interra resources

INTERRA RESOURCES LIMITED
Company Registration No. 197300166Z

SGX ANNOUNCEMENT
SGX Code: Interra Res (5GI)

23 August 2014

THE PROPOSED ACQUISITION OF EQUITY INTERESTS IN PT BENAKAT OIL, PT INDELBERG INDONESIA, PT BINTANG SUKSES NASIONAL AND PT BENAKAT BARAT PETROLEUM

The board of directors (the “**Board**”) of Interra Resources Limited (the “**Company**”) refers to its announcements dated 3 September 2013, 16 September 2013, 23 September 2013, 2 June 2014, 2 July 2014 and 1 August 2014 relating to the Proposed Acquisition (the “**Announcements**”). Capitalised terms not defined herein shall bear the same meanings ascribed to them in the Announcements.

1. SUPPLEMENTAL AGREEMENT

The Board wishes to announce that GII has on 22 August 2014 entered into a supplemental agreement (the “**Supplemental Agreement**”) with BP, PT Benakat Integra TBK (formerly known as PT Benakat Petroleum Energy TBK), WY, AM, BO, II, BSN and BBP to amend the terms of the SPA. Pursuant to the Supplemental Agreement, the key amendments to the SPA include the following:

1.1 New Purchase Price

The parties have mutually agreed to revise the consideration for the Proposed Acquisition from US$78.5 million to US$60 million (the “**New Purchase Price**”) and to include post Completion incentive payments as set out under paragraph 1.3 of this announcement. The revision to the Purchase Price was arrived at after considering the results of the Qualified Person’s Report (the “**Updated Reserve Report**”) and the economic evaluation report on the West Benakat KSO (the “**Economic Evaluation Report**”) prepared by Gaffney Cline & Associates (“**GCA**”) dated 21 August 2014. Please refer to paragraph 4 of this announcement for discussion on the Updated Reserve Report and the Economic Evaluation Report.

The New Purchase Price shall be satisfied in the following manner:

(a) On the Completion Date, US$54 million shall be paid in cash, out of which US$10 million shall be withheld and placed into an escrow account pending determination of the adjustments to be made to the New Purchase Price after the Completion Date (the “**Withheld Sum**”);

(b) On the third business day after the date on which the Completion NTA is agreed or determined, US$6 million shall be satisfied by the issuance and allotment of the Consideration Shares; and:

(i) the sum equal to the balance (if any) of the New Purchase Price after adjustment and after deducting US$50 million shall be paid to the Sellers from the Withheld Sum, and if such sum payable to the Sellers exceeds

the Withheld Sum, GII shall pay the amount of the shortfall to the Sellers; or

(ii) if the New Purchase Price after adjustment is less than US$50 million, the Sellers shall repay GII a sum equal to the excess plus interest on the amount equal to the excess at the rate on which interest has been earned on the escrow account.

Based on the issue price of the Consideration Shares at S$0.4591 per Share as provided in the SPA, 16,687,868 Shares will be issued to the Sellers. The Consideration Shares represent approximately 3.61% of the enlarged number of Shares following Completion.

The Company will be submitting an application to the SGX-ST for the listing and quotation of the Consideration Shares on the Official List of the SGX-ST. The Company will make the necessary announcements once the approval-in-principle for the listing and quotation of the Consideration Shares has been obtained from the SGX-ST.

1.2 Adjustments to New Purchase Price

The Supplemental Agreement stipulates that the following sums shall be deducted from the Completion NTA:

(a) Value-added tax ("**VAT**") which is due and payable to the revenue department, and the parties have agreed to increase the Completion NTA by such amounts reimbursable by Pertamina with respect to the VAT, and shall be treated as an asset under the Completion NTA and Completion Accounts;

(b) Certain receivables relating to a loan to an ex-employee and the claims for VAT reimbursement and cost recovery under the joint operating agreement between II and Pertamina;

(c) The estimated amount of post-employment benefits payable by the Group pursuant to Indonesian labour law; and

(d) Half of all costs incurred by the Group in relation to the extension of the time for BBP to complete the Work Program as defined in the West Benakat KSO.

1.3 Post Completion Incentive Payment

The Supplemental Agreement provides that GII will make further payments ("**Earnout Payments**") to the Sellers if 2P oil reserves and 2P gas reserves are discovered at the Baung prospect structure ("**Baung**") located within the area covered by and defined in the West Benakat KSO after the completion of a work program to be carried out for the exploration, operation and/or investment activities in respect of Baung which shall at minimum include the drilling at Baung of one exploration well and a maximum of two appraisal wells in the event of the discovery

of petroleum, natural gas and related hydrocarbons and all other substances produced in association therewith or any of them (the "**Work Plan**"). The Work Plan relating to the 2P oil reserves and the 2P gas reserves shall be carried out within 1 year and 3 years from the Completion Date respectively.

The amount of Earnout Payments payable by GII shall be equivalent to the following:

(a) In respect of 2P oil reserves discovered at Baung,

  (i) US$5.00 per barrel of oil equivalent ("**BOE**") for the first 4 million barrels of oil equivalent ("**MMBOE**"); and

  (ii) US$3.00 per BOE for 2P oil reserves exceeding 4 MMBOE; and

(b) In respect of 2P gas reserves discovered at Baung,

  (i) an amount equal to 5 multiplied by the equivalent economic value per BOE of 2P gas to the economic value per BOE of 2P oil to be determined and set out by GCA ("**Equivalent Gas to Oil Economic Value**"), multiplied by the total BOE of 2P gas reserves, up to US$20 million; and

  (ii) for any further amounts in excess of US$20 million under paragraph 1.3(b)(i), an amount equal to 3 multiplied by the Equivalent Gas to Oil Economic Value, multiplied by the remaining total BOE of 2P gas reserves not included in paragraph 1.3(b)(i) above.

The Earnout Payments shall be settled within 60 days after the 2P oil reserves and the 2P gas reserves has been determined, by cash, by allotment of such number of new Shares which has an aggregate value equivalent to the Earnout Payments when multiplied by the weighted average price of the Share for trades done on the SGX-ST over a period of 10 business days prior to the determination of the 2P oil reserves and the 2P gas reserves of Baung, or by a combination of cash and allotment of new Shares.

1.4 Other Amendments

The Supplemental Agreement additionally provides for the following:

(a) In addition to the conditions under the SPA, the Sellers have to ensure that Pertamina grants an extension of time to 15 July 2015 for BBP to complete the Work Program as defined in the West Benakat KSO;

(b) PT Benakat Integra Tbk will provide an indemnity to GII which is unlimited by time, specifically covering any corporate and dividend tax, and all interests, costs, penalties, fines or other charges on any corporate and dividend tax and VAT due and payable by BBP before the Completion Date;

(c) PT Benakat Integra Tbk will provide an indemnity to GII for claims for VAT reimbursements submitted by BBP prior to the Completion Date which are not received by BBP within 12 months from the Completion Date and for certain VAT reimbursements which will the Company will submit no later than 6 months from the Completion Date which are not received by BBP within 18 months from the date such claims were submitted to Pertamina; and

(d) The Longstop Date shall be extended to 2 December 2014.

2. REVISED RELATIVE FIGURES PURSUANT TO RULE 1006

Due to the amendment to the Purchase Price, the calculation of the relative figures pursuant to Rule 1006 of the Listing Manual for the Proposed Acquisition has been revised and is set out below. As the relative figures under Rule 1006(c) exceed 20%, the Proposed Acquisition is considered a major transaction as defined under Chapter 10 of the Listing Manual and must be made conditional upon approval of the Shareholders in general meeting pursuant to Rule 1014 of the Listing Manual.

Rule 1006	Basis	Relative Figure
(a)	The net asset value of the assets to be disposed of, compared with the Group's net asset value[1]	Not applicable
(b)	The net profit attributable to the assets acquired, compared with the Group's net profit[2]	19.64%
(c)	The aggregate value of the consideration[3] given, compared with the Company's market capitalisation[4]	48.74%
(d)	The number of equity securities[5] issued by the Company as consideration, compared with the number of equity securities previously in issue	3.74%
(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves[1]	Not applicable

Notes:

(1) Not applicable as there is no disposal of assets.

(2) Under Rule 1002(3)(b) of the Listing Manual, "net profits" is defined as a profit or loss before income tax, minority interest and extraordinary items. Based on the audited financial statements of BO and the Group as at 31 December 2013, the net profit before tax was US$2,075,604 and US$10,568,542 respectively. The net profit before tax of BO was converted from IDR to US$ at an exchange rate of US$1:IDR12,166 as at 31 December 2013.

(3) The relative figure used for Rule 1006(c) of the Listing Manual is based on the assumption that there is no adjustment to the New Purchase Price. The New Purchase Price without adjustment is US$60 million.

(4) The market capitalisation of the Company is based on 446,170,357 Shares in issue as at 21 August 2014, and the last traded price per Share on the SGX-ST on 21 August 2014 of S$0.345 and converted at the exchange rate of US$1:S$1.2504 as at 21 August 2014.

(5) The relative figure used for Rule 1006(d) of the Listing Manual is calculated on the assumption that there is no adjustment to the New Purchase Price. The New Purchase Price without adjustment converted at the exchange rate of US$1:S$1.2769 as at 3 September 2013 is S$76,614,000 and on that basis, 16,687,868 Consideration Shares will be issued at the issue price of S$0.4591 per Share being 10% of the Purchase Price.

3. REVISED FINANCIAL EFFECTS OF THE PROPOSED ACQUISTION

The financial effects of the Proposed Acquisition on the Company's share capital and the Group's net tangible assets ("**NTA**") per Share, earnings per Share ("**EPS**") and gearing in respect of the financial year ended 31 December 2013 ("**FY2013**") have been revised following the amendments set out in the Supplemental Agreement and are based on the following assumptions:

(a) The financial effects of the Proposed Acquisition are based on the Group's audited financial statements for FY2013 and on the audited financial statements of the Target Group for FY2013 which was converted from IDR to US$ at an exchange rate of US$1:IDR12,166;

(b) No adjustments have been made to align any differences that may result from the adoption of different accounting standards and policies by the Group and the Target Group;

(c) For the purpose of computing the effect on the Company's share capital after the issue and allotment of the Consideration Shares, the number of Consideration Shares issued is calculated based on the New Purchase Price before adjustment;

(d) For the purpose of computing the NTA and gearing of the Group after Completion, it is assumed that the Proposed Acquisition was completed on 31 December 2013 and the Cash Consideration is financed by bank borrowings; and

(e) For the purpose of computing the earnings attributable to the Shareholders and basic EPS of the Group after Completion, it is assumed that the Proposed Acquisition was completed on 1 January 2013.

The financial effects of the Proposed Acquisition set out below are purely for illustrative purposes and should not be taken as an indication of the actual financial performance of the Group following the Proposed Acquisition nor a projection of the future financial performance or position of the Group after Completion.

3.1 Effect on Share Capital

Share Capital	**No. of Shares ('000)**	**US$'000**
Total number of issued Shares as at the date of this announcement	446,170	62,138
Add: Consideration Shares	16,688	6,000
Enlarged total number of issued Shares after the Proposed Acquisition	462,858	68,138

3.2 Effect on NTA per Share

FY2013	Before the Proposed Acquisition	After the Proposed Acquisition
NTA (US$'000)	77,064	70,524
Weighted average number of issued Shares ('000)	446,170	462,858
NTA per Share (US cents)	17.272	15.237

3.3 Effect on EPS

FY2013	Before the Proposed Acquisition	After the Proposed Acquisition
Earnings attributable to the Shareholders (US$'000)	7,001	8,932
Weighted average number of issued Shares ('000)	445,752	462,440
EPS (US cents)	1.571	1.932

3.4 Effect on Gearing

As at 31 December 2013	Before the Proposed Acquisition	After the Proposed Acquisition
Total borrowings (US$'000)	–	54,000
Shareholders' fund (US$'000)	78,625	84,625
Gearing ratio (times)	–	0.638

4. UPDATED RESERVE REPORT AND ECONOMIC EVALUATION REPORT

The Board further wishes to announce that the Updated Reserve Report and the Economic Evaluation Report have been completed by GCA on 21 August 2014.

4.1 Updated Reserve Report

The Updated Reserve Report has been prepared in accordance with the requirements of Practice Note 6.3 of the Listing Manual and conforms to the standards promulgated by SPE-PRMS as defined under the Listing Manual.

The table below summarises the gross reserves of the Benakat Barat Block as stated in the Updated Reserve Report which were assessed by GCA based on the following assumptions:

(a) The effective date of the reserves is 31 March 2014;

(b) Costs escalate at 2.0% per annum from 1 January 2015;

(c) GCA's 2Q 2014 SPE Forecast Price Scenario for Brent crude oil, which assumes escalated prices and costs, adjusted for a quality differential to the prevalent Sumatra Light Crude ("**SLC**") price in the area; and

(d) the overall long term work programme will be executed as currently planned by BBP.

Case	Gross Reserves (mmstb)
Proved ("**1P**")	8.18
Proved + Probable ("**2P**")	11.99
Proved + Probable + Possible ("**3P**")	20.29

Notes:

(1) Gross reserves represent 100% of the amount of oil commercially recoverable by the particular development plan adopted for the 1P, 2P or 3P reserves estimation after economic cut-offs have been applied. Gross volumes include volumes attributable to third parties and government and agreed contract baseline production and thus contain volumes which are not attributable to BBP.

(2) "mmstb" means millions of stock tank barrels.

All reserves volumes reported were subject to Economic Limit Tests (ELTs) and the terms of the West Benakat KSO, taking into account capital and operating costs, oil price and escalation factors.

Further information on the estimates of reserves and contingent resources associated with the West Benakat KSO, including the details of the key assumptions, parameters and methods used in the estimation, are set out in the Updated Reserve Report.

4.2 Economic Evaluation Report

The Economic Evaluation Report has been prepared in accordance with the requirements of Practice Note 6.3 of the Listing Manual and conforms to the standards promulgated by SPE-PRMS and the VALMIN Code, both as defined under the Listing Manual.

The Economic Evaluation Report determined the post-tax net present values ("**NPVs**") of the West Benakat KSO 1P, 2P and 3P reserves as assessed by GCA in the Updated Reserve Report, based on GCA's economic modelling of the West Benakat KSO terms. The NPVs were derived using the discounted cashflow method whereby ungeared post-tax future expected net cashflows were discounted to take into account both the risks that are inherent in those cashflows, and the time value of money. A range of discount factors varying from 8% to 15% were applied, in line with those typically used by the industry in conducting economic evaluations for petroleum properties.

While assigning contingent resources to the heavy oil identified in the deeper Lahat GW-2 sand, GCA noted that as a result of risks associated with its potential future development it had not computed any NPVs for this resource class.

Based on discount rates that range from 8% to 15%, GCA estimates the post-tax NPV for the West Benakat KSO associated with 2P reserve cases as at 31 March 2014 are in the range of US$62.19 million to US$50.77 million. The NPVs assume and are predicated on:

(a) oil sales pricing levels based on SLC price maintaining a premium of US$2.00 per barrel to GCA's 2Q 2014 SPE Forecast Price Scenario for Brent crude oil;

(b) costs escalating at 2% per annum from 1 January 2015;

(c) an unrecovered cost balance of about US$1.17 million available for cost recovery purposes as at 31 March 2014; and

(d) the relevant terms of the West Benakat KSO.

Sensitivity analyses conducted on the NPVs based on discount rates varying from 8% to 15% show that the greatest sensitivity shown in all three reserves cases is an assumption of unescalated costs and an oil price reflecting the average Brent crude oil price of the prior year (known as the Constant oil price scenario). This is because the GCA SPE Forecast Price Scenario reflects the futures price strip for Brent crude oil in the short term, and as at the end of March 2014 this was in backwardation (current prices are higher than futures prices). As such the oil prices assumed in the GCA SPE Forecast Price Scenario do not exceed those of the Constant oil price scenario until 2023 and the Constant oil price scenario yields a higher NPV. This is not dissimilar to the result yielded by GCA's SPE Forecast Price Scenario plus US$10 per barrel. Beyond this, sensitivity is greater to operating costs than capital expenditure as capital expenditure is some US$5-9 per barrel of gross field reserves, whereas operating costs is US$28-33 per barrel.

It should be noted that the NPVs assessed do not represent a GCA opinion as to the Fair Market Value of the West Benakat KSO nor any interest therein. GCA has not taken into account a number of additional factors necessary to assess market value of the West Benakat KSO in the presentation of NPVs in the Economic Evaluation Report.

5. DOCUMENTS FOR INSPECTION

A copy of the following documents will be made available for inspection during normal business hours at the Company's registered office at 1 Grange Road, #05-04 Orchard Building, Singapore 239693 for a period of 3 months commencing from the date of this announcement:

(a) Supplemental Agreement together with the SPA;

(b) Updated Reserve Report; and

(c) Economic Evaluation Report.

6. CAUTION IN TRADING

Shareholders and potential investors are advised to exercise caution when trading in the Shares. There is no certainty or assurance as at the date of this announcement that the Proposed Acquisition will be completed, or that no changes will be made to the terms thereof. The Company will make the necessary announcements when there are further developments on the Proposed Acquisition. Shareholders are advised to read this announcement and any further announcements by the Company carefully. Persons who are in doubt as to the action they should take should consult their legal, financial, tax or other professional advisers.

By Order of the Board of Directors of
INTERRA RESOURCES LIMITED

Marcel Tjia
Chief Executive Officer

GCA is an independent international energy advisory group of more than 50 years' standing, whose expertise includes petroleum reservoir evaluation and economic analysis.

The qualified person with overall responsibility for the Updated Reserve Report and Economic Evaluation Report is Mr Robert George, the Vice President of GCA. He is a member of the American Association of Petroleum Geologists (AAPG), the Petroleum Exploration Society of Great Britain (PESGB), the Society of Petroleum Engineers (SPE) and the Association of International Petroleum Negotiators (AIPN) and has over 40 years' industry experience in the estimation, assessment and evaluation of oil and gas that is under consideration and to the activity which he is undertaking to qualify as a qualified person as defined under the Listing Manual, and satisfies the criterion under rule 210(9)(b) of the Listing Manual to qualify as an independent qualified person. The Updated Reserve Report and Economic Evaluation Report were reviewed by Mr David Ahye and Mr Stephen M Lane, and approved by Mr Robert George. The information in the Updated Reserve Report, Economic Evaluation Report and this announcement is based on information compiled by persons who are or were at the time professional associates of GCA, all of whom hold degrees in geoscience, petroleum engineering or related disciplines and have 15 years or more experience. They include Ms Nila Murti, Mr David Waldo, Mr Raymond Tsuen, Mr Andrew Duncan and Mr Paul McGhee.

Mr George has reviewed and approved the technical information contained in this announcement and consents to the inclusion of the matters based on his information in the form and context in which it appears. Mr George further confirms that the forecast crude oil prices used in arriving at the valuations were arrived at after due and careful enquiry and reflects GCA's view of a reasonable outlook of the future.

About Interra

Interra Resources Limited, a Singapore-incorporated company listed on SGX Mainboard, is engaged in the business of oil and gas exploration and production (E&P). Our E&P activities include oil and gas production, field development and exploration. We are positioning ourselves to become a leading regional independent producer of oil and gas.