upon the following being fulfilled within 6 months from the date of the Framework Agreement ("Conditions Cut Off Date") save for paragraph (b) and (d) of below:

- (a) the approval of Bursa Securities for the Proposed Regularisation Exercise;
- (b) the award of the PSC to Sumatec by COG within 30 days from the date of the Framework Agreement;
- (c) the approval of the Creditors for the Proposed Debt Restructuring;
- (d) MELL and SRB being satisfied with the outcome of the Due Diligence Review (as set out under Section 3.3 below) to be carried by their respective consultants and advisers on SRB and COG (as the case may be);
- (e) the approval of the shareholders of Sumatec for the Proposed Regularisation Exercise;
- (f) the approval of the Board of Directors of MELL for the Proposed Regularisation Exercise;
- (g) the sanction of the High Court of Malaya for the Proposed Capital Reduction pursuant to Section 64 of the Companies Act, 1965;
- (h) the execution of agreements, arrangements and other documents between Sumatec and MELL, and Sumatec and the Creditors, upon the terms and conditions acceptable to the respective parties, which are necessary for the implementation of the Proposed Regularisation Exercise in accordance with the terms and conditions of the Framework Agreement (if required); and
- (i) the approval of any other relevant authorities to be agreed between the parties to the Framework Agreement (if required).

### **3.3. Due Diligence Review**

Both Sumatec and MELL agree that they shall undertake the following due diligence exercise in respect of the following matters within 30 days from the date of Framework Agreement:

- (a) due diligence on COG and MELL concerning legal, technical and financial by Sumatec; and
- (b) due diligence on Sumatec concerning legal, technical and financial by MELL;

which due diligence shall be to the satisfaction to both Sumatec and MELL upon which they shall embark on the Proposed Regularisation Exercise.

### **3.4 Exclusivity**

During the term of the Framework Agreement neither party (i.e. Sumatec and COG) shall either directly or indirectly and whether individually or otherwise shall enter into any transaction and/or arrangement of similar kind with any other party.

### **3.5 Termination**

If a party to the Framework Agreement ("Defaulting Party"):

- (a) is in breach of any terms of the Framework Agreement;
- (b) in the case of the Defaulting Party, any of the representations, warranties and undertakings contained in the Framework Agreement are false, incorrect or incomplete such as to render such representations, warranties and undertakings misleading in a material respect;
- (c) wilfully fails, neglects and/or refuses to observe, perform, implement, proceed with or carry into effect all or any part of the Proposed Regularisation Plan in accordance with the terms set out in the Framework Agreement; and
- (d) wilfully fails, neglects and/or refuses to execute any document necessary or expedient for the implementation of the Proposed Regularisation Exercise.

and the Defaulting Party fails to remedy such default within 14 days after the other Party ("Non-Defaulting Party") has given that Defaulting Party written notice of such default, the Non-Defaulting Party may give written notice to the Defaulting Party to terminate the Framework Agreement forthwith and thereafter the Non-Defaulting Party shall be entitled to any appropriate remedies as provided under the laws.

## **4. RATIONALE FOR THE PROPOSED PSC**

Sumatec has capability in constructing petroleum bulk storage depots, gas terminals, petrochemical plants, waste water treatment facilities, oil & gas pipeline and oil field surface facilities. Sumatec has more than 25 years expertise in all crucial areas of engineering, procurement, planning, construction, commissioning and maintenance of oil and gas related projects and it has carried out projects in Turkmenistan, Azerbaijan as well as in Africa. Accordingly, the undertaking of the Proposed PSC is within the capability of the Company and the PSC will provide stable recurring income to facilitate the rejuvenation of the Company's operations.

Further, the Proposed PSC forms an integral part of the Proposed Regularisation Exercise which is expected to return Sumatec to a better and sustainable financial standing and profitability, thereby benefiting all stakeholders of the Company.

## **5. EFFECTS OF THE PROPOSED REGULARISATION EXERCISE**

The proforma effects of the Proposed Regularisation Exercise on the share capital, net assets, dividend, gearing and substantial shareholdings of the Company can only be determined upon finalisation of the terms of the Proposed Regularisation Exercise and the award of the PSC to Sumatec. A detailed announcement will be made in due course upon finalisation of the aforesaid terms.

The award of the PSC which is part of the Proposed Regularisation Plan is expected to contribute positively to the future earnings of Sumatec.

## **6. CONDITIONS OF THE PROPOSED REGULARISATION EXERCISE**

The Proposed Regularisation Exercise will be subject to and conditional upon approvals from, amongst others, the following:-

- (i) Bursa Securities;
- (ii) the shareholders of Sumatec;
- (iii) the Creditors;
- (iv) the sanction and confirmation of the High Court of Malaya; and
- (v) other relevant authorities.

All the components of the Proposed Regularisation Exercise are inter-conditional with each other.

## **7. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST**

None of the Directors and/or substantial shareholders of Sumatec and persons connected with the Directors and substantial shareholders have any interest, direct or indirect, in the Proposed Regularisation Exercise.

## **8. OTHER MATTERS**

An announcement in compliance with the relevant provisions of the Listing Requirements of Main Market Bursa Securities in relation to the Proposed Regularisation Exercise including prospects, risk and further details on Shelly Oil Field will be made in due course upon the finalisation of the detailed terms

of the Proposed Regularisation Exercise which is dependent on inter alia, the results of the Due Diligence Review and the execution of the finalised PSC.

Shareholders of Sumatec should note that there can be no assurance that the Proposed PSC will materialise and the Proposed Regularisation Exercise will be implemented as envisaged in the Framework Agreement as the detailed terms can only be finalised upon the availability of the reports of the Due Diligence Review.

The Board of Sumatec shall appoint an independent financial adviser to evaluate the financial terms of the Proposed PSC and comment as to whether the financial terms of the Proposed PSC is fair and reasonable to the shareholders of the Company.

## **9. DOCUMENTS FOR INSPECTION**

The Framework Agreement will be made available for inspection at the Company's registered office at Level 15-2, Bangunan Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur during normal office hours from Monday to Friday (except public holidays) for a period of 3 months from the date of this announcement.

This announcement is dated 29 November 2011.