

## RH PETROGAS LIMITED

(Company Registration Number: 198701138Z)

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### RESPONSE TO SIAS QUESTIONS ON ANNUAL REPORT 2022

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The Board of Directors (the “**Board**”) of RH Petrogas Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce the following in response to the questions raised by the Securities Investors Association (Singapore) (“**SIAS**”) pertaining to the Company’s annual report for the financial year ended 31 December 2022 (“**AR2022**”).

#### **SIAS Question 1 (i):**

Would the board/management provide shareholders greater clarity on the following operational and financial matters? Specifically:

- (i) **Realised oil price:** The group achieved a realised oil price of US\$95 per barrel in 2022, representing an increase from US\$70 per barrel in 2021. **Has management implemented any strategies to optimise the realised oil price, and if so, what are they?** Furthermore, the group did not engage in any derivative commodity contracts to hedge against its commodity price risk in both 2021 and 2022 (as stated on page 97). **Does the group enter into any forward sales to manage its commodity price risk? What guidance has the board given to management in this aspect?**

#### **Company’s Response**

Oil produced by the Group is sold at a price benchmarked to the monthly Indonesian Crude Price published by Indonesia’s Ministry of Energy and Mineral Resources. The Group is exposed to the risk of fluctuations in prevailing market commodity prices, as mentioned on page 97 of the AR2022. Currently, the Group does not enter into any forward sales nor engage in any derivative commodity contracts to manage its commodity price risk.

Although some volatility in oil prices is to be expected, in the near term the Group is of the view that oil prices will continue to be underpinned by the tight market conditions caused by long-term structural imbalances in supply and demand. The Board and Management will continue to monitor and review this position as necessary.

#### **SIAS Question 1 (ii):**

- (ii) **Natural production decline:** With increased field activities, the group’s cost of production increased to US\$33.40 per barrel in 2022 as compared to US\$27.30 per barrel in 2021. **Is the natural production decline of the mature fields in line with management’s projections? Is there a risk that production optimisation techniques may yield diminishing marginal returns?**

### **Company's Response**

For the past few years, the Group has been successful in counteracting the natural decline of its mature fields to not only maintain but also increase its net oil production. This was done through various well intervention programs including well reperforation, acidisation, surfactant injection, as well as a rigorous regime of pump services and replacement. During 2022, the global inflationary pressure which affected many companies had also impacted on the Group's operations, resulting in an increase in the costs of materials and services. The Group had also stepped up its repair and maintenance programmes in 2022, some of which had previously been deferred due to the pandemic. As a result of the aforementioned, the unit cost of production for 2022 had increased.

Besides the well intervention programmes, the Group also seeks to increase production through exploration and development drillings and is planning to drill three exploration wells and one development well this year.

### **SIAS Question 1 (iii):**

- (iii) **Natural gas:** The group is carrying out exploration work at Kepala Burung PSC and Salawati PSC to source for gas to supply to Sorong and its surrounding areas. Sorong will house a proposed new nickel processing park and the group can play a supporting part in the Sorong SEZ and the industrial development of the Sorong District of West Papua. **Has the board carried out a risk assessment of the proposed investment? Will the success of the investment be heavily reliant on the growth of the nickel industry in Sorong, or are there other factors that could drive demand for gas in the region?**

### **Company's Response**

The Group wishes to clarify that the planned exploration drilling for the deep impact gas prospect in 2023 is not contingent on the proposed new nickel processing park or the industrial development of the Sorong District. Due to the proximity of the Sorong SEZ (Special Economic Zone) to the Arar sub-block of the Group's Kepala Burung Production Sharing Contract ("**PSC**"), the Group is the closest potential supplier of gas for the energy needs of the proposed new nickel processing park.

Even without the proposed new nickel processing park, the Group is committed to drill the deep gas prospect which has the potential to unlock a significant amount of gas resources within its block. Should the exploration efforts be successful, the Group will be better positioned to explore various options to monetise the gas discovery given that natural gas will continue to play a significant role in the world's future energy mix for many decades to come.

### **SIAS Question 2 (i), (ii):**

Based on SGX's website, the company has not paid any dividends in over two decades, with the last dividend in 1999 (and followed by a rights issue in 2002).

As at 31 December 2022, the company is in a net cash position of US\$19.3 million (page 98; Note 30 Capital management). Cash and cash equivalents at the end of the financial year amounted to US\$57.3 million (page 52; Consolidated cash flow statement).

The company does not have a fixed dividend policy. The group is currently focused on conserving its cash to fund exploration and development work programs that are critical to its strategy of organic reserve and production growth over the next few years. As per the new Kepala Burung PSC and Salawati PSC agreements, which began in 2020, the group has committed to conducting an agreed set of exploration work programs in the two blocks during the first five contract years, with a firm financial obligation of approximately US\$68.2 million net to the group's working interests. The group plans to drill three exploration wells and one development well in 2023, subject to any unforeseen circumstances.

- (i) **Considering that the group has not paid a dividend in 24 years, what deliberations did the board have over the payment of dividends in 2022 as the group has turned a net cash position?**
- (ii) **Can the board provide an update on how it plans to strike a balance between investing in the group's growth (through funding exploration and development work programs) and generating returns for shareholders in the form of steady dividends?**

### **Company's Response**

The decision regarding dividend payment is dependent upon several external and internal factors, such as the Group's capital expenditure requirements and financial flexibility, and economic conditions. In this aspect, the Group wishes to emphasise that upstream oil and gas is a capital-intensive business, and under the current market climate, there are challenges for the Group in obtaining external financing such as from banks and other financial institutions due to their ESG (environmental, social and governance) considerations. The Group therefore needs to ensure that it has sufficient internal resources to fund its near-term work commitment, which is in the best interests of its shareholders and stakeholders. The work commitment includes the drilling of exploration and development wells, which would be accretive to the Group if successful.

The Group stands committed to delivering sustainable value to all its stakeholders and the Board plans to conduct a further review of this matter following the close of 2023. This approach allows the Board to have better visibility on the Group's financial position and capital expenditure requirements and enables the Board and Management to establish a position moving forward.

### **SIAS Question 3 (i):**

As noted in the corporate governance report, Mr Yeo Yun Seng Bernard and Mr Lee Hock Lye have each served on the board for an aggregate of more than nine years since their first appointment as directors of the company.

Mr Yeo Yun Seng Bernard and Mr Lee Hock Lye were first appointed on 1 November 2001 and 27 November 2003 respectively. The directors would have served on the board for over 21 years and over 19 years respectively.

In addition, Mr Achmad Lukman Kartanegara would also reach the nine-year limit on 22 August 2023.

The transition arrangement would allow Mr Yeo Yun Seng Bernard and Mr Lee Hock Lye to continue serving on the board as independent directors until the company's AGM for the financial year ending on 31 December 2023.

The nominating committee (NC) has been reviewing and undertaking the progressive renewal of the board, including the nine-year limit on the tenure of independent directors in its succession planning. The committee has made preparations for a phased and progressive renewal of the board, and as part of this effort, Mr Khoo Kar Khoon was appointed as an independent director of the company on 8 February 2023.

- (i) **Would the board, particularly the NC, elaborate further on the selection criteria, board diversity considerations and the search and nomination process, that led to the appointment of Mr Khoo Kar Khoon, as required in the SGX template?**

### **Company's Response**

In 2022, the Nominating Committee ("NC") undertook an exercise to review the Board's core competencies and skill sets, including current and potential competencies and diversity gap analysis. This exercise was to assist the NC to better understand the profile of the candidate(s) that the Company should be looking for, and to ensure that Directors as a group had an appropriate balance and diversity of skills, experience, knowledge, background and core competencies required by the Group, with the aim of maintaining a balance of perspective, experience, expertise and diversity. A Directors' skill sets matrix was developed of the candidate(s) sought by the Company. This facilitated the targeted outreach and recruitment efforts by the NC. An example of the preferred Director's profile was also published on the SID's (Singapore Institute of Directors) Board Listing/Opportunities web page. The NC has in place a rigorous screening and selection process to identify the best candidates, which includes the careful review of resumes, the conduct of interviews, the assessment of and thorough discussion of candidates and the undertaking of reference checks. Based on Mr Khoo Kar Khoon's skill sets, profile, business experience and references, the NC was of the view that Mr Khoo was a suitable candidate for appointment to the Board. As was explained in the Corporate Governance Report of the AR2022, the NC has in place preparations for a phased and progressive renewal of the Board. In this regard, Mr Khoo was appointed as Independent Director of the Company on 8 February 2023. In due course the Company will make the relevant announcement(s) on the further renewal of the Board via the SGXNet platform.

**SIAS Question 3 (ii):**

- (ii) **Has the NC reviewed the current competency matrix of the board and identified any gaps in skills or competencies that need to be addressed in future director appointments?**

**Company's Response**

Yes, the NC has reviewed the current competency matrix of the Board and identified any gaps in skills or competencies that need to be addressed in future Director appointments. The NC has been reviewing and undertaking the progressive renewal of the Board. As part of this Board renewal exercise, the NC in 2022 undertook an exercise to review the Board's core competencies and skill sets covering current and potential competencies and diversity gap analysis. This is to ensure that Directors as a group have an appropriate balance and diversity of skills, experience, knowledge, background and core competencies required by the Group, with the aim of maintaining a balance of perspective, experience, expertise and diversity.

**SIAS Question 3 (iii):**

- (iii) **Can the NC elaborate further on the search and nomination process for directors, especially independent directors? Will the NC be using a third- party search firm and/or professional body to cast its net wider for potential candidates?**

**Company's Response**

Following the exercise undertaken by the NC to review the Board's core competencies and skill sets covering current and potential skill sets and/or diversity gap analysis, a Directors' skill sets matrix was developed of the candidate(s) sought by the Company. The relevant requirements were also published on the SID's Board Listing/Opportunities web page. In addition to SID's Board Listing and Board appointment services, the NC has also discussed the use of third-party search firms to assist in the search for potential candidates. The NC is open to and has considered such an option. The key to conducting both internal and external searches is to allow the Company to be able to find the best and most suitable candidate(s) for Board appointment. All potential candidates, whether via internal or external searches, will be thoroughly evaluated based on considerations such as their qualifications, skill sets, experience, the diversity which the candidate brings and the candidate's fit with the Company. The selected candidate(s) should also understand and be suitably aligned with the Company's values, vision, and long-term mission and objectives.

**BY ORDER OF THE BOARD**

Chang Cheng-Hsing Francis  
Group CEO & Executive Director  
22 April 2023