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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, stock broker, solicitor, professional accountant or other appropriate independent advisers.

If you have sold or transferred all your shares in **IDG ENERGY INVESTMENT GROUP LIMITED** (formerly known as **SHUN CHEONG HOLDINGS LIMITED**), you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

IDG Energy
IDG ENERGY INVESTMENT GROUP LIMITED
IDG 能源投資集團有限公司*
(formerly known as “Shun Cheong Holdings Limited 順昌集團有限公司”*)
(Incorporated in Bermuda with limited liability)
(Stock Code: 650)

**VERY SUBSTANTIAL ACQUISITION IN RELATION TO
THE ACQUISITION OF OIL AND GAS PRODUCING ASSETS
IN THE US PURSUANT TO
THE ASSET PURCHASE AGREEMENT
AND
NOTICE OF SGM**

A letter from the Board is set out on pages 10 to 30 of this circular.

A notice convening the SGM to be held at United Conference Centre Limited — Room 1, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong at 10:00 a.m. on Friday, 31 March 2017 is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar of the Company, Computershare Hong Kong Services Limited, at 17M/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereon if you so desire and, in such event, the instrument appointing a proxy will be deemed to be revoked.

* For identification purpose only

9 March 2017

CONTENTS

	<i>Page</i>
DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS	1
LETTER FROM THE BOARD	10
APPENDIX I — FURTHER INFORMATION ON THE TARGET ASSETS ...	I-1
APPENDIX II — UNAUDITED PROFIT AND LOSS STATEMENTS ON THE IDENTIFIABLE NET INCOME STREAM IN RELATION TO THE TARGET ASSETS	II-1
APPENDIX III — FINANCIAL INFORMATION OF THE GROUP	III-1
APPENDIX IV — UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP	IV-1
APPENDIX V — COMPETENT PERSON’S REPORT	V-1
APPENDIX VI — VALUATION REPORT	VI-1
APPENDIX VII — GENERAL INFORMATION	VII-1
NOTICE OF SGM	SGM-1

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

A. DEFINITIONS

In this circular, unless the context otherwise requires, the following terms shall have the meanings set out below:

“Acquisition”	the proposed acquisition of the Target Assets from the Sellers by the Buyer pursuant to the terms and conditions of the APA
“Alternative Transaction”	other than the Acquisition, whether by one transaction or any series of transactions, any (i) sale, transfer, assignment, or other disposition, directly or indirectly, of all or a material portion of the Target Assets of one or more of the Sellers to any person or persons other than the Buyer or Buyer’s designee, (ii) issuance, sale, transfer or other disposition, in each case by any Seller, of any class of equity securities, ownership interests or voting securities of any Seller, (iii) merger, consolidation, recapitalization, business combination, partnership, joint venture, reorganization, restructuring, dissolution, liquidation, tender offer, share exchange, debt-for-equity exchange, rights offering, structured dismissal or other similar transaction involving any Seller, (iv) the consummation of any state court foreclosure action as to any material portion of the Target Assets, (v) successful credit bid transaction with respect to the Target Assets, etc., unless otherwise permitted by the APA
“APA”	the Asset Purchase Agreement entered into by the Buyer and the Sellers on 21 November 2016 (local time in Houston, Texas) in respect of the Acquisition
“Block 212”	an area of approximately 212.9 km ² which forms part of a total area of approximately 591 km ² located in 中國內蒙古自治區錫林郭勒盟東烏珠穆沁旗及西烏珠穆沁旗 (East Ujimqin Banner and West Ujimqin Banner, Xilin Gol League, Inner Mongolia Autonomous Region, the PRC*), details of which have been disclosed in the RTO Circular
“Board”	the board of Directors
“Business Day”	any day, excluding Saturdays, Sundays and legal holidays, on which commercial banks are open for business in New York, Beijing and Hong Kong
“Bye-laws”	bye-laws of the Company as may be amended from time to time

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Capex”	capital expenditure(s)
“CFIUS”	the Committee on Foreign Investment in the United States
“CFIUS Approval”	the written notification shall have been received by the Buyer and the Sellers (or their respective counsel) that (a) CFIUS has concluded its view or investigation of the transactions contemplated by the APA and that (i) such transactions do not constitute a “covered transactions” (i.e., any proposed transaction viewed by CFIUS that would result in control of a US business by a foreign acquirer), (ii) there are no unresolved national security issues with respect to such transactions, or (iii) the United States government will not take action to prevent, condition or suspend such transactions; or (b) the President of the United States has decided not to take any action to condition, suspend or prohibit the transactions contemplated by the APA; provided that such written notice shall not be required if (x) the period under DPA Section 721 during which CFIUS or the President of the United States must act shall have expired without any such action being threatened, announced or taken or (y) the President of the United States shall have announced (or otherwise communicated, directly or indirectly, to any of the Sellers or the Buyer) a decision not to take any action to condition, suspend or prohibit such transactions
“Closing”	the closing of the APA, which shall take place, as soon as possible, but in no event later than two (2) Business Days after the fulfilment, or if applicable, waiver of the Conditions (other than those Conditions cannot be satisfied until the time of the Closing, but subject to the satisfaction or waiver), or at such other time as the Sellers and the Buyer may agree in writing
“Closing Date”	the date of the Closing
“Company” or “Buyer”	IDG Energy Investment Group Limited (formerly known as Shun Cheong Holdings Limited), a company incorporated in Bermuda with limited liability whose Ordinary Shares are listed on the Main Board of the Stock Exchange, which is the buyer under the APA
“Competent Evaluator”	has the meaning ascribed to it under Chapter 18 of the Listing Rules

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Competent Person”	has the meaning ascribed to it under Chapter 18 of the Listing Rules
“Competent Person’s Report”	the report prepared by Ryder Scott on the Target Assets in compliance with Chapter 18 of the Listing Rules, the text of which is set out in “Appendix V — Competent Person’s Report” to this circular
“Condition(s)”	condition(s) to the Closing under the APA, details of which are set out in the section headed “The APA” in the Letter from the Board to this circular
“Controlling Shareholder” or “Offeror”	Titan Gas Technology Investment Limited, a company incorporated in the British Virgin Islands with limited liability, as the controlling shareholder of the Company, holding approximately 51.32% of the total issued share capital of the Company as at the Latest Practicable Date and the offeror as defined in the RTO Circular
“Debtor Relief Laws”	title 11 of the United States Code, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally
“Dimmit”	Stonegate Dimmit Properties, LLC, a limited liability company incorporated in Texas
“Director(s)”	the director(s) of the Company
“DisposalCo”	Dimmit/La Salle Saltwater Disposal Company, LLC, a limited liability company incorporated in Texas
“Divestment Group”	Aykens Holdings Limited, Hopland Enterprises Limited and their respective subsidiaries, details of which have been disclosed in the RTO Circular
“DPA Section 721”	section 721 of the Defense Production Act of 1950, as amended, which is codified at 50 U.S.C. § 4565, as well as the regulations promulgated pursuant thereto
“Effective Time”	7:00 a.m., central time, on 1 July 2016
“Enlarged Group”	the Group as enlarged by the Acquisition of the Target Assets upon Closing

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Escrow Agent”	certain escrow agent that is a party to the deposit escrow agreement and the post-closing escrow agreement entered into by the Buyer, the Sellers and such escrow agent
“Group”	the Company and its subsidiaries
“HK” or “Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“Hydrocarbons”	crude oil, natural gas, condensate, casinghead gas, drip gasoline, natural gasoline, petroleum, natural gas liquids, products, liquids and other hydrocarbons and other minerals and materials of every kind and description
“Insolvency Proceeding”	(a) any voluntary case or proceeding under any Debtor Relief Laws is commenced by any Seller, (b) any other voluntary insolvency, reorganization or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding is commenced by any Seller, (c) any Seller makes a general assignment for the benefit of creditors or takes any other similar action for the protection or benefit of creditors or (d) an involuntary case or proceeding under any Debtor Relief Laws is commenced against any Seller either by (i) any lender or (ii) to the extent such involuntary case or other proceeding remains undismissed for a period of thirty (30) consecutive days or any of the relief sought in such involuntary case or other proceeding (including the entry of an order for relief against a Seller or the appointment of a receiver, trustee, custodian or other similar official for a Seller or any substantial part of its property) shall be granted, any other person
“Latest Practicable Date”	6 March 2017, being the latest practicable date prior to the bulk-printing of this circular for the purpose of ascertaining certain information contained in this circular
“Lease(s)”	any contract pursuant to which the Sellers lease, have rights of ingress, egress, easement or passage, or otherwise have rights in or access to surface or subsurface real property and/or the Hydrocarbons or other minerals located thereon or thereunder for the purpose or use of exploration, drilling, production, gathering or transportation of Hydrocarbons

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Oil and Gas Assets”	all oil and gas interests (whether the interest of Sellers in such properties is fee interests, leasehold interests, licenses, concessions, working interests, farmout rights, royalty, overriding royalty or other non-working or carried interests, operating rights or other mineral rights of every nature and any rights that arise by operation of law or otherwise in all properties and lands pooled, unitized, communitized or consolidated with such properties) as specified in the APA
“Ordinary Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“PRC” or “China”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan, and “Chinese” shall be construed accordingly
“PRC Target”	錫林郭勒盟宏博礦業開發有限公司 (Xilin Gol League Hongbo Mining Development Co., Ltd.*)
“Preferred Share(s)”	the restricted voting non-redeemable convertible preferred shares of HK\$0.01 each in the share capital of the Company to be created with the rights, privileges and restrictions as set out in the Bye-laws
“Previous Reverse Takeover”	the Transfer and the Transactions (as defined in the RTO Circular), including but not limited to the acquisition of the entire equity interest of the PRC Target by the Company in accordance with the terms and conditions as detailed in the RTO Circular
“Purchase Price”	the purchase price of US\$278 million (approximately HK\$2,156 million), subject to adjustments as set forth in the APA, payable by the Buyer to the Sellers for the Acquisition pursuant to the APA, details of which are set out in the section headed “The APA” in the Letter from the Board to this circular
“Purchased Contracts”	all written contracts burdening the Oil and Gas Assets, including the Leases, and any and all amendments, ratifications or extensions of the foregoing, details of which are set out in Appendix I to this circular

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“RMB”	Renminbi, the lawful currency of the PRC
“Rockgate”	Rockgate Production Company LLC, a limited liability company incorporated in Delaware and a directly wholly-owned subsidiary of Rockgate Production Holding as at the Latest Practicable Date
“Rockgate Corporation”	Rockgate Production Corporation, a Delaware incorporated company and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Rockgate Production Holding”	Rockgate Production Holding Company LLC, a limited liability company incorporated in Delaware and a directly wholly-owned subsidiary of Rockgate Corporation as at the Latest Practicable Date
“RTO Circular”	the circular of the Company dated 29 June 2016, in relation to, among other things, the Previous Reverse Takeover
“Ryder Scott”	Ryder Scott Company, L.P., the Competent Person and the Competent Evaluator appointed by the Company for the preparation of the Competent Person’s Report and the Valuation Report
“Seller(s)”	Stonegate, Dimmit and/or DisposalCo
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the resolution in respect of the Acquisition
“Share(s)”	the Ordinary Share(s) and/or the Preferred Share(s)
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Stonegate”	Stonegate Production Company, LLC, a limited liability company incorporated in Delaware

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Target Assets”	all of the Sellers’ right, title and interest in and to the properties and interests described in the APA effective as of the Effective Time, mainly including (i) the Oil and Gas Assets, (ii) all wells located on the Oil and Gas Assets, (iii) all equipment used primarily in connection with the ownership or operation of the Oil and Gas Assets, (iv) all Effective Time Hydrocarbons and all Hydrocarbons produced from the Oil and Gas Assets on or after the Effective Time and all proceeds attributable thereto, (v) the relevant surface rights, (vi) permits that relate solely to the Target Assets, and (vii) the Purchased Contracts
“US” or “United States”	United States of America
“US\$”	United States dollars, the lawful currency of the US
“Valuation Report”	the valuation report prepared by Ryder Scott on the Target Assets, the text of which is set out in “Appendix VI — Valuation Report” to this circular
“%”	per cent.
“km”	kilometre
“km ² ”	square kilometre

The terms “associate”, “connected person”, “controlling shareholder”, “subsidiary” and “substantial shareholder” have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

For the purpose of this circular, unless otherwise indicated, the exchange rate of US\$1.00 = HK\$7.75535 has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate or any other rate or at all on the date or dates in question or any other date.

** For identification purposes only*

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

B. GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this circular in connection with the Target Assets. The terms and their meanings may not correspond to the standard industry meaning or usage of these terms.

“boe”	the barrel of oil equivalent, an energy unit based on the level of energy released by one barrel of crude oil
“boe/d”	barrels of oil equivalent per day
“Brent”	a trading classification of crude oil that serves as a benchmark price for crude oil worldwide
“contingent resources”	those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies
“crude oil”	petroleum that exists in the liquid phase in natural underground reservoirs and remains liquid at atmospheric conditions of pressure and temperature
“gross”	100% of the reserves, resources, production or sale from a well/a portfolio of wells/an area
“kb/d”	thousand barrels of oil equivalent per day
“mb/d”	million barrels of oil equivalent per day
“MMboe”	million barrels of oil equivalent
“MMBtus”	million British thermal units, a traditional unit of energy often used in the power, steam generation, heating and air conditioning industries
“MMCF”	million cubic feet
“net”	the proportion of reserves, resources, production or sale from a well/a portfolio of wells/an area attributable to Stonegate to be sold to the Company under the APA
“petroleum”	a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid or solid phase
“plant products”	natural gas liquids recovered in natural gas processing plants

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“possible reserves”	those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than probable reserves
“PRMS”	the Petroleum Resources Management System published by the Society of Petroleum Engineers, the American Association of Petroleum Geologists, the Society of Petroleum Evaluation Engineers, and the World Petroleum Council in March 2007 and as amended, supplemented or otherwise modified from time to time
“probable reserves”	those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves
“proved reserves”	those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations
“PV10”	present value of approximated oil and gas revenues in the future, minus anticipated expenses, discounted using a yearly discount rate of 10%
“reserves”	those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions
“resources”	all quantities of petroleum (recoverable and unrecoverable) naturally occurring on or within the Earth’s crust, discovered and undiscovered, plus those quantities already produced. It should be noted that resources may not ultimately be extracted at a profit
“workover”	work performed on an existing oil well to convert it to other uses, for example performing fracturing jobs
“8/8ths”	the total reserves or production associated with the wells operated by an individual operator which is also commonly known as the total operated basis or the gross operated basis

IDG Energy

IDG ENERGY INVESTMENT GROUP LIMITED

IDG 能源投資集團有限公司*

(formerly known as “Shun Cheong Holdings Limited 順昌集團有限公司”)

(Incorporated in Bermuda with limited liability)

(Stock Code: 650)

Executive Directors:

Wang Jingbo

(Chairman and Chief Executive Officer)

Lee Khay Kok

Registered Office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Non-executive Directors:

Lin Dongliang

Shong Hugo

Head Office and Principal

Place of Business:

Suite 2302, Wing On Centre

111 Connaught Road Central

Hong Kong

Independent non-executive Directors:

Chen Zhiwu

Shi Cen

Chau Shing Yim David

9 March 2017

To the Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION IN RELATION TO
THE ACQUISITION OF OIL AND GAS PRODUCING ASSETS
IN THE US PURSUANT TO
THE ASSET PURCHASE AGREEMENT
AND
NOTICE OF SGM**

1. INTRODUCTION

Reference is made to the RTO Circular, in relation to, among others, the Previous Reverse Takeover. As disclosed in the RTO Circular, the Offeror was actively exploring appropriate potential acquisition targets overseas, including, among other areas, oil and gas assets in Eagle Ford Basin in the US. The Offeror and the then Board (after it has discussed with the Offeror) considered that there would be many potential upstream oil assets in North America, which have large oil reserves and could help provide the Group with a more diversified and balanced

* For identification purpose only

LETTER FROM THE BOARD

asset portfolio. In July 2016, an affiliate of the Offeror was approached by Stonegate in respect of the acquisition of the Target Assets, which subsequently referred such investment opportunity to the Company.

The Acquisition was initiated, negotiated and conducted separately and independently from the Previous Reverse Takeover. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Sellers are not connected or otherwise associated with the vendors of the PRC Target, nor are they or their respective ultimate owners connected with the Company or its connected persons nor the Offeror or parties acting in concert with the Offeror.

Reference is also made to the announcement of the Company dated 22 November 2016. As disclosed in such announcement, on 21 November 2016 (local time in Houston, Texas), the Company entered into the APA with the Sellers in respect of the Acquisition. Pursuant to the APA, the Company, as the Buyer, has conditionally agreed to acquire and the Sellers have conditionally agreed to sell the Target Assets, plus the assumption of the Assumed Liabilities by the Buyer, at the Purchase Price of US\$278 million (approximately HK\$2,156 million), subject to adjustments in accordance with the APA.

As at the Latest Practicable Date, the Company has entered into an assignment agreement with Rockgate (a wholly-owned subsidiary of the Company in the US) for US\$10 and other good and valuable consideration, pursuant to which the Company has agreed to assign all of its right, title and interest under the APA to Rockgate and Rockgate has agreed to assume all the obligations and liabilities of the Company under the APA accruing from and after the Effective Time.

2. THE APA

Set out below are the principal terms of the APA:

2.1 Signing Date

Signing Date: 21 November 2016 (local time in Houston, Texas)

2.2 Parties to the APA

- (1) Buyer: the Company
- (2) Sellers: Stonegate, Dimmit and DisposalCo

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Sellers and their ultimate beneficial owners are third parties independent of the Company and its connected persons.

LETTER FROM THE BOARD

2.3 Assets to be Acquired under the APA

(a) Target Assets under the APA

The Sellers agree to sell, assign, convey and deliver to the Buyer, and the Buyer agrees to purchase and acquire from the Sellers at the Closing the Target Assets, free and clear of all liens (other than certain permitted liens) pursuant to the APA.

The Target Assets are all of the Sellers' right, title and interest in and to the properties and interests described in the APA effective as of the Effective Time, mainly including (i) the Oil and Gas Assets, (ii) all wells located on the Oil and Gas Assets, (iii) all equipment used primarily in connection with the ownership or operation of the Oil and Gas Assets, (iv) all Hydrocarbons produced from the Oil and Gas Assets that are in storage or existing at the Effective Time and not past a sales measuring point at the Effective Time (the "**Effective Time Hydrocarbons**") and all Hydrocarbons produced from the Oil and Gas Assets on or after the Effective Time and all proceeds attributable thereto, (v) the relevant surface rights, (vi) permits that relate solely to the Target Assets, and (vii) the Purchased Contracts.

For more details of the Target Assets, please refer to Appendix I to this circular.

The Buyer shall not purchase the Excluded Assets, where the "**Excluded Assets**" shall mean all the assets not constituting the Target Assets, in particular, (i) all cash and cash equivalents of the Sellers, (ii) all corporate and financial records of the Sellers except to the extent relating to the Target Assets and not containing confidential or sensitive information of the Sellers, (iii) contracts of insurance or indemnity, (iv) all Hydrocarbons produced and sold from and attributable to the Oil and Gas Assets prior to the Effective Time and all proceeds attributable thereto, (v) all rights, claims, demands and causes of action of the Sellers under the APA, (vi) the name "Stonegate" and related trademark, trade names, logo or symbols and (vii) all contracts, equipment, permits, data to the extent directly related to the Excluded Assets or the Excluded Liabilities, which shall not be sold, assigned or conveyed to the Buyer pursuant to the APA.

(b) Assumed Liabilities under the Acquisition

The Buyer shall assume the Assumed Liabilities under the Acquisition, which consist of:

- (i) all expenses to the extent attributable to the ownership, maintenance and operation of the Sellers' interest in the Target Assets and related to periods from and after the Effective Time (other than expenses for which the Purchase Price is increased pursuant to certain adjustments as specified in the APA);

LETTER FROM THE BOARD

- (ii) all expenses attributable to the Target Assets and related to the periods before the Effective Time to the extent, and only to the extent that the Purchase Price is reduced pursuant to certain adjustments as specified in the APA;
 - (iii) all other liabilities (other than those expenses stated in (i) and (ii) above) under or associated with or appurtenant to the Target Assets, to the extent related to periods from and after the Effective Time, including without limitation all such liabilities arising out of the operation and/or ownership of the Target Assets from and after the Effective Time;
 - (iv) all liabilities of the Sellers under, associated with or appurtenant to the Target Assets with respect to the environmental claims whether arising on, before or after the Effective Time;
 - (v) costs, expenses and liabilities of the Sellers attributable to obligations to plug wells included in the Target Assets, dismantle or decommission facilities, close pits and restore the surface around such wells, facilities and pits; and
 - (vi) any taxes that are apportioned to the Buyer pursuant to the APA,
- ((i), (ii), (iii), (iv), (v) and (vi) together, the “**Assumed Liabilities**”).

In general, the kinds of liabilities falling within the Assumed Liabilities can be categorized as below:

- (1) The Assumed Liabilities that may result in adjustments to the Purchase Price at the Closing.

Pursuant to the APA and subject to the terms thereof, the Company agrees to acquire and purchase from the Sellers the Target Assets, effective as of the Effective Time. As such, generally speaking, the Company is taking on the economic rights and obligations of owning the Target Assets from and after the Effective Time, and Stonegate remains entitled to such rights and bears such obligations prior to the Effective Time. The Purchase Price is adjusted accordingly at the Closing to give effect to this principle. As such, there are two important sub-groups of Assumed Liabilities that relate to the adjustments to the Purchase Price:

- (i) the balance being (a) costs and expenses attributable to the operation of the Target Assets and related to periods after the Effective Time up to the Closing, less (b) the amount of (a) which has already been paid by Stonegate and will result in an upward adjustment to the Purchase Price; and

LETTER FROM THE BOARD

- (ii) costs and expenses attributable to certain liabilities or accounts payable with respect to the Target Assets that would not have been paid by Stonegate prior to the Closing and would be assumed by the Company after the Closing under the APA but which relate to the pre-Effective Time periods. This part of the Assumed Liabilities will result in a downward adjustment to the Purchase Price.
- (2) The Assumed Liabilities that have no impact on the Purchase Price adjustment.

There are various Assumed Liabilities which do not result in a Purchase Price adjustment at the Closing but are nevertheless expected to mainly relate to the operation and development of the Target Assets. Such liabilities are “Assumed Liabilities” because they are part of the responsibility associated with owning and operating the Target Assets, especially after the Closing. For instance, such Assumed Liabilities include future costs and expenses attributable to plug wells and dismantling and abandonment of facilities, taxes incurred in the future, future environmental liabilities (if they arise) and the obligation to pay royalties to royalty owners in the future, etc. Such Assumed Liabilities are normal liabilities for the Company to own and operate the Target Assets, from which the Company (after the Closing) will also be entitled to derive any economic benefits recorded after the Effective Time as explained above.

LETTER FROM THE BOARD

For illustrative purpose only and assuming 31 October 2016 were the Closing Date, the table below sets out the summary of the estimated Assumed Liabilities as of 31 October 2016 provided by Stonegate.

	As of 31 October 2016 <i>(US\$'000)</i>
Costs and expenses attributable to the Target Assets from Effective Time to 31 October 2016	32,761
Less: already paid by Stonegate (reflected as upward estimated Purchase Price adjustments)	<u>(30,408)</u>
Assumed Liabilities for category (1)(i) above	2,353
Pre-Effective Time payables related to the Target Assets and assumed by the Company (reflected as downward estimated Purchase Price adjustments)	<u>14,374</u>
Assumed Liabilities for category (1)(ii) above	14,374
Asset retirement obligations	8,841
Other liabilities associated with owning and operating the Target Assets (<i>Note 2</i>)	<u>Not quantifiable</u>
Assumed Liabilities for category (2) above	<u>8,841</u>
Total quantifiable items	<u><u>25,568</u></u>

Notes:

1. The above items are not all the adjustments to the Purchase Price. There are also items that may constitute adjustments to the Purchase Price such as the proceeds received by Stonegate that are attributable to post-Effective Time Hydrocarbon production. Please refer to paragraph 2.4 below for further disclosures in respect of adjustments to the Purchase Price.
2. As of 31 October 2016, none of other liabilities associated with owning and operating the Target Assets has been raised by Stonegate.

For illustrative purpose only, the amount of the Assumed Liabilities as at 31 October 2016 of US\$25.6 million has been reflected in the unaudited pro forma financial statements of the Enlarged Group as set out in Appendix IV to this circular. The amount of the Assumed Liabilities upon Closing may change as a result of the continuing operation of the Target Assets.

LETTER FROM THE BOARD

The Sellers shall retain all liabilities associated with the Excluded Liabilities, where the “**Excluded Liabilities**” are all liabilities and obligations of the Sellers other than the Assumed Liabilities.

With respect to the assumption of historical and future environmental liabilities that may relate to the Target Assets, the APA provides for a pre-Closing due diligence period, during which time the Company can engage in comprehensive environmental due diligence in order to assess the existing environmental state of the Target Assets. The APA provides for a downward Purchase Price adjustment mechanism to account for any environmental defects discovered as part of that process. Pursuant to the terms of the APA, the Company would be entitled to a downward adjustment to the Purchase Price once the value of the environmental defects exceed the defect deductible in respect of any title or environmental defect claims of US\$9.73 million (approximately HK\$75.5 million).

The Company has completed the due diligence over the Target Assets and has identified the title defects amounting to approximately US\$4.38 million (approximately HK\$33.97 million) and environmental defects amounting to approximately US\$0.25 million (approximately HK\$1.94 million). As the aggregate value of the defects identified is less than the minimum adjustment threshold under the APA, no downward adjustment will be made to the Purchase Price in respect of the above defects. As at the Latest Practicable Date, some of these defects have been cured by Stonegate already and the Company is working with Stonegate to cure the rest. These defects will not have adverse impact to the operation of the Target Assets.

2.4 Consideration

The Buyer shall pay or deliver the Purchase Price of US\$278 million (approximately HK\$2,156 million) in cash. The Purchase Price shall be subject to the adjustments for (i) pre- and post-Effective Time costs and expenses (including taxes), (ii) the value of any pre- and post-Effective Time Hydrocarbons produced from the Oil and Gas Assets, (iii) Hydrocarbon imbalances and funds held in suspense on behalf of third parties, (iv) the value of any title and environmental defects asserted by the Buyer which are agreed to by the Sellers or which are finally determined by an arbiter to negatively impact the value of the Target Assets, and (v) certain other customary closing Purchase Price adjustments.

The Purchase Price (including the applicable adjustments) was determined after arm’s length negotiation between the Buyer and the Sellers on normal commercial terms and taking into account, among other things, the following factors:

- (a) results of the due diligence and financial analysis conducted by the Buyer and its professional advisers based on information provided by the Sellers;
- (b) the reserve volume and quality of the Target Assets as compared with the relevant crude oil and natural gas of comparable estimated reserves and quality in the market;

LETTER FROM THE BOARD

- (c) the split of pre- and post-Effective Time costs and expenses and proceeds from the Oil and Gas Assets; and
- (d) the Directors' belief that the Acquisition represents a unique opportunity for the Company to acquire a world-class crude oil and natural gas asset.

In view of the above, the Directors consider that the Purchase Price (including the applicable adjustments) is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

For illustrative purpose only and assuming 31 October 2016 were the Closing Date, there would be an estimated upward adjustment of US\$5.0 million (approximately HK\$38.8 million) to the Purchase Price, as shown in the table below.

	As of 31 October 2016 (US\$'000)
Initial Purchase Price	278,000
Estimated quantifiable adjustments to the Purchase Price	
Add: Costs and expenses attributable to the Target Assets from Effective Time to 31 October 2016 which are already paid by Stonegate	30,408
Add: Pre-Effective Time receivables	14,619
Less: Proceeds attributable to the Target Assets from Effective Time to 31 October 2016 which are already received by Stonegate	(25,605)
Less: Pre-Effective Time payables	<u>(14,374)</u>
Subtotal of adjustments	<u>5,048</u>
Estimated Purchase Price after adjustments	<u><u>283,048</u></u>

The Company understands from Stonegate that the overall upward adjustment to the Purchase Price from Effective Time to 31 October 2016 is due to that Capex was incurred ahead of schedule and thus the aggregated costs and expenses exceeded the revenue received during the period. It is anticipated that there would be an overall downward adjustments to the Purchase Price upon Closing as the amount of sales proceeds received by Stonegate would exceed the cash costs and expenses incurred. Values associated with environmental and title defects, if any, will also be reflected as downward Purchase Price adjustments upon Closing.

The actual adjustment to the Purchase Price is subject to closing review by KPMG pursuant to the APA and may be different from the aforesaid amount as a result of the continuing operation of the Target Assets.

LETTER FROM THE BOARD

2.5 Outstanding Obligations

The Company is obligated to assume contractual outstanding obligations which are payable during a period over one year from the date of the Effective Time and which are related to the expenses and costs associated with the drilling or operation of certain existing projects committed to by Stonegate (the “**Outstanding Obligations**”).

The table below sets out the estimated Outstanding Obligations as of 31 October 2016 provided by Stonegate.

	As of 31 October 2016		
	Estimated Outstanding Obligations	Recorded as Assumed Liabilities	Off-balance sheet commitments
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
Capex	19,741	6,129	13,612
Asset retirement obligations	8,841	8,841	—
Operating payables	5,956	5,924	32
Office lease commitment	2,313	—	2,313
	36,851	20,894	15,957
Total	36,851	20,894	15,957

Note: The Outstanding Obligations consist of (a) part of the Assumed Liabilities which are payable during a period over one year from the date of the Effective Time and may change as a result of the continuing operation of the Target Assets and (b) commitments which will not be booked on the balance sheet as liabilities of the Enlarged Group after the Closing, i.e., a capped amount of US\$15,957,000 of the off-balance sheet commitments as of 31 October 2016. Such capped amount will not be exceeded.

The actual amount of the Outstanding Obligations upon Closing may be different from the aforesaid amount as a result of the continuing operation of the Target Assets. Purchase Price adjustment applies to the Outstanding Obligations.

2.6 Performance Deposit and G&A Funds

The Buyer has delivered to the Escrow Agent a performance deposit of US\$18.07 million (approximately HK\$140.14 million) (the “**Escrow Funds**”).

On the first Business Day of each month beginning on 1 November 2016 and ending on (and including) the month in which the Closing Date occurs, the Buyer shall deliver to the Escrow Agent an amount equal to US\$1 million (approximately HK\$7.76 million), i.e., the interim general and administrative expenses, for the ensuing month (the “**Interim G&A Expenses**”, the cumulative amount of such payments, the “**G&A Funds**”), provided that, among others, for the month of November 2016, the Interim G&A Expenses shall be a pro-rated amount equal to the product of (i) US\$1 million multiplied by (ii) a fraction, the numerator of which shall equal the number of days in November 2016 from and after (and including) the date of the execution of the APA and the denominator of which shall equal 30. Up to the Latest Practicable Date, the Buyer has

LETTER FROM THE BOARD

paid a total of US\$4.3 million (approximately HK\$33.3 million) of G&A Funds. Based on the End Date arrangement under the APA, the maximum amount of G&A Funds which the Buyer may have to pay amount to US\$5.5 million (approximately HK\$42.65 million).

Pursuant to the APA, if the Acquisition proceeds to the Closing, the Escrow Funds and the G&A Funds shall be applied toward the payment to be made by the Buyer at the Closing and delivered to the Sellers. If the Acquisition does not proceed to the Closing, the Escrow Funds and the G&A Funds shall be returned to the Buyer, or retained by the Sellers, as applicable, in accordance with the terms of the APA.

In particular, the circumstances in which all of the Escrow Funds and the G&A Funds may be retained by the Sellers include where the APA is terminated for the following reasons:

- (i) a material breach of the Buyer of its representations and warranties or the Buyer's failure to comply with its covenants under the APA, provided that such breach or failure to comply is not the sole result of a change in applicable laws in the United States after the date of the execution of the APA;
- (ii) the Buyer's failure to deliver any Interim G&A Expenses to the Escrow Agent in accordance with the terms of the APA and such amounts remain unpaid for two (2) Business Days following Stonegate's written request therefor, provided that such failure to deliver the Interim G&A Expenses is not the sole result of a change in applicable laws in the United States after the date of the execution of the APA;
- (iii) the Buyer's failure to deliver to the Sellers an executed copy of the commitment letter in respect of the financing of the Acquisition within thirty (30) days following the date of the execution of the APA and the Sellers shall have given at least ten (10) days written notice to the Buyer to cure such breach and failure but such obligation remains unsatisfied, provided that such failure to deliver is not the sole result of a change in applicable laws in the United States after the date of the execution of the APA;
- (iv) due to the Closing not occurring on or before the End Date (or any extension thereof, if applicable) and all the Conditions to the obligations of the Buyer to consummate the Closing, other than either (x) the obtaining of the Shareholders' approval or (y) the obtaining of the Shareholders' approval and the obtaining of the CFIUS Approval, as applicable, shall have been satisfied (or capable of being satisfied at the Closing with respect to actions to be taken at the Closing), provided that there have been no changes to the Listing Rules after the date of the execution of the APA that cause such Conditions not to be satisfied; or

LETTER FROM THE BOARD

- (v) the Buyer's failure to perform its closing obligations as set out in the APA for more than five (5) Business Days after notice by the Sellers where the Conditions to the obligations of the Buyer to consummate the Closing shall have been satisfied (or capable of being satisfied at the Closing with respect to actions to be taken at the Closing) or waived by the Buyer.

Alternatively, the circumstances in which one half (1/2) of the Escrow Funds and all of the G&A Funds may be retained by the Sellers if the APA is terminated for the following reasons:

- (i) any of the reasons set forth in (i), (ii), or (iii) above, where such termination is a result of a change in applicable laws in the United States after the date of the execution of the APA; or
- (ii) due to the Closing not occurring on or before the End Date (or any extension thereof, if applicable) or due to the Conditions to the obligations of the Buyer becoming incapable of being satisfied, and in each case, all the Conditions to the obligations of the Buyer to consummate the Closing, other than the obtaining of the CFIUS Approval, shall have been satisfied (or capable of being satisfied at the Closing with respect to actions to be taken at the Closing).

The terms by which the Sellers may retain the Escrow Funds or the G&A Funds have been agreed after arm's length negotiations among the Buyer and the Sellers. The Board is of the view that such terms are on normal commercial terms and fair and reasonable, taking into account the market practice and the relatively long time period that is available until the respective Conditions have to be satisfied in order for the Closing to occur. As at the Latest Practicable Date, none of the abovementioned events has taken place.

2.7 Conditions

(a) Conditions to obligations of the Buyer and the Sellers

- (i) no applicable law shall prohibit the Acquisition or the consummation of the Closing.
- (ii) all actions by or in respect of or filings with any governmental authority required to permit the consummation of the Closing shall have been taken, made or obtained (other than those actions or filings that are required to obtain the CFIUS Approval or that are customarily obtained after the Closing).
- (iii) no proceeding instituted by any governmental authority shall be pending and no injunction, order, decree or judgment of any governmental authority of competent jurisdiction shall be in effect, in each case which seeks to or does, as applicable, prohibit, restrain or enjoin the consummation of the Acquisition (other than proceedings seeking the CFIUS Approval); provided that the party seeking to rely on as a basis not to consummate

LETTER FROM THE BOARD

the Closing must have used commercially reasonable efforts to cause such proceeding to have been dismissed or resolved in favour of the parties of the APA or to prevent the entry of such injunction, order, decree or judgment.

Conditions (ii) and (iii) above can be waived by each of the Sellers and the Buyer to the extent permitted under the applicable law.

(b) Conditions to obligations of the Buyer

(iv) (x) each Seller shall have performed in all material respects all of its covenants and other obligations under the APA required to be performed by it on or prior to the Closing Date; (y) the representations and warranties of the Sellers set forth in the APA shall be true and correct at and as of the Closing Date except for those failures to be true and correct that individually or in the aggregate do not constitute a material adverse effect; and (z) the Buyer shall have received a certificate signed by the executive officer of Stonegate to the foregoing effect.

(v) the CFIUS Approval has been obtained.

(vi) the Company shall have obtained the Shareholders' approval for the APA and the transactions contemplated thereunder at the SGM.

Conditions (iv) to (vi) can be waived by the Buyer in its sole discretion.

The Company considered that it is appropriate for the Company to retain the right to waive certain Conditions (i.e., Conditions (ii), (iii), (iv), (v) and (vi)) as this allows the Company to retain the flexibility of choosing whether to proceed with completing the Acquisition in the event that any of those Conditions is not fully complied with only in a manner that does not give rise to any material concern and hence, does not present any material risk to the Company in any respect. The Directors will be subject to their fiduciary duty to the Company to act in its best interests if and when they have to decide whether the Company should exercise its discretion to waive any of such Conditions. In any event, the Company will comply with the Listing Rules in connection with the Acquisition as and when appropriate. As at the Latest Practicable Date, the Company has no intention to waive any of such Conditions that could be waived by the Buyer pursuant to the APA.

(c) Conditions to obligations of the Sellers

(vii) (x) the Buyer shall have performed in all material respects all of its covenants and other obligations under the APA required to be performed by it on or prior to the Closing Date; (y) the representations and warranties of the Buyer set forth in the APA and in any certificate or other writing delivered by the Buyer pursuant thereto shall be true and correct except for those failures to be true and correct that, individually or in the aggregate

LETTER FROM THE BOARD

do not constitute a material adverse effect; and (z) the Sellers shall have received a certificate signed by the executive officer of the Buyer to the foregoing effect.

Condition (vii) can be waived by the Sellers in their sole discretion.

All Conditions shall have been satisfied by one hundred sixty-four (164) days following the date of the execution of the APA (the “**End Date**”), provided however, that if (i) all Conditions other than Condition (v) have been satisfied by the End Date, the Sellers or the Buyer shall, or (ii) if all Conditions other than Condition (vi) have been satisfied by the End Date, and the clearance of the circular to be issued to Shareholders in connection with the APA and the Acquisition has been obtained from the Stock Exchange as of such time, the Buyer shall, have the option to extend the End Date by thirty (30) additional days, which can be further extended by mutual written agreement of all parties to the APA. To the extent the Closing has not occurred by the End Date (as may be extended), either the Sellers or the Buyer may terminate the APA.

If at any time prior to the Closing, one or more of the Sellers obtains authorization to commence an Insolvency Proceeding or one or more of the Sellers files a petition to commence or becomes the subject of an Insolvency Proceeding, the APA may be terminated by the Buyer automatically and without prior notice to Stonegate.

As at the Latest Practicable Date, none of the Conditions mentioned above under the APA has been fulfilled or waived pursuant to the APA.

2.8 Closing

(a) Closing Date

The Closing shall take place, as soon as possible, but in no event later than five (5) Business Days after the fulfilment, or if applicable, waiver of the Conditions (other than those Conditions cannot be satisfied until the time of the Closing, but subject to the satisfaction or waiver), or at such other time as the Sellers and the Buyer may agree in writing.

(b) Settlement and Payment

The Sellers shall deliver to the Buyer, not less than five (5) Business Days before the Closing Date, a statement setting forth the adjustment to the Purchase Price, i.e. the estimated adjusted Purchase Price as of the Closing Date (the “**Closing Date Adjusted Purchase Price**”). Subject to the Buyer’s right to dispute any adjustments to the Purchase Price asserted by the Sellers after the Closing, the Buyer shall deliver an amount equal to the Closing Date Adjusted Purchase Price less certain funds it has placed with the Escrow Agent in accordance with the terms of the APA, by wire transfer of immediately available funds, to an account designated by Stonegate at the Closing.

LETTER FROM THE BOARD

As soon as practical and, in any event no later than ninety (90) calendar days after the Closing Date, Stonegate shall prepare and deliver to the Buyer a statement (the “**Final Settlement Statement**”) setting forth the adjustments to the Purchase Price, i.e. the adjusted Purchase Price (the “**Adjusted Purchase Price**”), which is subject to mutual agreement by the parties of the APA or the resolution of a designated accounting firm (as the case may be). The Adjusted Purchase Price shall be final and conclusive. The Buyer and the Sellers shall make payments in relation to the difference between the Closing Date Adjusted Purchase Price and the Adjusted Purchase Price in accordance with the terms of the APA.

2.9 Termination Fee

If (i) the APA is terminated due to the Sellers’ breach of their representations and warranties or failure to comply with their covenants or the Sellers’ breach of certain obligations under the APA, (ii) the Buyer shall not have breached any of its representations or warranties or failed to comply with its covenants under the APA, and (iii) any Seller or the Sellers consummate any Alternative Transaction at any time on or prior to the date that is twelve (12) calendar months after the date of termination of the APA, the Sellers shall, in addition to returning the Escrow Funds and the G&A Funds to the Buyer, pay to the Buyer a termination fee in the amount of US\$8.34 million (approximately HK\$64.7 million) (the “**Termination Fee**”).

Additionally, if (i) the APA is terminated by the Buyer or the Sellers in accordance with the APA, (ii) at the time of such termination, either (x) the Buyer had the right to terminate the APA due to the Sellers’ breach of their representations and warranties or failure to comply with their covenants under the APA, or (y) any person shall have made a bona fide proposal to consummate an Alternative Transaction and such proposal shall not have been withdrawn or rejected by the Sellers prior to such termination, and (iii) within twelve (12) months following such termination the Sellers consummate an Alternative Transaction, the Sellers shall pay to the Buyer the Termination Fee.

The Termination Fee is in addition to the Buyer’s rights to receive the return of the Escrow Funds and the G&A Funds paid by the Buyer prior to the date of such termination.

2.10 Indemnity Escrow Funds

To secure and to serve as the sole source of funds in respect of any indemnification obligations owed to any indemnified party of the Buyer pursuant to the APA, on the Closing Date, the Buyer shall deposit with the Escrow Agent an amount equal to US\$23.63 million (approximately HK\$183.26 million) (such amount together with all interest earned thereon while in the custody of the Escrow Agent, the “**Indemnity Escrow Funds**”). The payment and other arrangement of the Indemnity Escrow Funds are subject to the final determination with respect to any claim for indemnification and the terms of the APA.

LETTER FROM THE BOARD

2.11 The TSA

Contemporaneously with the execution of the APA, as an inducement to the Buyer to enter into the APA, a transaction support agreement (the “**TSA**”) has been entered into by, among others, the Buyer, certain creditors holding liens on the Target Assets (the “**Lenders**”), and certain holders of Series A Units, or of Series A Units and Series B Units, as applicable, in Stonegate (together holding and controlling at least 98% of the issued and outstanding Series A Units in Stonegate) (the “**Unitholders**”). To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, the counterparties to the TSA are third parties independent of the Company and its connected persons. Pursuant to the terms of the TSA, the Lenders and Unitholders agree to provide certain support to the Buyer for the Acquisition under the APA, including that at the Closing the liens on the Target Assets will be released and terminated automatically and unconditionally and that documents in form and substances previously agreed by the Buyer to confirm such release and termination of such liens will be signed, notarized and delivered to the Buyer. If the TSA is breached in any material respect by either a Lender or a Unitholder or the TSA is terminated in accordance with its terms, the APA may be terminated by the Buyer upon written notice to Stonegate.

3. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the exploration, development and production of crude oil. Selectively making strategic acquisitions of oil assets overseas, as one of the pre-set business strategies of the Group, is an important driver for growth and enhancing shareholder value. The Board believes the recent relatively low crude oil commodity prices (as compared to commodity prices in 2012 to 2014) offer investors an attractive risk/return profile and diversification in the current environment and a counter-cyclical acquisition may provide a great opportunity to access world-class assets at a reasonable price.

The Acquisition, in the view of the Board, is an opportune investment for the Group to develop and expand its current principal business which is the exploration, development and production of crude oil. In addition, the Board expects that the Acquisition could allow the Group to widen its global footprint and develop a more diversified and balanced oil and gas business portfolio, expand its operational capabilities and elevate its profile and image as an international energy company, and will present the Group with favourable long term prospects, which is in line with the Group’s sustainable corporate strategy to broaden its income stream and its mission and vision to become a leading global oil and gas assets holding and management company, with the goal of achieving stable, long-term and attractive returns for the Shareholders.

The Board believes that the Acquisition is in line with the Group’s business strategy and is consistent with the nature of the Group’s current business; the terms of the APA are on normal commercial terms, which are fair and reasonable; and the Acquisition is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

4. FINANCING ARRANGEMENTS FOR PAYMENT OF PURCHASE PRICE

The initial Purchase Price of US\$278 million (approximately HK\$2,156 million) payable by the Buyer under the APA will be fully satisfied through financing arrangements set out as below:

4.1 Bank loan

In order to finance the Acquisition with ample working capital while maintaining normal cash flow of the Group for ongoing operation, approximately 60% of the initial Purchase Price, i.e. US\$166.8 million (approximately HK\$1,293.6 million) is intended to be financed by a loan to be obtained from commercial bank(s).

As of the Latest Practicable Date, the Company has obtained a commitment letter from a commercial bank (the “**Bank**”), which was issued to the Company and Rockgate Corporation and constitutes the Bank’s legally binding and irrevocable undertaking to provide and underwrite a loan of up to US\$166.8 million on the basis of the terms set out in such commitment letter and the term sheet enclosed therewith.

The definitive loan agreement for the amount of up to US\$166.8 million will be entered into between Rockgate Corporation as the borrower (the “**Borrower**”) and lenders being the Bank or its affiliates or such other banks and financial institutions jointly selected by the Bank and the Borrower.

This loan, at a rational commercial loan interest rate, will be repaid in five instalments within a period of five years by the Borrower. To secure the repayment under the loan agreement, the Bank requires, among others, (i) a pledge of 100% of the issued share capital of the Borrower; (ii) a pledge of 100% of the issued share capital of Rockgate Production Holding; (iii) a pledge of 100% of the issued share capital of Rockgate; (iv) a charge over the Target Assets ; and (v) a corporate guarantee provided by the Company.

In addition, the Company has agreed to a number of restrictive covenants and undertakings under the term loan facility which will affect the way in which the Company makes major decisions in respect of its future operation, such as prior written consent from the Bank on new debt financing proposed by the Company and prohibition of negative pledge over the equity interest of the PRC Target held by the Company, which the Company considers to be normal commercial terms.

4.2 Proceeds from previous fund raisings

The remaining approximately 40% of the initial Purchase Price, i.e. US\$111 million (approximately HK\$861 million) is intended to be financed by the proceeds from previous share subscription and convertible note subscription completed in July 2016 (the “**Previous Proceeds**”). Details of such previous fund raising transactions and the proposed use of the Previous Proceeds (the “**Original Use of Proceeds**”) have been disclosed in the RTO Circular.

LETTER FROM THE BOARD

Taking into account the opportunity in the present Acquisition, actual utilization of the Previous Proceeds and change of circumstances substantiating the Original Use of Proceeds, the Company, after careful study and consideration, proposed the following arrangements for using part of the Previous Proceeds to finance the Acquisition. The Company also published an announcement in relation to such arrangements of the Original Use of Proceeds on 8 March 2017.

Among the approximately HK\$861 million:

- (a) HK\$400 million will come from the portion of the Previous Proceeds designated for acquisition and development of other oil and gas companies or projects (i.e., HK\$400 million for acquisition and development of other oil and gas companies or projects in the Original Use of Proceeds as disclosed in the RTO Circular);
- (b) HK\$99 million will come from the portion of the Previous Proceeds designated for working capital (i.e., HK\$165 million as working capital in the Original Use of Proceeds as disclosed in the RTO Circular, with the remaining HK\$65 million continues to be used as the Group's general working capital, which together with other internal funds being sufficient for the general day-to-day requirements of the Group);
- (c) HK\$7 million will come from savings after the transaction related payments for acquisition of the PRC Target as disclosed in the RTO Circular, which is materially due to the depreciation of RMB against HK\$; and
- (d) the remaining HK\$355 million will come from the portion of the Previous Proceeds originally planned for further development of other areas in Block 212 but has not been utilized yet. The development plan of the key areas in Block 212 (i.e., Unit 2 and Unit 19) where the oil reserves and resources were confirmed in the independent technical report set out in Appendix VII to the RTO Circular is not affected as a result of this proposed change in the use of part of the Previous Proceeds. The Company is still planning to carry out exploration work of other areas in Block 212, as the Company reasonably believes that such exploration can be financed by the operating cash flows generated by the PRC Target based on its current forecast. The Company considers this arrangement is commercially reasonable having considered that the Target Assets are producing assets with room for further development while the exploration work in other areas in Block 212 presents more uncertainty and higher risk. Therefore, the Company considers it is in its best interests to reallocate the relevant part of the Previous Proceeds for financing the present Acquisition, with a view to generating a more secured expected return, and to carry out the exploration work of other areas in Block 212 later based on the internally generated free cash flow.

As disclosed in the RTO Circular, a deferred payment arrangement in respect of the Previous Proceeds is adopted, under which the second tranche and third tranche of the Previous Proceeds, with respective amount of approximately

LETTER FROM THE BOARD

HK\$853 million and HK\$853 million, are scheduled to be obtained by the end of January 2017 and July 2017 respectively. The Company, as applicable, may temporarily use proceeds from the portion of the second tranche payment planned to be used for (i) repayment of debts and other liabilities, and/or (ii) development of Unit 2 and Unit 19 of Block 212 which are not in immediate use for paying the Purchase Price at Closing and replenish it with the relevant portion (i.e., planned to be used for further development work of other areas in Block 212) of the third tranche of payment once it is due and paid by July 2017.

The Company is of the view that such temporary reallocation of the Previous Proceeds will not have any adverse impact on the business plans and the ability of repayment of debts and other liabilities of the Company. As at the Latest Practicable Date, the Company has no plan for future fund raising for any future exploration and/or development of other areas of Block 212 in view of the proposed change in the use of part of the Previous Proceeds. The development plan of the key areas in Unit 2 and Unit 19 of Block 212, which contributed to all the estimated reserves and resources in the independent technical report set out in Appendix VII to the RTO Circular and the fair market value as estimated in the competent evaluator's report set out in Appendix VIII to the RTO Circular, as well as the related use of proceeds remain unchanged and are not affected as a result of this proposed change in the use of part of the Previous Proceeds.

Set out below is a table showing details of the Company's revised financing plan for the development of the PRC Target, i.e., the development of Unit 2 and Unit 19 of Block 212 and further development of other areas in Block 212.

	Original financing plan	Financing plan revised or not	Revised financing plan (if applicable)
Development of Unit 2 and Unit 19 of Block 212 (based on the high case development plan)	Financed by HK\$800 million from the Previous Proceeds	No	N/A
Further development of other areas in Block 212	Financed by HK\$450 million from the Previous Proceeds (<i>Note</i>)	Yes	Financed by the operating cash flows to be generated by the PRC Target

Note: Among the HK\$450 million, HK\$355 million will to be reallocated for financing the present Acquisition and the remaining HK\$95 million will to be reallocated as the Group's working capital to finance, among other things, the development of various exploration and/or development projects of the Group after the Acquisition.

LETTER FROM THE BOARD

The Company considers the proposed financing arrangement for the Acquisition stated above is fair and reasonable, and best fits the needs of the Group and is in the best interests of the Company and the Shareholders as a whole. The Company confirms that it will have sufficient working capital for 125% of its present requirement for at least the twelve months from the date of this circular.

5. ESTIMATED FINANCIAL EFFECT OF THE ACQUISITION

Set out in Appendix IV to this circular is the “Unaudited Pro Forma Financial Information of the Enlarged Group” and the basis of preparation thereon.

5.1 Earnings

After the Closing, the Group’s results will include the revenue and expenses of the operation of the Target Assets. According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular, the loss attributable to the owners of the Company for the year ended 31 March 2016 would have been increased from approximately HK\$355.7 million (as extracted from the unaudited pro forma consolidated income statement of the Group for the year ended 31 March 2016 as set out in Part B of Appendix III to the composite offer and response document jointly issued by the Company and Titan Gas Technology Investment Limited dated 5 August 2016) to approximately HK\$651.1 million if the Acquisition had been completed on 1 April 2015, mainly attributable to that the Target Assets incurred loss for the year ended 31 March 2016.

5.2 Assets and Liabilities

After the Closing, the Target Assets and the Assumed Liabilities will be stated in the Group’s consolidated financial statements at their respective fair value. As stated in the unaudited pro forma financial information set out in Appendix IV to this circular, if the Acquisition had been completed on 30 September 2016, the total assets of the Enlarged Group would have been increased from approximately HK\$2,942.1 million to approximately HK\$4,434.4 million.

The total liabilities of the Enlarged Group would have been increased from approximately HK\$789.8 million to approximately HK\$2,297.6 million; and the Group’s net asset value attributable to the owners of the Company would have decreased from approximately HK\$2,152.3 million to approximately HK\$2,136.8 million.

6. INFORMATION OF THE PARTIES

6.1 Information of the Group

The principal activity of the Company is investment holding. The principal activities of the Group consist of upstream crude oil exploration, development and production.

LETTER FROM THE BOARD

6.2 Information of the Sellers

Stonegate is a Houston, Texas, based oil and gas exploration and production company, owning and operating a concentrated position of oil assets in the South Texas Eagle Ford Shale play. It is principally engaged in the acquisition of, exploration for and exploitation and development of oil and gas primarily in the United States, and is engaged in activities ancillary thereto.

Dimmit is a wholly-owned subsidiary of Stonegate, and is principally engaged in business operations in support of oil and gas production activities and ancillary to the core business of Stonegate, including holding field housing assets and providing water for well development and other operating needs.

DisposalCo is a wholly-owned subsidiary of Stonegate and is principally engaged in business operations in support of oil and gas production activities and ancillary to the core business of Stonegate, including holding salt water disposal facility assets.

7. LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 100%, the Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Therefore, the Acquisition is subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

8. SGM

Set out on pages SGM-1 to SGM-2 of this circular is a notice convening the SGM to be held at United Conference Centre Limited — Room 1, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong at 10:00 a.m. on Friday, 31 March 2017, at which resolution will be proposed to approve the Acquisition by way of poll.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has any material interest in the Acquisition and no Shareholder is required to abstain from voting at the SGM in respect of the resolution relating to the Acquisition.

A form of proxy for use at the SGM is enclosed with this circular. In order to be valid, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed must be delivered to the office of the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof.

Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

LETTER FROM THE BOARD

9. RECOMMENDATION

On the basis of the information set out in this circular, the Board considers the Acquisition to be fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution proposed at the SGM.

10. FURTHER INFORMATION

Your attention is drawn to the other sections and appendices in this circular, which contain further information about the Target Assets, the Group and other information that need to be disclosed in accordance with the Listing Rules.

11. WARNING

Closing is conditional upon the satisfaction or, if applicable, waiver of the Conditions set out in the APA. Accordingly, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company. If the Shareholders and potential investors of the Company are in any doubt about their position, they should consult their professional advisors.

By Order of the Board
IDG Energy Investment Group Limited
Wang Jingbo
Chairman and Chief Executive Officer

1. TARGET ASSETS TO BE ACQUIRED BY THE COMPANY UNDER THE APA

(1) Further information on the Target Assets

The Target Assets to be acquired by the Company under the APA primarily comprise assets relating to the exploration, development, production and sale of Hydrocarbons (i.e., oil and gas properties) and such assets will be controlled by the Group after the Acquisition. Based on the information provided by Stonegate, as at 31 October 2016, approximately 89% of the Target Assets' carrying value (approximately US\$182.229 million) comprised oil and gas properties (the carrying value of the oil and gas properties as of 31 October 2016 is approximately US\$162.070 million).

The Company will acquire the entire Target Assets, and will have the right to participate actively in the exploration for and/or extraction of Target Assets through control over a majority (by value) of the Target Assets, more than 50% of the total carrying value of which relates to the exploration for and extraction of natural resources (i.e. Hydrocarbons).

Pursuant to the terms of the APA, the Company, as the Buyer, will purchase all of the Sellers' right, title and interest in and to the properties and interests described in the APA effective as of the Effective Time, mainly including (i) the Oil and Gas Assets, (ii) all wells located on the Oil and Gas Assets, (iii) all equipment used primarily in connection with the ownership or operation of the Oil and Gas Assets, (iv) the Effective Time Hydrocarbons and all Hydrocarbons produced from the Oil and Gas Assets on or after the Effective Time and all proceeds attributable thereto, (v) the relevant surface rights, (vi) permits that relate solely to the Target Assets, and (vii) the Purchased Contracts.

The table below sets out the breakdown of the Target Assets as at 31 October 2016 as extracted from the financial information provided by Stonegate under US GAAP, as adjusted based on the Group's accounting policies and HKFRS conforming with the financial information on the Target Assets as at 31 October 2016:

Target Assets	As at 31 October 2016 (US\$'000)
Property, plant and equipment	164,094
Inventories	289
Trade and other receivables	<u>17,846</u>
Total	<u><u>182,229</u></u>

The Target Assets could be generally categorized as: (i) primary oil and gas related assets and assets supporting oil and gas operations; and (ii) the Purchased Contracts.

(i) Primary oil and gas related assets and assets supporting oil and gas operations

The table below sets out the further details of the primary oil and gas related assets relating to the Target Assets:

Specific type	Description
Wells	<p>All wells located on the Oil and Gas Assets with a total number of 376 pursuant to the schedules to the APA, including 303 wells producing marketable quantities of Hydrocarbons; 13 wells uneconomic to produce and are currently shut-in; two wells used for salt-water disposal; 53 wells waiting on completion; and five plugged and abandoned wells.</p> <p>The number of active wells may change from time to time as, among other reasons, wells may temporarily be shut down for maintenance or workover. As of 30 November 2016, there were 301 wells relating to the Target Assets in use, with the total proved reserve (1P) of 30,900,377 boe, the total proved plus probable (2P) reserve of 31,750,063 boe and proved plus probable plus possible (3P) reserve of 32,610,013 boe.</p> <p>For further details, please refer to the below section headed “Reserves and resources relating to the Target Assets” in this Appendix.</p>
Equipment	<p>All equipment covered by the Leases, used primarily in connection with the ownership or operation of the Oil and Gas Assets, unless otherwise covered in the Excluded Liabilities. Such equipment mainly includes oil tanks, compressors, liner, pumping units, sucker rods, separator, gas lift equipment, metering equipment, etc..</p>
Hydrocarbons	<p>All Effective Time Hydrocarbons and all Hydrocarbons produced from the Oil and Gas Assets on or after the Effective Time and all proceeds attributable thereto.</p>
Surface rights	<p>All fee surface interests in land, surface leases, easements, rights of way, servitudes, licenses, franchises, road, railroad, and other surface use permits or agreements.</p>

Specific type	Description
Permits	<p>The permits that relate solely to the Target Assets to the extent assignable by the Sellers to the Buyer under the APA.</p> <p>For further details, please refer to the below section headed “Operational permits in relation to the Target Assets required under the laws of the United States” in this Appendix.</p>

(ii) Purchased Contracts

Among the Target Assets, the Company will be entitled to all of the Sellers’ right and interest in the Purchased Contracts upon Closing, which are all written contracts burdening the Oil and Gas Assets, including the Leases, and any and all amendments, ratifications or extensions of the foregoing, which mainly include the following agreements:

(a) Leases

Stonegate, as the current owner of the Target Assets, will assign its rights and interest under the oil and gas leases as set out under the schedules to the APA to the Company. There would be 483 oil and gas leases if a lease covering different counties is regarded as one same lease, whilst there would be 672 oil and gas leases if a lease covering different counties is regarded as separate leases.

The Lease is a legal contract of terms between two parties: a lessor (the owner of the real property) and a lessee (typically, an oil and gas company such as Stonegate). Each Lease grants Stonegate rights in and to the lessors’ the mineral estate (the Hydrocarbons below ground) and a corresponding right to access the surface estate (above-ground) to the extent necessary to develop the mineral estate. Stonegate’s ownership interest in the Leases is the fundamental rights which permit Stonegate to explore for, develop and produce Hydrocarbons.

The Leases relating to the Target Assets generally include the following key provisions:

- (i) the primary term of the oil and gas lease (usually 1–3 years), and a secondary term, which typically provides that the term of the lease extends for so long as (i) there is Hydrocarbon production in paying quantities from the lease, or (ii) continuous development operations are being conducted on the lease;
- (ii) the names of all parties (lessor(s) and lessee(s)) bound by the oil and gas lease;

- (iii) consideration for the oil and gas lease (usually a cash “bonus” which is paid at the time the lease is entered into);
- (iv) the “granting clause” stating what property is subject to the oil and gas lease (such as oil, gas and other minerals) and what rights the lessee has to such property (including drilling for and producing, storing and transporting Hydrocarbons, delay rentals to maintain an oil and gas lease without production and shut-in royalty rights to maintain an interest in the lease when the lessee cannot, or will not, transport Hydrocarbons to market) such as the responsibility of the working interest owners bearing the cost and liability (including environmental liabilities) of developing the resource and receive the net benefit of production after deducting for costs and expenses of production;
- (v) the “royalty clause” stating the percentage or share of Hydrocarbon production (or the proceeds therefrom) produced from the lands covered by such oil and gas lease that are owed to the lessor and how the royalty is to be delivered to the lessor (such as in-kind to the lessor or by way of cash payments). Stonegate’s lessors generally receive a royalty between 18.75% and 25% of all Hydrocarbon production from such leases; and
- (vi) the “pooling clause” allowing the lessee to combine the oil and gas leases in order to form a larger single drilling production unit.

(b) Joint Operating Agreements

Stonegate has entered into certain joint operating agreements (the “JOAs”) which bind the Target Assets. JOAs are contracts through which multiple “working interest” owners jointly develop, operate, and produce oil and gas interests. “Working interest” is a commonly used term in the oil and gas industry, which usually means an interest that gives the owner a right to extract oil and gas from acreage subject to an oil and gas lease.

Based on the information provided by Stonegate and set out under the schedules to the APA, on average, Stonegate owns approximately a 45% working interest in the relevant wells among the Target Assets, which means, pursuant to the terms of the JOAs, Stonegate is responsible for paying, on average, approximately 45% of all costs for development operations on the wells and is entitled to receive, on average, approximately 45% of all production revenues from the wells (after all royalties and other lease burdens are paid).

The parties to Stonegate's JOAs can be broadly classified as operators and non-operators. Each JOA has one named operator. The named operator generally "controls" the operations of the assets subject to the JOA. The named operator is responsible for executing the joint operations to be conducted on the applicable assets, the costs of which will be shared by all of the working interest owners (i.e., both the named operator and the non-operator(s)) in proportion to their respective working interest. Although Stonegate is initially not the named operator for the joint operations under any of the JOAs, it is one of the working interest owners and has the right to propose and operate (as operator) on subsequent and additional operations where the named operator select not to participate, for which Stonegate bears all the costs and receive all the production revenue. According to the information provided by Stonegate, among the 303 producing wells of the Target Assets as set out in the schedules to the APA, 126 wells are operated by Stonegate and 177 wells are operated by other working interest owners.

Based on the information provided by Stonegate and as set out under the relevant JOAs, although Stonegate is the non-operator for 177 wells among the Target Assets, Stonegate has sufficient influence over the operation of such wells for the following reasons:

- (i) Stonegate is entitled to sell the Hydrocarbons in proportion to its working interest share, which will not be affected by the fact that it is a non-operator. Based on the Hydrocarbon purchase and sale agreements it has provided, Stonegate sells the Hydrocarbons produced and attributable to its working interest to the relevant buyers directly;
- (ii) When a JOA was first entered into, the location and drilling parameters of the well and the budget for drilling work were agreed among all working interest owners, both named operator and non-operator(s). Subsequent operations, including the drilling of a new well within the area covered by the JOA, can be proposed by any party under the JOA including a non-operator such as Stonegate, which then may act as operator of such new well. Also, the non-operator(s) can always "non-consent" to the proposed operations, and choose not to participate in the operations if it considers it not economical to do so; and
- (iii) Pursuant to the terms of the JOAs, Stonegate, together with other non-operators (if any), may remove an operator if it/they have good cause.

The JOAs typically are created with form agreements, which the parties thereto modify with certain special provisions, which generally include the following key provisions:

- (i) the “non-consent” provision allowing a party to opt out of operations by paying a non-consent penalty in the event the operation is successful. The non-consent penalties are usually 100%–300% of a consenting party’s cost of newly acquired surface equipment and 200%–500% of a consenting party’s costs and expenses of drilling, reworking, sidetracking, deepening, plugging back, testing, completing, and recompleting involved in the operation;
- (ii) the “consents to assignment” provision generally stating that a party may not transfer a divided interest, and that any transfer of interest must be expressly subject to the JOA, and the transfer is not binding on the other parties until 30 days after notice is provided;
- (iii) the “termination rights” provision giving a non-operator the right to replace the operator for good cause, usually by the vote of two or more non-operators owning a majority interest and the parties may opt to keep the JOA going for as long as any of the leases subject to it remain in effect; and
- (iv) the “operator’s standard of care” provision stating that all parties share liabilities arising from the risk of operations in proportion to their working interest share, except that operators will be liable for losses caused by their gross negligence or wilful misconduct.

The existing operation model of the Target Assets is expected to be continued after Closing as follows:

- (i) For the wells in which the Company will act as named operator, the Company will hire oil service companies for drilling and completion and will recruit qualified manager or engineer to work on-site. Under a master service agreement entered into between Stonegate and a service provider, the services company or industry professional thereof represents that it trained and where applicable, licensed personnel capable of safely and efficiently performing such services and/or providing equipment or materials and Stonegate may from time to time desire to engage such service providers to provide products, services, and rental equipment for its exploration, development, and hydrocarbon production operations. A master service agreement is a framework agreement which generally includes the following key provisions:
 - the “independent contractor” provision generally stating that the service provider is an independent contractor and that neither the service provider nor anyone employed by the service provider

shall be deemed for any purpose to be an employee, agent, partner, servant or representative of Stonegate. The service provider shall retain and exercise the authority and right to direct and control the manner in which all works for Stonegate are performed; provided, however, that Stonegate retains the general right, but is in no way obligated, to observe the service provider in the performance of all works contemplated under a master service agreement;

- the “contractor’s obligations” provision stating the general obligations of the service provider in any work performed under the master service agreement, including but not limited to furnishing at its own expense any and all necessary labour and supervision (skilled in their trades), machinery, equipment, tools, repairs, spare parts, transportation, and whatever else is necessary for the performance and timely completion of the work all in good condition and suitable for the work to be performed; performing the work according to any instructions or specifications described in the order or applicable industry standards, whichever is more stringent; meeting the deadline if time is of the essence as specified in an order; transporting and disposing of any spent or used chemicals or other hazardous waste or materials supplied by any member(s) of the service provider or used by any member(s) of the service provider at its sole expense and risk, etc.;
- the “title and risk of loss” provision generally stating that the title to and risk of loss for products, equipment and materials sold under the master service agreement or any order thereunder will pass to Stonegate upon acceptance by Stonegate of the same at the delivery location designated by Stonegate.

After entering into a master service agreement with a service provider, Stonegate may, from time to time issue oral or written work, service or purchase orders to the service provider and upon the acceptance of the specific order by the service provider, Stonegate thereby hires the service provider to promptly provide the oilfield products, materials, and supplies and perform the oilfield services as set forth in the specific order. In the event of any inconsistency between the terms and conditions of any order and a master service agreement, the terms and conditions of the master service agreement shall prevail and shall control, unless specific reference is made to the provision(s) of the master service agreement to be modified and the intention to modify is explicitly stated in an order.

After the Acquisition, the Company will follow the practice of Stonegate as mentioned above to enter into similar master service agreements with service companies or industry professionals (to be selected by the Company) and may from time to time engage them to provide products or services by issuing specific work, service or purchase order. As at the Latest Practicable Date, the Company has not entered into any master service agreement with any service companies or industry professionals. The Company does not expect substantial difficulties in hiring such service providers because in North America, especially in the Eagle Ford, a popular basin for oil and gas industry, there generally is no lack of availability of oil service providers.

The Company's management team over the Target Assets will select service companies and industry professionals for the scope of work needed. When deciding if a service company or industry professional is qualified for such work, the Company's management team will conduct an evaluation of such service providers based on a variety of criteria including technical capabilities, environmental, health and safety record, reliability, track record for on-time completion and a host of other factors based on the specific facts and circumstances of each service or product required. The field level supervisors and office operations engineers of the Company will supervise the work conducted by such oil service companies and the qualified manager or engineer, and will monitor all operations of such wells 24 hours a day.

- (ii) For those wells in which the Company will be non-operator, the drilling operator and engineer will be hired by the named operator for such wells. However, the operations engineers of the Company will monitor the operations of such wells on a daily basis and communicate with the operator when necessary from time to time.

As for the "non-consent" provision in a JOA, under which the non-consenter is required to pay penalties once the drilling is successful, the Company understands from the Sellers that it is rarely triggered in the past as the operators usually had formulated a reasonable economic proposal before any drilling work. This is also not expected to have a material impact on the operation of the Target Assets in the future because practically speaking, the oil service companies hired by the named operator generally will discuss the plan with all working interest owners and ask for their verbal consent before implementing their drilling plan, considering the importance of local relationship to each party in the Eagle Ford region. The Company will make business decisions in relation to the drilling and operation of the Target Assets from its own commercial perspective independently and possible effect of such "non-consent" provision will also be considered during the decision making process of the Company.

(c) Hydrocarbon Purchase and Sale Agreements

Stonegate has contracted to sell a certain amount of oil, gas, or condensate produced from the Target Assets to certain buyers at market pricing for a certain time period (ranging from several months to several years) or for a continuing period determinable by prior written notice under the purchase or sale agreements. In some instances, all of the Hydrocarbons from certain leases or wells are dedicated to a specific buyer pursuant to the sale agreement with such buyer. The buyers under such purchase or sale agreements are mostly energy or chemical producers or traders in the United States or worldwide. These Hydrocarbon purchase and sale agreements are materially consistent with market practices and commercial terms.

The table below sets out a summary of key information on the material Hydrocarbon purchase and sales agreements. The Company will be entitled to the rights and subject to the obligations under these Hydrocarbon purchase and sale agreements after the Acquisition and it is estimated that the anticipated proportion of the sales to be generated under these agreements will account for approximately 51% of the total planned production of the Target Assets and approximately 99% of such estimated total production in respect of wells that the Company will be operator in 2017 (calculated on a net boe basis).

Background of the No. purchaser	Key information under the agreement(s)
1 A US leading refining, chemicals and biofuels company	<p><i>Product type:</i> crude oil;</p> <p><i>Specified committed wells:</i> 100% of the volume produced from 58 specified producing wells in which Stonegate acts as the operator, with an estimated volume ranging from 1,000 to 2,500 barrels per day;</p> <p><i>Pricing basis:</i> a combination of an index price (or a widely accepted posting) reflecting the commonly accepted price for the crude oil at the delivery point location of the sale, with adjustments for midstream costs;</p> <p><i>Term:</i> effective from 1 August 2013, renewed on 1 August 2014, 1 February 2015, 1 November 2015 and 1 October 2016, continuing until 1 October 2017 and from month to month thereafter until terminated on 30 days' written notice.</p>

No.	Background of the purchaser	Key information under the agreement(s)
2	One of the world's largest energy trading companies	<p><i>Product type:</i> crude oil;</p> <p><i>Specified committed wells:</i> 100% of the owned and/or controlled production from 68 specified producing wells in which Stonegate acts as the operator, with an estimated volume ranging from 1,000 to 2,500 barrels per day;</p> <p><i>Pricing basis:</i> a combination of an index price (or a widely accepted posting) reflecting the commonly accepted price for the crude oil at the delivery point location of the sale, with adjustments for midstream costs;</p> <p><i>Term:</i> effective from 1 August 2016 and continuing until 31 January 2017 and from month to month thereafter until terminated on 30 days' written notice.</p>
3	A US company providing natural gas gathering, processing, treating, compression and transportation services and natural gas liquid fractionation and transportation services	<p><i>Product type:</i> natural gas;</p> <p><i>Specified committed wells:</i> 100% of the volume produced from 118 specified producing wells in which Stonegate acts as the operator;</p> <p><i>Pricing basis:</i> a combination of an index price reflecting the commonly accepted price for the crude oil at the delivery point location of the sale, with adjustments for midstream costs;</p> <p><i>Term:</i> effective from 1 January 2017 to 1 January 2018, continuing from month to month thereafter until terminated on 60 days' written notice.</p>

No.	Background of the purchaser	Key information under the agreement(s)
4	A North American midstream energy company providing a range of services to producers and consumers of natural gas, natural gas liquids, crude oil, refined products and certain petrochemicals	<p><i>Product type:</i> natural gas liquids;</p> <p><i>Specified committed wells:</i> all gas produced from 8 specified producing wells in which Stonegate acts as the operator;</p> <p><i>Pricing basis:</i> a combination of an index price reflecting the commonly accepted price for the natural gas liquids at the delivery point location of the sale, with adjustments for midstream costs;</p> <p><i>Term:</i> effective from 1 January 2014 until 1 January 2019, continuing from month to month thereafter until terminated on 30 days' written notice.</p>
5	A Texas energy company	<p><i>Product type:</i> natural gas liquids;</p> <p><i>Specified committed wells:</i> all gas produced from 118 specified producing wells in which Stonegate acts as the operator;</p> <p><i>Pricing basis:</i> a combination of an index price reflecting the commonly accepted price for the natural gas liquids at the delivery point location of the sale, with adjustments for midstream costs;</p> <p><i>Term:</i> effective from 1 February 2014 for a period of 5 years, continuing from month to month thereafter until terminated on 60 days' written notice.</p>

The table below sets out a summary of the coverage of the products from the producing wells in which Stonegate acts as the operator/non-operator by the abovementioned five material Hydrocarbon purchase and sales agreements:

	Crude oil	Gas	Natural gas liquids
From the producing wells which Stonegate acts as the operator	100% (Note 1)	94% (Note 2)	100% (Note 3)
From the producing wells which Stonegate acts as the non-operator (Note 4)	—	—	100% (Note 5)

Notes:

1. This portion is covered by the abovementioned agreement No. 1 and agreement No. 2;
2. This figure is calculated on a well count basis, and this portion is covered by the abovementioned agreement No. 3;
3. This portion is covered by the abovementioned agreement No. 4 and agreement No. 5;
4. In cases where Stonegate is not the operator for the producing wells, Stonegate will not be the one responsible for selling the products from such wells;
5. This portion is covered by the abovementioned agreement No. 4.

(d) Gathering Agreements

The Target Assets are subject to certain gathering and processing. Typically, as part of these agreements, a third party will gather, process, and redeliver gas for a fee.

The gathering agreements generally include the provisions in relation to dedication, delivery point, rate design, consents to assignment, termination rights and indemnities.

(e) Other Agreements

The Target Assets are subject to numerous other agreements that relate to the ownership and operation of the assets, including certain marketing agreements, surface easements, rights of way, and transportation agreements.

(2) Reserves and resources relating to the Target Assets

The Target Assets are located in the State of Texas in the United States, including approximately 56,054 gross acres (25,591 net acres) across Dimmit, Frio and La Salle counties in the Eagle Ford region of South Texas. The area of the Target Assets is liquid-rich, and the majority of the reserves are crude oil and natural gas liquid. Pursuant to the Competent Person's Report prepared by Ryder Scott, the Target Assets have net proved plus probable reserves of about 31.8 MMboe as of 30 November 2016.

The Target Assets have been in operation since 2008, and Stonegate has as at 30 November 2016 hired 30 full-time employees and engaged 1 contractor for the operation of the Target Assets. During the year of 2014, 2015 and the ten months ended 31 October 2016, the gross production attributable to the aforementioned wells was approximately 30,931 boe/d, 28,524 boe/d and 21,211 boe/d, respectively and the net production attributable to the Target Assets was approximately 9,857 boe/d, 9,336 boe/d and 6,736 boe/d, respectively.

The table set out below is the breakdown of estimated reserves and resources information relating to the Target Assets as at 30 November 2016 prepared by the Competent Person under PRMS:

	Total future production	After Tax PV10 (US\$'000)
Proved		
<i>Proved producing</i>		
Oil (Barrels)	9,820,721	
Plant products (Barrels)	3,110,355	
Sales Gas (MMCF)	21,674 (equivalent to approximately <u>3,612,333 boe</u>)	
Subtotal (Boe)	<u>16,543,409</u>	<u>219,746</u>
<i>Proved undeveloped</i>		
Oil (Barrels)	9,514,008	
Plant products (Barrels)	1,999,126	
Sales Gas (MMCF)	17,063 (equivalent to approximately <u>2,843,833 boe</u>)	
Subtotal (Boe)	<u>14,356,967</u>	<u>54,843</u>
Total Proved (Boe)	<u><u>30,900,377</u></u>	<u><u>274,589</u></u>

	Total future production	After Tax PV10 (US\$'000)
Probable		
<i>Probable producing</i>		
Oil (Barrels)	133,175	
Plant products (Barrels)	21,477	
Sales Gas (MMCF)	183 (equivalent to approximately 30,500 boe)	
Subtotal (Barrel Oil Equivalent)	185,152	2,810
<i>Probable undeveloped</i>		
Oil (Barrels)	444,896	
Plant products (Barrels)	90,638	
Sales Gas (MMCF)	774 (equivalent to approximately 129,000 boe)	
Subtotal (Boe)	664,534	9,175
Total Probable (Boe)	849,686	11,985
Possible		
<i>Possible producing</i>		
Oil (Barrels)	133,699	
Plant products (Barrels)	21,562	
Sales Gas (MMCF)	184 (equivalent to approximately 30,667 boe)	
Subtotal (Boe)	185,928	2,827
<i>Possible undeveloped</i>		
Oil (Barrels)	450,967	
Plant products (Barrels)	92,056	
Sales Gas (MMCF)	786 (equivalent to approximately 131,000 boe)	
Subtotal (Boe)	674,023	9,289
Total Possible (Boe)	859,951	12,116
Grand total (Boe)	32,610,013	298,690

As the Company's drilling plan on the Target Assets is constrained by its currently available capital, Ryder Scott cannot book all the locations as reserves. Except for the locations in the current field development plan, the remaining potential locations are considered as contingent resources due to the lack of a field development plan and commitment to drill. These Contingent Resources can be converted to reserves if adequate funding is made available to the Company. The table set out below shows a summary of the contingent resources attributable to the Target Assets as of 30 November 2016.

	Gross (8/8ths) Contingent Resources	
	Total 1C	Total 2C
Gross Remaining Resources		
Oil/Condensate (Barrels)	29,718,176	36,446,204
Gas (MMCF)	97,855	120,015
	(equivalent to approximately 16,309,167 boe)	(equivalent to approximately 20,002,500 boe)

The Competent Person's Report and the Valuation Report were prepared by Ryder Scott as set out in Appendix V and Appendix VI to this circular. Mr. Daniel R. Olds is the competent person qualified under Rules 18.21 and 18.22 of the Listing Rules for the Competent Person's Report and Mr. Don P. Roesle is the competent evaluator qualified under Rules 18.21(2), 18.22 and 18.23 of the Listing Rules for the Valuation Report.

(3) Financial Information relating to the Target Assets

As at 31 October 2016, the book value of the Target Assets amounted to approximately US\$182.2 million (approximately HK\$1,413.0 million).

Derived from the unaudited profit and loss statements on the identifiable net income stream in relation to the Target Assets (set out in Appendix II to this circular), the net profit/(loss) before taxation attributable to the Target Assets for the two years ended 31 December 2015 and for the ten months ended 31 October 2016 are as follows:

	For the ten months ended 31 October 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
Net (loss)/profit before taxation	(41,603)	(614,189)	92,709
	(approximately HK\$(322,645,830))	(approximately HK\$(4,763,250,660))	(approximately HK\$718,990,740)

Note: The net profit/(loss) after taxation is not applicable in this case.

For more financial information of the results of the operation of the Target Assets, please refer to Appendix II to this circular, prepared in accordance with the accounting policies materially consistent with those of the Group under the HKFRS as required under the Listing Rules.

(4) Development Plan on the Target Assets

With the ample proved, probable and possible resources carrying great amounts of value, the Company plans to improve the production of the Target Assets by conducting extensive exploitation work after Closing. The Company has currently proposed 180 proved locations for operations, and is not aware of any legal, regulatory or political activities that would significantly alter the development plan. There are other potential locations within the entitled regions carrying leasehold interests in relation to the Target Assets which would be considered as contingent resources for further exploration. The Company will assess and make further development plans depending on the future market situation and resources available.

The current development plan in respect of the Target Assets shall complete around the year of 2020 and the related wells to be drilled are then expected to reach commercial production. The Company has currently formulated the following specific drilling plan on the Target Assets, which forms the basis of the forecast production of the Target Assets in the Competent Person's Report, after considering, among other factors, the available drilling technology, the current market environment, the specific conditions of resources and the possible funding. Set out below is a summary of the drilling plan for the four years from 2017 to 2020 on the Target Assets and related capital expenditure and cash flows:

Year	Number of Wells to be Drilled	Development Capex (US\$ million)	Cash Flow (After Tax) (US\$ million)	Accumulated Cash Flow (After Tax) (US\$ million)
2017	10	22,737.8	28,819.9	28,819.9
2018	60	79,163.6	5,971.1	34,791.0
2019	110	129,848.0	-4,192.0	30,599.0
2020	—	11,061.8	79,883.5	110,482.5

As at the Latest Practicable Date, except for the Outstanding Obligations under the APA (details of which are set out in the section headed "The APA" in the Letter from the Board to this circular), there is no contract or other arrangement entered into by the Company pursuant to which the Company is obligated to make any future capital investment or commitment amount over the Target Assets. The estimated capital expenditures and operating expenses in relation to the development plan above are expected to be funded by the Group's internal resources for at least the 12-month-period

after the date of this circular. The Company may consider other financial resources available from time to time in the future, such as equity or debt financing arrangements, based on the actual earning performance of the Target Assets and the oil and gas market situation in the future.

The Company considers the above development plan to be appropriate and will allow the operation of Target Assets to be commercially viable and more competitive. Any further material updates or changes to the development plan on the Target Assets will be disclosed to the Shareholders in accordance with the Listing Rules.

2. NO MATERIAL ADVERSE CHANGE

No material adverse changes have occurred from the effective date of the Competent Person's Report being 30 November 2016 up to the Latest Practicable Date.

3. NO LEGAL CLAIMS OR PROCEEDINGS

The Company has engaged legal counsels to conduct high-level due diligence of the Target Assets and it has been completed.

As at the Latest Practicable Date, no legal claims or proceedings that may have a material influence on the exploration and operation of the Target Assets are known to the Directors to be present, on-going, pending or threatened by any third party against Stonegate or vice versa.

In addition, as at the Latest Practicable Date, there are no land claims of material importance known to the Directors that may exist over the land on which exploration or mining activity of the Target Assets is being carried out.

4. OTHER MATTERS CONCERNING THE TARGET ASSETS

(1) Brief industry overview

According to *BP Statistical Review of World Energy 2016*, global oil consumption in 2015 grew by 1.9% compared to 2014. Production increased even more rapidly than consumption, rising by 3.2%. This resulted in a sharp decline in global oil price. Dated Brent averaged US\$52.39 per barrel in 2015, a decline of US\$46.56 per barrel from the 2014 level and the lowest annual average since 2004. Crude oil prices rose in early 2015 as global consumption rebounded and US production began to register month-on-month declines. But strong growth in OPEC (Organisation of Petroleum Exporting Countries) production, particularly in Iraq and Saudi Arabia, pushed prices down to a lower level. According to *BP Energy Outlook 2016*, global oil demand will grow by 20% from 2015 to 2035, or 0.9% annually.

With respect to the US petroleum industry, according to the publicly available data on the website of the US Energy Information Administration, with the application of horizontal drilling and hydraulic fracturing techniques, US domestic oil production has almost doubled compared to 2005 with the new production mainly from shale oil. In 2015, US net oil imports fell by 360 kb/d to 4.7 mb/d, the lowest level since 1985.

The Target Assets are located in Eagle Ford, which is located within the Texas Maverick Basin, one of the most famous shale basin. The shale play trends across Texas from the Mexican border up into East Texas, roughly 50 miles wide and 400 miles long with an average thickness of 250 feet. It was first discovered in 2008, and the initial well was located in the Hawkville field in LaSalle County, Texas. Since then the Eagle Ford has been one of the most actively drilled targets for unconventional oil and gas in the United States. As stated in the Competent Person's Report, oil prices have dropped sharply since 2015, and production has decreased primarily to a lower level of drilling activity. By September 2016, approximately 5,742 wells have been drilled to produce the Eagle Ford shale; over 5,500 of these wells are horizontal wells. Eagle Ford Shale is quite possibly the largest single economic development in the history of the state of Texas and ranks as the largest oil and gas development in the world based on capital invested.

(2) Operational permits in relation to the Target Assets required under the laws of the United States

The Target Assets have the right to participate actively in the exploration and/or extraction of oil and gas, via various agreements entered into by Stonegate, including but not limited to the Leases and the JOAs. For more details, please refer to the section headed "Target Assets to be Acquired by the Company under the APA" in this Appendix. Upon completion of the Acquisition, the Company will be entitled to carry out exploration and extraction operations on the Target Assets through its interest in the acquired Leases and the interest and rights under the JOAs.

The Railroad Commission of Texas ("RRC") and the Texas Commission on Environmental Quality ("TCEQ") are the two state agencies responsible for establishing standards and enforcing regulations for oil and natural gas exploration and production in Texas. In the APA, Stonegate has represented that all necessary permits have been obtained from RRC and TCEQ for the exploration and exploitation activities of the Target Assets and maintained in effect and no violations exist in respect of such permits, except for such non-compliance, failure to obtain or maintain that would not cause a material adverse effect on the exploration and exploitation activities of the Target Assets. Stonegate will transfer such permits to the Company upon Closing.

Based on the information provided by Stonegate, there are over 900 permits which have been obtained by Stonegate in relation to the exploration and exploitation activities of the Target Assets, and all of them are confirmed by Stonegate to be in "active" status. The Company hereby sets out below the key categories of the permits as set out in the schedules to the APA. Such permits will be assigned by Stonegate to the Company pursuant to the terms of the APA.

Stonegate holds multiple permits with RRC that are required for it to operate the Target Assets, including:

- (i) an organization report (P-5 Permit), which is one of the most important permits held by Stonegate for its operation, and which includes information about the company and describes the assets it operates. The P-5 Permit is renewed annually in an administrative filing that notes any changes to the company or the assets operated by it. If nothing has changed, Stonegate just needs to file a no-change notice to renew it. At all times, Stonegate must maintain a US\$250,000 performance bond under this permit.
- (ii) for each well operated by Stonegate, a drilling permit (allowing Stonegate to drill a well), a water control board permit (stating that Stonegate's operations do not affect water supplies), and other environmental permits. These permits do not have expiry dates and do not need to be renewed.
- (iii) for each pipeline or gathering system operated by Stonegate, it holds a pipeline permit (T-4 Permit) that describes the pipeline facilities and the volume of oil/gas transported through it. The T-4 Permit is renewed annually in an administrative filing that notes any changes to the pipeline assets operated by it. If nothing has changed, Stonegate just needs to file a no-change notice to renew it.

Before Closing, the Company will need to get its own P-5 Permit and place a US\$250,000 performance bond with RRC. In order to obtain these permits and file reports, the Company will need to get a Security Administrator Designation permit, which allows it to file permit applications and renewals electronically via RRC's website. After Closing, and after the Company has received its P-5 Permit, the Company will file:

- (i) a well transfer application (Form P-4) that transfers all wells to the Company's P-5 Permit, on which date the P-5 Permit's 12 month renewal requirement will begin; and
- (ii) a pipeline transfer application (Form T-4B) that transfers all pipelines and gathering systems to the Company's T-4 Permit, on which date the T-4 Permit's 12 month renewal requirement will begin.

Once the Company holds the P-5 Permit and the T-4 Permit, the Company will have monthly and annual reporting requirements to maintain those permits.

Stonegate also holds a permit for each well with TCEQ. These permits relate primarily to air emissions from the wells. Each of the permits held by Stonegate are standard permits, which means they have a 10 year term and expire on the 10th anniversary of the date of the permit. These permits will be transferred to the Company, who can renew each standard permit administratively by submitting a registration for the renewal prior to the expiration of the standard permit's term.

Based on the information provided by Stonegate, the Company expects no substantial difficulty for it to hold and/or renew certain permits through the applicable administrative procedures.

(3) Environmental and social issues

Eagle Ford basin has a long history of petroleum exploration and production activities and is governed by a mature petroleum regulation system covering both social and environmental issues. Operators of the Target Assets are proficient and professional in both technical and administrative aspects of the exploration and production activities of the area and Eagle Ford basin.

As set out in the Competent Person's Report, the Competent Person is unaware of any material environmental or social issues with respect to the Target Assets, nor are any major hazards identified during the field examination to the oil and gas properties in the Eagle Ford basin conducted by the Competent Person, without considering any potential environmental liabilities that may exist nor were any costs included for potential liability to restore and clean up damages, if any, caused by past operating practices.

The Company has also engaged an environmental specialist to assess the environment-related issues attributable to the Target Assets. Up to the Latest Practicable Date, so far as the Directors are aware, there are no environmental or social issues which may have material adverse impact on the operations and mining activities in relation to the Target Assets.

(4) Non-compliance incidents with the United States laws, regulations and permits which may have a material adverse impact

So far as the Directors are aware, there were no non-compliance incidents with the United States laws, regulations and permits which may have a material adverse impact on the operations and mining activities in relation to the Target Assets as at the Latest Practicable Date.

(5) Key risks identified to the Target Assets and/or in relation to the Acquisition

The Directors consider the following risks and other factors to be material for the Shareholders and potential investors of the Company in relation to Target Assets and/or the Acquisition. However, the risks listed do not purport to comprise all those risks associated with the Target Assets or the Acquisition and are not set out in any particular order of priority. Additional risks and uncertainties not currently known to the Directors or that the Directors currently deem to be immaterial may also have an adverse effect on the Target Assets or the Acquisition.

(i) *Risks relating to the oil and gas industry in the US*

Fluctuations in crude oil prices

The operating results of the Target Assets are sensitive to the volatility in crude oil prices, which is affected by a wide range of factors, including but not limited to the global and domestic political, economic and military circumstances, the price and availability of other energy sources, the costs of exploring for, developing, producing and transporting crude oil, etc., which are beyond the Company's control.

Extended periods of lower crude oil prices may have a material adverse impact on the financial performance of the Target Assets and the Group. And there is no assurance that demand for oil and related products will grow, or that the demand for oil and related products will not experience excess supply.

Operational risks, hazards and unexpected disruptions

The continuous operations of the Target Assets are subject to a number of operational risks and hazards, such as fires, natural disasters, industrial accidents, unexpected maintenance or technical problems, periodic interruptions due to inclement or hazardous weather conditions, power or fuel supply interruptions, malfunction and breakdowns of information management systems, depreciation and breakdowns of critical facilities and equipment, usual or unexpected variations in mineralization, geological or mining conditions, loss of well control, volatility in transportation costs, etc. These risks and hazards may result in personal injury, environmental damage, damage in business reputation and corporate image, destruction of properties or production facilities, interruption of business, delay in product delivery and may subject the Company and its Directors and/or officers to extensive legal liability. In the event of any of the above issues happens, the Company's results of operations and financial condition could be seriously affected.

Fluctuations in foreign currency exchange rate

The majority of the Group's current operation sales, production and other expenses in China are in RMB. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitations on foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates.

The Enlarged Group will generate revenue from the Target Assets in US\$ through the sale of the Hydrocarbons from the Target Assets and the majority of capital and operating costs in relation to the Target Assets are incurred in US\$. The effect of currency exchange fluctuations is impossible to predict with any degree of certainty. As a result, the Enlarged Group's financial position and results may be affected by the exchange rate fluctuations among the currencies.

The Group currently does not engage in hedging activities designed to manage foreign exchange rate risk.

Compliance with the legal and regulatory framework in the US for the operation of the Target Assets

The operation of the Target Assets is substantially affected by federal, state and local laws and regulations.

- *Compliance with regulation of the oil and natural gas industry*

Natural gas production and related operations are, or have been, subject to price controls, taxes and numerous other laws and regulations. Texas has statutory provisions regulating the development and production of oil and natural gas, including provisions related to permits for the drilling of wells, bonding requirements to drill or operate wells, the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, sourcing and disposal of water used in the drilling and completion process, and the abandonment of wells. The operation of the Target Assets is also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units, the number of wells which may be drilled in an area, and the unitization or pooling of crude oil or natural gas wells, as well as regulations that generally prohibit the venting or flaring of natural gas, and impose certain requirements regarding the ratable or fair apportionment of production from fields and individual wells.

Failure to comply with applicable laws and regulations can result in substantial penalties. The regulatory burden on the industry increases the cost of doing business and affects profitability. Although the Company believes it is in substantial compliance with all applicable laws and regulations, such laws and regulations are frequently amended or reinterpreted. Therefore, the Company is unable to predict the future costs or impact of compliance. Additional proposals and proceedings that affect the oil and natural gas industry are regularly considered by the US Congress, the states of the US, the United States Federal Energy Regulatory Commission (“FERC”) and the courts of the US. The Company cannot predict when or whether any such proposals may become effective.

The Company believes it is in substantial compliance with currently applicable laws and regulations and that continued substantial compliance with existing requirements will not have a material adverse effect on the financial position, cash flows or results of operations of the Group. However, current regulatory requirements may change, currently unforeseen environmental incidents may occur or past non-compliance with environmental laws or regulations may be discovered.

- *Compliance with regulation of production of oil and natural gas*

The production of oil and natural gas is subject to regulation under a wide range of local, state and federal statutes, rules, orders and regulations. Federal, state and local statutes and regulations require permits for drilling operations, drilling bonds and reports concerning operations. The Target Assets are located in Texas, which regulates drilling and operating activities by, among other things, requiring permits for the drilling of wells, maintaining bonding requirements in order to drill or operate wells, and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled and the plugging and abandonment of wells. The laws of Texas also govern a number of conservation matters, including provisions for the unitization or pooling of oil and natural gas properties, the establishment of maximum allowable rates of production from oil and natural gas wells, the regulation of well spacing or density, and plugging and abandonment of wells. The effect of these regulations is to limit the amount of oil and natural gas that the Company can produce from the wells among the Target Assets after completion of the Acquisition and to limit the number of wells or the locations at which the Company can drill, although the Company can apply for exceptions to such regulations or to have reductions in well spacing or density. Moreover, Texas imposes a production or severance tax with respect to the production and sale of oil, natural gas and natural gas liquids within its jurisdiction.

The failure to comply with these rules and regulations can result in substantial penalties. The competitors of the Group in the oil and natural gas industry are subject to the same regulatory requirements and restrictions that affect the operation of the Target Assets.

- *Compliance with regulation of sales and transportation of oil*

Sales of oil, condensate and natural gas liquids from producing wells among the Target Assets are not currently regulated and are made at negotiated prices. Nevertheless, the US Congress could enact price controls in the future.

Sales of oil in the United States are affected by the availability, terms and conditions and cost of transportation services. The transportation of oil in common carrier pipelines is also subject to rate and access regulation. FERC regulates the transportation in interstate commerce of crude oil, petroleum products, natural gas liquids and other forms of liquid fuel under the Interstate Commerce Act.

Intrastate oil pipeline transportation rates are subject to regulation by state regulatory commissions. The basis for intrastate oil pipeline regulation, and the degree of regulatory oversight and scrutiny given to intrastate oil pipeline rates, varies from state to state. The Group will rely

on third-party pipelines systems to transport the majority of crude oil produced by wells among the Target Assets. Insofar as effective interstate and intrastate rates and regulations regarding access are equally applicable to all comparable shippers, the Company believes that the regulation of oil transportation will not affect the operations of the Target Assets in any way that is of material difference from those of competitors of the Group who are similarly situated.

Changes in law and to FERC or state policies and regulations may adversely affect the availability and reliability of firm and/or interruptible transportation service on interstate and intrastate pipelines, and the Company cannot predict what future action FERC or state regulatory bodies will take. The Company does not believe, however, that any regulatory changes will affect it in a way that materially differs from the way they will affect other oil producers and marketers with which the Group competes.

- *Compliance with regulation of transportation and sales of natural gas*

Historically, the transportation and sale for resale of natural gas in interstate commerce have been regulated by agencies of the US federal government, primarily FERC. In the past, the federal government regulated the prices at which natural gas could be sold. While sales by producers of natural gas can currently be made at uncontrolled market prices, the US Congress could re-enact price controls in the future. Deregulation of wellhead natural gas sales began with the enactment of the Natural Gas Policy Act (“**NGPA**”), and culminated in adoption of the Natural Gas Wellhead Decontrol Act which removed controls affecting wellhead sales of natural gas effective 1 January 1993. The transportation and sale for resale of natural gas in interstate commerce is regulated primarily under the Natural Gas Act (“**NGA**”), and by regulations and orders promulgated under the NGA by FERC. In certain limited circumstances, intrastate transportation and wholesale sales of natural gas may also be affected directly or indirectly by laws enacted by the US Congress and by FERC regulations.

The Energy Policy Act of 2005 (the “**EP Act of 2005**”) is a comprehensive compilation of tax incentives, authorized appropriations for grants and guaranteed loans, and significant changes to the statutory policy that affects all segments of the energy industry. Among other matters, the EP Act of 2005 amends the NGA to add an anti-market manipulation provision which makes it unlawful for any entity to engage in prohibited behavior to be prescribed by FERC, and furthermore provides FERC with additional civil penalty authority. The EP Act of 2005 provided FERC with the power to assess civil penalties of up to US\$1,000,000 per day for violations of the NGA and increased FERC’s civil penalty authority under the NGPA from US\$5,000 per violation per day to US\$1,000,000 per

violation per day. On 29 June 2016, FERC issued an order (Order No. 826) increasing the maximum civil penalty amounts under the NGA and NGPA to adjust for inflation. FERC may now assess civil penalties under the NGA and NGPA of US\$1,193,970 per violation per day. The civil penalty provisions are applicable to entities that engage in the sale of natural gas for resale in interstate commerce. On 19 January 2006, FERC issued Order No. 670, a rule implementing the anti-market manipulation provision of the EP Act of 2005, and subsequently denied rehearing. The rules make it unlawful to: (i) in connection with the purchase or sale of natural gas subject to the jurisdiction of FERC, or the purchase or sale of transportation services subject to the jurisdiction of FERC, for any entity, directly or indirectly, use or employ any device, scheme or artifice to defraud; (ii) make any untrue statement of material fact or omit to make any such statement necessary to make the statements made not misleading; or (iii) engage in any act or practice that operates as a fraud or deceit upon any person. The new anti-market manipulation rule does not apply to activities that relate only to intrastate or other non-jurisdictional sales or gathering, but does apply to activities of gas pipelines and storage companies that provide interstate services, as well as otherwise non-jurisdictional entities to the extent the activities are conducted “in connection with” gas sales, purchases or transportation subject to FERC jurisdiction, which now includes the annual reporting requirements under Order 704, described below. The anti-market manipulation rule and enhanced civil penalty authority reflect an expansion of FERC’s NGA enforcement authority.

The Group is required to observe such anti-market manipulation laws and related regulations enforced by FERC under the EP Act of 2005 and under the Commodity Exchange Act (the “CEA”), and regulations promulgated thereunder by the US Commodity Futures Trading Commission (the “CFTC”). The CEA prohibits any person from manipulating or attempting to manipulate the price of any commodity in interstate commerce or futures on such commodity. The CEA also prohibits knowingly delivering or causing to be delivered false or misleading or knowingly inaccurate reports concerning market information or conditions that affect or tend to affect the price of a commodity. Should the Company violate the anti-market manipulation laws and regulations, it could also be subject to related third-party damage claims by, among others, sellers, royalty owners and taxing authorities.

On 26 December 2007, FERC issued Order 704, a final rule on the annual natural gas transaction reporting requirements, as amended by subsequent orders on rehearing. Under Order 704, wholesale buyers and sellers of more than 2.2 million MMBtus of physical natural gas in the previous calendar year, including natural gas producers, gatherers and marketers, are now required to report, on 1 May of each year, aggregate volumes of natural gas purchased or sold at wholesale in the prior calendar

year to the extent such transactions utilize, contribute to, or may contribute to the formation of price indices. It is the responsibility of the reporting entity to determine which individual transactions should be reported based on the guidance of Order 704. Order 704 also requires market participants to indicate whether they report prices to any index publishers, and if so, whether their reporting complies with FERC's policy statement on price reporting.

Natural gas gathering service, which occurs upstream of jurisdictional transmission services, is regulated by the states onshore and in state waters. Section 1(b) of the NGA exempts companies that provide natural gas gathering services from regulation by FERC as a "natural gas company" under the NGA. Although FERC has set forth a general test for determining whether facilities perform a non-jurisdictional gathering function or a jurisdictional transmission function, FERC's determinations as to the classification of facilities are done on a case-by-case basis. To the extent that FERC issues an order that reclassifies certain jurisdictional transmission facilities as non-jurisdictional gathering facilities, or vice versa, and depending on the scope of that decision, the costs of getting gas to point-of-sale locations may increase. The Company believes that the natural gas pipelines in the gathering systems of the Target Assets meet the traditional tests FERC has used to establish a pipeline's status as a gatherer not subject to regulation as a natural gas company. However, the distinction between FERC-regulated transmission services and federally unregulated gathering services is the subject of ongoing litigation, so the classification and regulation of the gathering facilities of the Target Assets are subject to change based on future determinations by FERC, the courts or the US Congress. State regulation of natural gas gathering facilities generally includes various occupational safety, environmental and, in some circumstances, nondiscriminatory-take requirements. Although such regulation has not generally been affirmatively applied by state agencies, natural gas gathering may receive greater regulatory scrutiny in the future.

Intrastate natural gas transportation is also subject to regulation by state regulatory agencies. The basis for intrastate regulation of natural gas transportation and the degree of regulatory oversight and scrutiny given to intrastate natural gas pipeline rates and services varies from state to state. Insofar as such regulation within a particular state will generally affect all intrastate natural gas shippers within the state on a comparable basis, the Company believes that the regulation of similarly situated intrastate natural gas transportation in any states in which the Target Assets are being operated and ship natural gas on an intrastate basis will not affect the operation of the Target Assets in any way that is of material difference from those of the competitors of the Group. Like the regulation of interstate transportation rates, the regulation of intrastate transportation rates affects the marketing of natural gas produced by the Group, as well as the revenues may be received by the Group for sales of natural gas.

Changes in law and to FERC or state policies and regulations may adversely affect the availability and reliability of firm and/or interruptible transportation service on interstate and intrastate pipelines, and the Company cannot predict what future action FERC or state regulatory bodies will take. The Company believes, however, that such regulatory changes will not affect it in a way that materially differs from the way they will affect other natural gas producers and marketers with which the Group competes.

- *Compliance with regulation on environmental and ecological matters*

As the Group will be directly involved in the extraction and use of natural resources after the Acquisition, it is subject to various federal, state and local laws and regulations regarding environmental and ecological matters. The more significant of these existing environmental and occupational health and safety laws and regulations include the following US laws and regulations, as amended from time to time:

- the US Clean Air Act, which restricts the emission of air pollutants from many sources, imposes various pre-construction, monitoring, and reporting requirements, which the Environmental Protection Agency has relied upon as authority for adopting climate change regulatory initiatives;
- the US Federal Water Pollution Control Act, also known as the federal Clean Water Act, which regulates discharges of pollutants from facilities to state and federal waters and establishes the extent to which waterways are subject to federal jurisdiction and rulemaking as protected waters of the United States;
- the US Oil Pollution Act of 1990, which subjects owners and operators of vessels, onshore facilities, and pipelines, as well as lessees or permittees of areas in which offshore facilities are located, to liability for removal costs and damages arising from an oil spill in waters of the United States;
- US Department of the Interior regulations, which relate to offshore oil and natural-gas operations in US waters and impose obligations for establishing financial assurances for decommissioning activities, liabilities for pollution clean-up costs resulting from operations, and potential liabilities for pollution damages;

- the Comprehensive Environmental Response, Compensation and Liability Act of 1980, which imposes liability on generators, transporters, and arrangers of hazardous substances at sites where hazardous substance releases have occurred or are threatening to occur;
- the US Resource Conservation and Recovery Act, which governs the generation, treatment, storage, transport, and disposal of solid wastes, including hazardous wastes;
- the US Safe Drinking Water Act, which ensures the quality of the nation's public drinking water through adoption of drinking water standards and controlling the injection of waste fluids into below-ground formations that may; adversely affect drinking water sources;
- the US Emergency Planning and Community Right-to-Know Act, which requires facilities to implement a safety hazard communication program and disseminate information to employees, local emergency planning committees, and response departments on toxic chemical uses and inventories;
- the US Occupational Safety and Health Act, which establishes workplace standards for the protection of the health and safety of employees, including the implementation of hazard communications programs designed to inform employees about hazardous substances in the workplace, potential harmful effects of these substances, and appropriate control measures;
- the Endangered Species Act, which restricts activities that may affect federally identified endangered and threatened species or their habitats through the implementation of operating restrictions or a temporary, seasonal, or permanent ban in affected areas; and
- the National Environmental Policy Act, which requires federal agencies, including the Department of the Interior, to evaluate major agency actions having the potential to impact the environment and that may require the preparation of environmental assessments and more detailed environmental impact statements that may be made available for public review and comment.

Compliance with these laws and regulations may necessitate significant capital outlays. The Company believes the existence of these environmental laws, as currently written and interpreted, will not materially hinder or adversely affect the Group's business operations in respect of the Target Assets after the Acquisition; however, there can be

no assurances of future events or changes in laws, or the interpretation of laws, governing the industry. It will be not economical even not practicable for the Group to be fully insured against all environmental risks, insurance coverage is maintained at levels which are customary in the industry.

After the Acquisition, the Group may be adversely affected by legislative, regulatory, administrative and enforcement action at the local, state and national levels in the areas, among others, of environmental controls, which could have a significant impact on the operation of the Target Assets or could substantially increase the costs of operating a well. In addition to possible increasingly restrictive land use controls, such restrictions may relate to air and water quality standards, noise pollution and indirect environmental impacts.

Various federal, state and local laws and regulations governing the discharge of materials into the environment, or otherwise relating to the protection of the environment, health and safety, may affect the Group's operations and costs in the United States. These laws and regulations sometimes require governmental authorization before conducting certain activities, limit or prohibit other activities because of protected areas or species, create the possibility of substantial liabilities for pollution related to each project, and provide penalties for noncompliance. In particular, the Group's drilling and production operations, its activities in connection with storage and transportation of crude oil, and its use of facilities for treating, processing or otherwise handling hydrocarbons and related exploration and production wastes in the United States will be subject to stringent environmental regulation. As with the industry generally, the Group will need to incur cost complying with existing and future regulations. Environmental regulations have historically been subject to frequent change and, therefore, the Company cannot predict with certainty the future costs or other future impacts of environmental regulations on its future operations. A discharge of hydrocarbons or hazardous substances into the environment could subject the Group to substantial expense, including the cost to comply with applicable regulations that require a response to the discharge, such as contaminator clean-up, claims by neighboring landowners or other third parties for personal injury, property damage or their response costs and penalties, assessed, or other claims sought, by regulatory agencies for response cost or for natural resource damages.

(ii) *Risks relating to the operation of the Target Assets*

Uncertainties of reserves estimations and production projections

The estimates on the oil and gas resources and reserves of the Target Assets, details of which are stated in the Competent Person's Report. As stated in the Competent Person's Report, the Hydrocarbon reserves assessment and valuation have inherent associated risks due to indirect measurement of the quantities and qualities of the reserves and resources, such as risks relating to geological uncertainty, operator capability, social and environment liabilities, etc. Estimates of the resources and reserves may change significantly when new information becomes available or new uncertainties arise.

There is also a risk that the oil and gas wells of the Target Assets may not yield oil in quantities sufficient to meet the target rate of return as projected in the Competent Person's Report. The Group's business, prospects, financial condition and results of operations may not be as optimum as stated in the Competent Person's Report.

Additional capital investment

Operating the Target Assets requires substantial and continuous capital investment. Even though the Target Assets are expected to generate sufficient cash flows to satisfy all of its operational requirements, it may be required to finance part of its cash needs through alternate means. In addition, although the Directors believe that the Company will be able to meet its Capex obligations and will take into account financing requirements in considering and approving new capital investments, there is no assurance that funding for the Company's future Capex requirements will necessarily be available on time or on favourable terms. Therefore, the actual capital investment for operation and development of the Target Assets may exceed the Group's original budgets because of factors beyond control. Possible future fund raising activities (when required) to fund such capital investments may cause dilution effect on the shareholding interest of the Shareholders, incur finance cost and/or limit the Company's ability to pay dividends.

Changes or delay to develop as drilling plans scheduled

The future profitability of the Target Assets is dependent on its ability to successfully implement its development plan as plans scheduled, which in turn depends on a number of factors including, among others, the objective circumstances of the mine sites and the government regulations including regulations relating to prices, taxes, royalties, land use, importing and exporting of mineral resources and environmental protection. Although the development plan for the Target Assets is prudently made and is believed to be feasible, the construction works and equipment upgrades conducted in reality may not be completed as originally planned or scheduled, and may not achieve the economic results or commercial viability as intended. Any adverse changes in

economic, political and social conditions as well as governmental policies may result in changes or delay of the development of the Target Assets and may adversely affect the overall proceeds of the Company.

Failure to maintain Leases

Upon Closing, Stonegate will assign its rights and interest under the Leases pursuant to the terms of the APA and the Company will be a lessee under those Leases, being entitled to explore for, develop and produce Hydrocarbons from the Target Assets. In the event that any of the lessees under a Lease breaches any terms and conditions specified in the Lease, the lessor (the owner of the real property) has the right to forfeit the mining land for which the Leases has been granted. Once any of the Leases is forfeited because of any non-compliance events, the operating results of the Target Assets and the business of the Group might be materially and adversely affected.

Failure to maintain various permits or satisfy administrative requirements

There are over 900 permits which have been obtained by Stonegate in relation to the exploration and exploitation activities of the Target Assets pursuant to the schedules to the APA which will be assigned by Stonegate to the Company pursuant to the terms of the APA. These permits are subject to renewal, modification and revocation from time to time after the Acquisition. If the Company failed to obtain or renew or to procure to obtain or renew such permits on a timely basis, the Company may be subject to fines or be prohibited from continuing operations of the relevant oil field, which could in turn exert an adverse impact on the Company's results of operations.

(6) Tax payment in relation to the Target Assets

Generally, the US entity acquiring or holding the Target Assets is expected to be subject to various taxes in the United States, at federal and/or state level, mainly including (i) severance tax imposed on the market value of oil, natural gas or natural gas liquids produced; (ii) ad valorem tax imposed on the assessed value of minerals; (iii) property tax imposed on the assessed value of non-oil and gas assets; (iv) state franchise tax calculated with reference to an entity's margin; (v) state unemployment tax imposed on taxable wages paid by employers in Texas; (vi) federal unemployment tax used to fund a program that support unemployed workers in the US; (vii) Federal Insurance Contributions Act tax being the combination of the Social Security tax and the Medicare tax; and (viii) federal and state income tax.

The Sellers are limited liability companies and are treated as partnerships for US federal and state income tax purposes. As such, the Sellers are pass-through entities for federal income tax purposes and do not pay federal income tax prior to the Acquisition. Instead, the obligation to pay federal income tax resides with the actual US members of the Sellers. After the Acquisition, however, the profit generated from the Target Assets is subject to the US federal income tax. It is currently proposed that a wholly-owned subsidiary specially established by the Company for purpose of holding the Target Assets

after the Acquisition will undertake such US federal income tax and the Company will not be a US tax resident. For illustrative purpose, HKFRS adjusted net income will be used as the taxable profit and a federal tax rate of 35% will be applied to calculate the income tax adjustment.

A summary of relevant significant tax payments made by Stonegate in relation to the Target Assets for the ten months ended 31 October 2016 and the three years ended 31 December 2015 is set out as below:

	For the ten months ended 31 October 2016 (US\$'000)	For the year ended 31 December 2015 (US\$'000)	For the year ended 31 December 2014 (US\$'000)	For the year ended 31 December 2013 (US\$'000)
Severance Tax (<i>Note 1</i>)	2,319	5,236	12,143	4,691
Ad Valorem Tax (<i>Note 2</i>)	210	3,895	2,505	1,036
State Franchise tax (<i>Note 3</i>)	585	4,902	2,573	1,749
Other taxes (<i>Note 4</i>)	468	549	422	199

Note 1: Severance tax in Texas on oil is calculated as 4.6% of market value of oil produced. In addition a US\$0.006250 per barrel regulatory fee is imposed on every barrel of oil sold. Severance tax on natural gas and natural gas liquids is calculated at 7.5% of market value. A regulatory fee of US\$0.000667 per thousand cubic feet of gas sold also generally applies. Certain gathering, processing and other costs incurred can be deducted from the taxable value of gas.

Note 2: Ad Valorem tax on minerals is levied at the county level. In Texas, this tax becomes payable only when minerals are producing (as opposed to non producing) and taxed at determined rates based on the appraised Fair Market Value.

Note 3: Texas franchise tax is a privilege tax imposed on each taxable entity formed or organized in Texas or doing business in Texas. The tax is generally calculated as a percentage of an entity's margin (generally 0.75%) subject to certain adjustments and deductions.

Note 4: Other taxes include (i) property tax imposed by each county on the assessed value of Company's non-oil and gas assets such as vehicles, furniture and equipment; (ii) state unemployment tax imposed on taxable wages paid by employers in Texas; (iii) federal unemployment tax used to fund a program that supports workers who lose their jobs; and (iv) Federal Insurance Contributions Act Tax which is the combination of the Social Security tax and the Medicare tax.

Save as disclosed above, up to the Latest Practical Date, there had not been any payments made to the United States governments in respect of tax, royalties and other significant payments by Stonegate in relation to the Target Assets.

(7) Non-governmental organisation impact and future operational management over the Target Assets

Up to the Latest Practical Date, none of any non-governmental organization that had or might have material impact on the sustainability of the operation of the Target Assets was identified.

Under the applicable laws of Texas, personnel or companies who would like to be an operator conducting drilling or exploration activities in the oil and gas industry shall meet certain requirements to be qualified. Such requirements generally include (i) filing an organization report with RRC and renewing it on an annual basis; and (ii) filing a blanket bond as financial assurance at an amount linked to the number of operating wells to be operated by the operator. There is no transfer of any employees or contractor of Stonegate to the Company under the APA, and no employee contracts of the Sellers are being purchased by the Company or will be otherwise transferred to the Company under the APA. As at the Latest Practicable Date, the Company is in the process of planning its own management and operating team for the operation and development of the Target Assets after the Acquisition. The Company is considering designating its existing management members and/or personnel to manage and oversee the operation and development of the Target Assets, and hiring appropriate persons from the open market, which may include some employees of the Sellers, subject to separate negotiation with each of them on an arm's length basis.

APPENDIX II

**UNAUDITED PROFIT AND LOSS STATEMENTS
ON THE IDENTIFIABLE NET INCOME STREAM
IN RELATION TO THE TARGET ASSETS**

In accordance with paragraph 14.69(4)(b)(i) of the Listing Rules, the unaudited profit and loss statements on the identifiable net income stream (“**Identifiable Net Income Stream**”) of the Target Assets for each of the years ended 31 December 2013, 2014 and 2015, and the ten months ended 31 October 2016, which are compiled and derived from the accounting records of Stonegate, are prepared using accounting policies materially consistent with those of the Group. The Identifiable Net Income Stream of the Target Assets set out below has been prepared based on the accounting records of Stonegate and taken into consideration of certain adjustments (the “**Adjustments**”) identified by the Directors in order to conform financial information prepared by Stonegate to the Group’s accounting policies. The Directors take the sole responsibility on the completeness, appropriateness and accuracy of these adjustments so as to reflect business performance of the Target Assets. In the opinion of the Directors, the Identifiable Net Income Stream of the Target Assets has been properly compiled and derived from the underlying books and records of Stonegate and prepared in accordance with the accounting policies materially consistent with the Group’s.

	For the year ended 31 December			For the ten months ended
	2013	2014	2015	31 October
	US\$'000	US\$'000	US\$'000	2016 US\$'000
Revenue (<i>Note 1</i>)	109,339	255,654	117,938	62,200
Cost of sales (<i>Note 2</i>)	(46,694)	(110,974)	(205,469)	(49,033)
Administrative expenses (<i>Note 3</i>)	(11,151)	(21,830)	(16,090)	(23,988)
Other operating expenses (<i>Note 4</i>)	(4,691)	(12,143)	(5,236)	(2,574)
Exploration expenses, including dry holes (<i>Note 5</i>)	(302)	(6,288)	(16,727)	(172)
Impairment losses (<i>Note 6</i>)	—	—	(468,797)	—
Net finance costs	(6,669)	(11,710)	(19,808)	(28,036)
Profit/(loss) before tax	<u>39,832</u>	<u>92,709</u>	<u>(614,189)</u>	<u>(41,603)</u>

Notes:

- The revenue was generated by the Target Assets from sale of oil, natural gas and natural gas liquid. The revenue increased in the year ended 31 December 2014 as compared to the year ended 31 December 2013 primarily as a result of more wells being drilled and completed during the year ended 31 December 2014. As compared to the year ended 31 December 2014, the revenue for the year ended 31 December 2015 and the annualised revenue for the ten months ended 31 October 2016 decreased primarily due to the weak trend of market prices of oil, natural gas and natural gas liquid. For illustrative purpose, the average crude oil price of West Texas Intermediate for each of the three years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016 was US\$97.5, US\$94.7, US\$50.0 and US\$41.9 per barrel, respectively.

2. Cost of sales was mainly comprised of depreciation, depletion and amortisation and other operating cost. Oil and gas properties were amortised on the basis of production volume and estimated reserve, subject to market prices of oil, natural gas and natural gas liquid. A summary of the cost of sales by nature for the three years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016 is set out as follows:

	For the year ended 31 December			For the ten months ended
	2013	2014	2015	31 October 2016
	US\$'000	US\$'000	US\$'000	US\$'000
Depreciation, depletion and amortisation (<i>Note 2.1</i>)	26,128	78,172	162,195	24,469
Lease operating expenses (<i>Note 2.2</i>)	9,948	19,650	25,961	11,371
Post production costs (<i>Note 2.3</i>)	10,618	10,771	16,315	11,797
Others	—	2,381	998	1,396
Total	46,694	110,974	205,469	49,033

Notes:

- 2.1 The increase in depreciation, depletion and amortisation in the year ended 31 December 2015, as compared to the year of 2014, was mainly attributable to the decrease in estimated reserve. The decrease in market price of oil, natural gas and natural gas liquid lowered the price parameters, which is one of the key assumptions for estimated reserve.
- 2.2 The increase in lease operating expenses in the year ended 31 December 2015, as compared to the year of 2014, was mainly attributable to the increase in the cost of contract service, maintenance, rental expenses, insurance and other semi-fixed costs which are all operating and maintenance costs in relation to the Target Assets incurred by Stonegate in its ordinary and usual course of business as a result of the increase in number of wells drilled and completed from 2014 to 2015.
- 2.3 The increase in post production costs in the year ended 31 December 2015, as compared to the year of 2014, was mainly attributable to the increase of gathering fees, processing fees, treating fees and gas lift fees which are all operating and maintenance costs in relation to the Target Assets incurred by Stonegate in its ordinary and usual course of business as a result of the increase in cost charged from mid-stream companies in 2015 as compared to 2014.
3. The administrative expenses represented staff expense, legal and professional fee and other office expenses relating to the Target Assets. The administrative expenses fluctuated during the three years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016 mainly due to the fluctuation of staff expenses as a result of the changes in head count during the respective years/period. Higher amount of legal and professional fees were incurred during the ten months ended 31 October 2016 for engaging external advisors to evaluate strategic alternatives in response to declining industry

conditions. A summary of the administrative expenses by nature for the three years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016 is set out as follows:

	For the year ended 31 December			For the ten months ended
	2013	2014	2015	31 October 2016
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Staff expense	6,266	11,573	9,727	9,682
Legal and professional fee	2,441	5,340	2,651	12,576
Other office expenses	<u>2,444</u>	<u>4,917</u>	<u>3,712</u>	<u>1,730</u>
Total	<u>11,151</u>	<u>21,830</u>	<u>16,090</u>	<u>23,988</u>

4. Other operating expenses represented production taxes incurred in connection with the sale of oil, natural gas and natural gas liquid. Hence, fluctuation in other operating expenses during the three years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016 was in line with the fluctuation in revenue during the respective years/period.
5. Exploration expenses represented geological and geophysical costs, delay rentals and expenses charged for expired non-producing leasehold. Higher exploration expense was incurred during the year ended 31 December 2015 mainly due to impairment charge adjustment for expired non-producing leasehold.
6. Impairment losses represented impairment loss on property, plant and equipment of the Target Assets recognised in the year ended 31 December 2015. As a result of the significant decrease in market price of oil, natural gas and natural gas liquid during 2015, management of Stonegate carried out an impairment assessment and recognised an impairment based on the recoverable amount of property, plant and equipment of the Target Assets.

The Company has engaged KPMG, the auditor of the Company, to perform certain agreed upon procedures and report its factual findings on the compilation of the Identifiable Net Income Stream of the Target Assets in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The auditor has agreed the balances set out in the Identifiable Net Income Stream of the Target Assets for each of the years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016 to the Schedules prepared by management of the Company (the “Schedules”), traced the unadjusted amounts in the Schedules to the relevant accounting records of Stonegate, agreed the Adjustments shown on the Schedules to the reconciliation of financial information prepared by Stonegate to the Group’s accounting policies prepared by management and checked the arithmetical accuracy of the Schedules, and reported their factual findings based on the agreed-upon procedures to the Directors. Since the agreed-upon procedures were agreed by the Directors and the auditor of the Company and the findings on the agreed upon procedures were reported solely for the information of the Directors of the Company, they should not be used or relied upon by any other parties for any other purposes.

1. ANNUAL REPORTS, INTERIM REPORT AND FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group for each of the three years ended 31 March 2014, 2015 and 2016 and the unaudited condensed consolidated financial information of the Group for the six months ended 30 September 2016 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.irasia.com/listco/hk/idgenergy>) respectively:

- The audited consolidated financial statements of the Group for the year ended 31 March 2014 has been set out in pages 17 to 72 of the annual report 2014 of the Company published on 28 July 2014 on the Stock Exchange's website. Please see below link to the Company's annual report 2014:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0728/LTN20140728251.pdf>

- The audited consolidated financial statements of the Group for the year ended 31 March 2015 has been set out in pages 18 to 84 of the annual report 2015 of the Company published on 20 July 2015 on the Stock Exchange's website. Please see below link to the Company's annual report 2015:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0720/LTN20150720337.pdf>

- The audited consolidated financial statements of the Group for the year ended 31 March 2016 has been set out in pages 25 to 92 of the annual report 2016 of the Company published on 26 July 2016 on the Stock Exchange's website. Please see below link to the Company's annual report 2016:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0726/LTN20160726386.pdf>

- The unaudited condensed consolidated financial information of the Group for the six months ended 30 September 2016 has been set out in pages 24 to 44 of the interim report 2016 of the Company published on 15 December 2016 on the Stock Exchange's website. Please see below link to the Company's interim report 2016:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/1215/LTN20161215559.pdf>

Please also pay attention to the unaudited pro forma financial information of the Group for the year ended 31 March 2016 as set out in Part B of Appendix III to the composite offer and response document jointly issued by the Company and Titan Gas Technology Investment Limited dated 5 August 2016 which has also been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.irasia.com/listco/hk/idgenergy>) respectively.

2. INDEBTEDNESS OF THE GROUP

As at 31 January 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, loans of approximately HK\$101.8 million, convertible bonds of approximately HK\$116.0 million, and convertible notes of approximately HK\$217.4 million. All of the abovementioned loans, convertible bonds and convertible notes are unguaranteed.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, as at 31 January 2017, the Group did not have any outstanding mortgages, charges, debentures, other loan capital, bank overdrafts, loans, debt securities, other similar indebtedness, liabilities under acceptances or acceptances credits or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirmed there was no material adverse change in the indebtedness and contingent liabilities of the Group since 31 January 2017 and being the date for determining the Group's indebtedness.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rate of exchange prevailing at the close of business on 31 January 2017.

3. DIVIDEND AND FINANCIAL SUMMARY

No dividend was declared/paid by the Company for the years ended 31 March 2014, 2015 and 2016 and the six months ended 30 September 2016.

4. MANAGEMENT DISCUSSION AND ANALYSIS OF HISTORICAL RESULTS OF OPERATIONS OF THE GROUP

Reproduced below is the management discussion and analysis of the Group's operations for the financial years ended 31 March 2014, 2015 and 2016 and the six months ended 30 September 2016, respectively. The information reproduced below is principally extracted from the sections of "Business review", "Business prospects" and "Management discussion and analysis" of the annual report of the Company for each of the three financial years ended 31 March 2016 and the chapter of "Management discussion and analysis" of the interim report of the Company for the six months ended 30 September 2016 to provide further information relating to the financial condition and results of operations of the Group during the respective periods stated. **Capitalised terms used in this section shall have the same meaning as those defined in the respective annual report or interim report.**

These extracted materials below were prepared prior to the date of this circular and speak as of the date they were originally published, representing the opinion and beliefs made by the then Directors at such time when the related annual report or interim report was issued. In particular, the extracted information for each of the three financial years ended 31 March 2014, 2015 and 2016 reflects the previous hotel and restaurant business of the Group which the Company has completely disposed of through the Previous Reverse Takeover and is not expected to be the revenue earner of the Company in the future any more.

As stated above, the Company's prospects and intentions relating to its business may have changed since that date, and the readers should therefore not place undue reliance on this information, including the information consisting of or relating to forward looking or future statements. Readers should instead pay attention to other sections of this circular, namely:

- Letter from the Board;
- Appendix IV — Unaudited Pro Forma Financial Information of the Enlarged Group;
- Appendix VII — General Information.

For the six months ended 30 September 2016

Business review

1. Change of the Group's principal activities and effects on financial reporting of the Group for the Reverse Takeover Transaction

On 29 July 2016 (the "**Completion Date**"), the Transfer and the Transactions (as defined in Shun Cheong Holdings Limited (the "**Company**")'s circular dated 29 June 2016 (the "**Circular**")) (collectively the "**Reverse Takeover Transaction**") was completed. The Company, together with its subsidiaries (the "**Group**")'s principal activities changed from hotel and restaurant operations in the People's Republic of China (the "**PRC**") to the exploration, development and production of crude oil in the PRC.

Although the Reverse Takeover Transaction has been structured such that the Company acquired the entire equity interest of 錫林郭勒盟宏博礦業開發有限公司 (Xilin Gol League Hongbo Mining Development Co., Ltd.*) ("**Hongbo Mining**"), the deemed former shareholders of Hongbo Mining became the majority shareholders of the combined group as a result. Accordingly, the consolidated interim financial information of the Company has been presented as a continuation of the financial information of Hongbo Mining, such that:

- (i) the assets and liabilities of Hongbo Mining were recognised and measured at their carrying amounts;
- (ii) the identifiable assets and liabilities of the Company were recognised and measured initially at their fair value on the Completion Date; and
- (iii) the comparative information presented in the interim financial report was restated to be that of Hongbo Mining adjusted to reflect the Company's capital structure.

Hongbo Mining's financial statements for the year ended 31 December 2015 are included in Appendix III to the Circular.

In addition, as the Company divested its original business as part of the Reverse Takeover Transaction, the overall transaction does not constitute a business combination in accordance with HKFRS 3 Business Combinations. Instead, Hongbo Mining was

deemed to have issued shares to acquire the identifiable net liabilities and the listing status of the Company in accordance with HKFRS 2 Share-based Payment. Consequently, the difference in the fair value of the shares deemed to have been issued by Hongbo Mining and the fair value of the Company's identifiable net liabilities has been accounted for as payment for a service of a stock exchange listing for shares, recognised in profit or loss during the period.

2. Review of upstream oil and gas industry and the Group's business operations

In the first half of the 2016 financial year ("FY2016"), the upstream oil and gas industry experienced a substantial business cyclical downturn. The monthly average Brent Crude spot price for the first half of FY2016 was US\$46 (equivalent to approximately HK\$357) per barrel, which was at an industry low in the past ten years. As a result of the depressed oil prices and economic fluctuation, the Group's oil production volume decreased to approximately 141,145 barrels by approximately 36.5%; gross and net oil sales volume decreased to approximately 141,749 barrels and 113,400 barrels, respectively, by approximately 34.9%, and gross and net revenue decreased to approximately HK\$42.5 million and HK\$34.0 million, respectively, by approximately 50.2%, compared with the first half of the 2015 financial year.

In response to the decline in selling prices, the Group has actively adopted well control measures to stable the oil production and build up reserves during the period. Furthermore, a portion of the existing wells of the Group have entered natural production decline cycle, and thus the decline in production is considered a normal phenomenon. It is also important to note that the oil price rebounded from June 2016. In view of the optimistic oil price trend and after completion of the Subscription, the Group drilled 3 new wells and fractured 13 producing wells towards the end of the first half of FY2016. Although the current daily production remained affected by the drop in oil prices and natural production decline correspondingly, a production boost is expected after these new measures have come into operation for a few months.

Business prospects

Oil price rebounded after June 2016, with the average price of the Brent Crude for October and November 2016 reached approximately US\$50 (equivalent to approximately HK\$388) and approximately US\$47 (equivalent to approximately HK\$365) per barrel, respectively, with continued volatile swings, given concerns on the global crude oil oversupply. The market generally expects that mid and long term oil price to recover gradually.

In the first half of FY2016, the Group achieved a major breakthrough on the newly drilled Y9-1 well, which reaches a daily high production of 156 barrels per day on the well test stage and is one of the highest daily production wells in Block 212. This remarkable progress provides a solid foundation for further development in the block. The Y9-1 well is located at the boundary of Unit 2 and Unit 19 and its high production volume may reflect potential new underground reserves, pending further production and geographical information for further analysis. The Group will first study the production statistics of the Y9-1 well and evaluate the impact on the whole development plan for new

wells drilling. This has temporarily affected the drilling plan of the Group in 2016, but the Group will follow up, expedite and adhere to the general development plan in 2017. The Group will adopt a stable output strategy, prepare to invest a large amount of capital expenditure for further drilling and fracturing plan, based on the international oil market trend.

In view of the long term oil price recovery, the Group is also actively exploring appropriate potential acquisition targets overseas. Making strategic acquisitions of oil assets overseas is an important driver for growth and will greatly enhance shareholders' value. A counter-cyclical acquisition may provide a great opportunity to access world-class assets at a reasonable price. The board of directors of the Company believes the recent relatively low crude oil commodity price offers investors an attractive risk/return profile and diversification opportunities. The Group considers that there are many potential upstream oil assets in North America, especially in Eagle Ford shale, which have large oil reserves and could help provide the Group with a more diversified and balanced asset portfolio. The criteria relevant when selecting and evaluating future acquisition targets have already been disclosed in the Circular and the Group will continue to adopt the same strategy

Liquidity and financial resources

The Group finances its operations primarily through a combination of bank and other borrowings and proceeds from the Subscription and the CN Subscription. For further details of use of proceeds from the Subscription and the CN Subscription, please refer to "Business Review — Use of Proceeds from the Subscription and the Convertible Note Subscription" of the interim report for the six months ended 30 September 2016.

The Group's cash and cash equivalents are mostly denominated in HK\$ and RMB. As at 30 September 2016, the Group had unpledged cash and bank deposits of approximately HK\$537.9 million (31 March 2016 (restated): HK\$15.3 million).

As at 30 September 2016, the Group had outstanding unsecured six-month interest-bearing entrusted loans of approximately HK\$104.5 million (31 March 2016 (restated): Third party loan of approximately HK\$84.0 million and entrusted loan of approximately HK\$24.0 million), which were all denominated in RMB. These short term loans carried fixed interest rate of 4.8% per annum (31 March 2016 (restated): floating interest rate of 1.1 times of the prevailing market interest rate published by People's Bank of China for the third party loan and fixed interest rate of 4.8% per annum for the entrusted loan).

As at 30 September 2016, the Group had a convertible note with carrying amount of approximately HK\$213.3 million (31 March 2016 (restated): Nil). The principal amount of the convertible note is HK\$250,000,000 pursuant to the CN Subscription Agreement, with the maturity date at the third anniversary of the date of the CN Subscription Completion (i.e. 29 July 2016) and that no interest shall be payable on the entire CN Principal Amount (as defined in the Circular).

As at 30 September 2016, the Group had convertible bonds with carrying amount of approximately HK\$114.8 million (31 March 2016 (restated): Nil). The aggregate principal amount of the convertible bonds is HK\$120,000,000, with the maturity date of 30 April 2018 and payable at an interest rate of 1% per annum.

The Group did not use any financial instrument to hedge potential fluctuation in interest rates and exchange rates.

As at 30 September 2016, the Group's gearing ratio (ratio of the sum of total bank and other borrowings, convertible bonds and convertible note to the total assets) was approximately 14.7% (31 March 2016 (restated): 13.8%).

Charges on Group Assets

As at 30 September 2016, the Group did not have any charges on its assets (31 March 2016 (restated): Nil).

Employees and remuneration policies

As at 30 September 2016, the Group had 76 (31 March 2016 (restated): 70) employees in Hong Kong and the PRC. For the six months ended 30 September 2016, the total staff costs (including the directors' emoluments) amounted to approximately HK\$7.1 million (Six months ended 30 September 2015 (restated): HK\$7.8 million). Employees' remuneration package was reviewed periodically and determined with reference to the performance of the individual and the prevailing market practices. Employees' remuneration package includes basic salary, year-end bonus, medical and contributory provident fund.

For the year ended 31 March 2016

Business review

Aykens Holdings Limited, Hopland Enterprises Limited and their respective subsidiaries were, together, mainly engaged in the hotel and restaurant operations of the Guangxi Wharton International Hotel Limited* (廣西沃頓國際大酒店有限公司) (the "Nanning Hotel") located in Guangxi Province, the PRC. For the year ended 31 March 2016, whilst the average daily rate of the Nanning Hotel was in general still lower than the levels in last financial year, the occupancy rate slightly increased by 3% to 59% (2015: 56%). The net income of the Divestment Group improved from a net loss to a net profit of HK\$7.2 million (2015: net loss of HK\$152.4 million) as a result of (i) the decrease in cost of sales due to keen competition; (ii) the cease of depreciation on assets of the Divestment Group since the date of the Divestment Agreement; and (iii) an impairment were incurred during year 2015.

During the period under review, the Divestment Group is still part of the Group's business and the operation in respect of investment holding does not have any business in substance. The Divestment is conditional upon the fulfillment or waiver (if applicable) of many conditions precedent and may or may not be completed as contemplated. The higher

amount in the net losses of the Group in the year ended 31 March 2015 was primarily due to a finance cost of HK\$68.9 million incurred as a result of the modification of terms of the convertible bonds.

Liquidity and financial resources

The Group's cash and bank balances are mostly denominated in HK\$ and RMB. As at 31 March 2016, the Group had unpledged cash and bank deposit balances of approximately HK\$12.4 million, including the cash & bank balance classified as held for sale (31 March 2015: HK\$15.2 million). As at 31 March 2016, except for the outstanding interest-bearing bank borrowings of approximately HK\$150.3 million classified as held for sale, the Group had no outstanding interest-bearing bank borrowings (31 March 2015: HK\$197.9 million). The gearing ratio of the Group which represented the total interest-bearing debt to the total assets was 26% (31 March 2015: 99%).

Treasury and funding policy

The assets and liabilities of the Group are mainly denominated in HK\$ and RMB. The Group's bank borrowing is on a floating rate at the prime lending rate of the People's Bank of China. Taking into account of the expected cash flows of the Group's operations and cash and investment in marketable securities currently in hand, the Group expects that it will have sufficient working capital for its financial liabilities as they fall due. As the main operation of the Group is in the PRC, the Group has minimal exposure to foreign exchange fluctuation in RMB.

Pledge of assets

As at 31 March 2016, the hotel properties held with an aggregate carrying amount of approximately HK\$253.3 million (31 March 2015: HK\$272.6 million) were mortgaged to a bank to secure banking facilities granted to the Group.

Employees and remuneration policies

The Group employed 516 employees as at 31 March 2016 (31 March 2015: 496). Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually depending on individual merits. The Group also provides other benefits including retirement benefit scheme, medical insurance and educational subsidies to all eligible staff. Detailed retirement benefit plans are set out in note 35 to the consolidated financial statements of the annual report for the financial year ended 31 March 2016. The Group's employer contributions vest fully with the employees when contributed into the relevant retirement benefit scheme.

For the year ended 31 March 2015***Business review***

For the year ended 31 March 2015, the revenue of the Group's continuing operation, being the operation of the Guangxi Wharton International Hotel Limited* (廣西沃頓國際大酒店有限公司) (the "Nanning Hotel") located in Guangxi Province, the PRC, increased by 18.4% to HK\$143.7 million (2014: HK\$121.4 million). Tackling the intensified market competition, the increase in revenue was mainly attributable to the improved occupancy rate in the hotel operation of the Nanning Hotel while the average room rate is decreased. The cost of sales has increased by 8% to HK\$115.8 million (2014: HK\$106.9 million). The Group's gross profit increased to HK\$27.9 million for the current year (2014: HK\$14.4 million).

Due to the unrealised loss of convertible bonds at fair value through profit or loss and the significant assets impairment loss occurred, the Group recorded a loss before tax from continuing operation of HK\$234.9 million for the year ended 31 March 2015 as compared to the results of HK\$197.8 million loss for the prior year. During the year, the Nanning Hotel reported an average room rate of HK\$678 (2014: HK\$757) and an average occupancy rate of 55.76% (2014: 39.4%).

Liquidity and financial resources

The Group's cash and bank balances are mostly in HK\$ and RMB. As at 31 March 2015, the Group had unpledged cash and bank deposit balances of approximately HK\$15.2 million (2014: HK\$42.8 million). As at 31 March 2015, the Group had outstanding interest-bearing bank borrowings of HK\$197.9 million (2014: HK\$234.8 million). The gearing ratio of the Group which represented the total interest-bearing bank borrowings to the total assets was 43.6% (2014: 36.5%).

Treasury and funding policy

The assets and liabilities of the Group are mainly denominated in HK\$ and RMB. The Group's bank borrowing is on a floating rate at the prime lending rate of the People's Bank of China. Taking into account of the expected cash flows of the Group's operations and cash and investment in marketable securities currently in hand, the Group expects that it will have sufficient working capital for its financial liabilities as they fall due. As the main operation of the Group is in the PRC, the Group has minimal exposure to foreign exchange fluctuation in RMB.

Pledge of assets

As at 31 March 2015, the hotel properties held with an aggregate carrying amount of approximately HK\$272.6 million (2014: HK\$283.0 million) were pledged to a bank to secure banking facilities granted to the Group.

Employees and remuneration policy

The Group employed approximately 496 employees as at 31 March 2015 (2014: 540). Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually depending on individual merits. The Group also provides other benefits including retirement benefit scheme, medical insurance and educational subsidies to all eligible staff.

For the year ended 31 March 2014*Business review*

For the year ended 31 March 2014, the revenue of the Group's continuing operation, being the operation of the Guangxi Wharton International Hotel Limited* (廣西沃頓國際大酒店有限公司) (the "Nanning Hotel") located in Guangxi Province, the PRC, was decreased by 23% to HK\$121.4 million (2013: HK\$157.9 million). The decrease was mainly attributable to the lower occupancy rate in the restaurant operation of the Nanning Hotel. In the financial year ended 31 March 2014, a large scale of the decoration has been initiated and accomplished in Nanning Hotel. The hotel has 16 floors and the decoration covered totally twelve floors of the Hotel. The decoration has significant impact on the normal hotel operation. Even though the cost of sales was managed to be decreased by 8% to HK\$107 million (2013: HK\$116.6 million), there was drop in the gross profit to HK\$14.4 million for the current year (2013: HK\$41.3 million).

On 5 June 2014, the wholly-owned subsidiary, Open Land Holdings Limited, received the Civil Judgment ((2013) Nan Shi Min San Chu Zi No. 41), and it does not agree with the Civil Judgment and intends to file appeal with lawyers. For the prudence purposes, the management of the Company made provision for the litigation issue.

As a result of such drop in gross profit and provision made for the litigation issue this year, the Group recorded a loss before tax from continuing operation of HK\$197.8 million for the year ended 31 March 2014 as compared to the results of HK\$25.2 million loss for the prior year. During the year, the Nanning Hotel reported an average room rate of HK\$757 (2013: HK\$764) and an average occupancy rate of 39.4% (2013: 60.5%).

Business and operation review

A review of the Group's business operations and prospects is included in the Chairman's Statement on page 4 of the annual report.

Liquidity and financial resources

The Group's cash and bank balances are mostly in HK\$ and RMB. As at 31 March 2014, the Group had unpledged cash and bank deposit balances of approximately HK\$42.8 million (2013: HK\$32.7 million). As at 31 March 2014, the Group had outstanding interest-bearing bank borrowings of HK\$234.8 million (2013: HK\$236.9 million). The gearing ratio of the Group which represented the total interest-bearing bank borrowings to the total assets was 36.5% (2013: 37%).

Treasury and funding policy

The assets and liabilities of the Group are mainly denominated in HK\$ and RMB. The Group's bank borrowing is on a floating rate at the prime lending rate of the People's Bank of China. Taking into account of the expected cash flows of the Group's operations and cash and investment in marketable securities currently in hand, the Group expects that it will have sufficient working capital for its financial liabilities as they fall due. As the main operation of the Group is in the PRC, the Group has minimal exposure to foreign exchange fluctuation in RMB.

Pledge of assets

As at 31 March 2014, the hotel properties held with an aggregate carrying amount of approximately HK\$283 million (2013: HK\$295 million) were pledged to a bank to secure banking facilities granted to the Group.

Employees and remuneration policy

The Group employed approximately 540 employees as at 31 March 2014 (2013: 574). Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually depending on individual merits. The Group also provides other benefits including retirement benefit scheme, medical insurance and educational subsidies to all eligible staff.

5. EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGING

The majority of the Group's operation sales, production and other expenses in China are in RMB. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitations on foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. The Group currently does not engage in hedging activities designed or intended to manage foreign exchange rate risk. The Group will continue to monitor foreign exchange changes to best preserve the Group's cash value.

6. ACQUISITIONS AND DISPOSALS (INCLUDING ANY SIGNIFICANT INVESTMENTS)

On 29 July 2016, the Company completed the acquisition of the entire equity interest of the PRC Target which is principally engaged in the exploration, development and production of crude oil in Inner Mongolia of the PRC for the cash consideration of approximately RMB558,880,000. No variation in the remuneration payable to and benefits in kind receivable by the Directors was involved in relation to the above acquisition.

The unaudited financial information of the PRC Target for each of the three years ended 31 December 2013, 2014 and 2015 are disclosed in Appendix III to the RTO Circular published on 29 June 2016 on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.irasia.com/listco/hk/idgenergy>) respectively. Save as disclosed

above, none of the members of the Group had acquired or agreed to acquire or was proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditor's report of the Group as at 31 March 2016 (being the date to which the latest published audited financial statements of the Group were made up) or the next published accounts of the Group.

On 29 July 2016, the Company completed the disposal of the entire equity interests of the Divestment Group which were principally engaged in the hotel and restaurant business in the PRC (together with the Company's net account receivables owed by the Divestment Group) and the Company's investment in SouFun Holdings Limited for the consideration of HK\$1.

Through the acquisition and the disposal, the Company has successfully transformed the Group's principal activities from its previous PRC hotel and restaurant business to upstream oil and gas business. The Company considers that this represents an important milestone given the great market opportunity in upstream oil and gas investments which opened up due to the recent cyclical trough of international oil and gas prices and the long term prospects of the oil and gas industry; as well as the operating and market challenges being faced, and the net liabilities recorded by the Divestment Group.

The Company will continue to look for opportunities to invest in other upstream oil and gas projects worldwide with a view to enhancing the Group's asset portfolio and overall investment return.

For further details of the abovementioned, please refer to the RTO Circular and the announcement of the Company dated 29 July 2016.

7. WORKING CAPITAL STATEMENT

The Directors are of the opinion that, taking into account the business prospects, the internal resources of the Group and the effect of the Acquisition, the Group has sufficient working capital for 125% of its present requirements, that is for at least the next twelve months from the date of this circular.

8. FINANCIAL AND TRADING PROSPECTS

For the financial and trading prospects of the Group, please refer to the subsection headed "Business prospects" under the section headed "For the six months ended 30 September 2016" in "Management Discussion and Analysis of Historical Results of Operations of the Group" in this Appendix, which are principally extracted from the section headed "Outlook" of the interim report of the Company for the six months ended 30 September 2016.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the unaudited pro forma financial information of the Enlarged Group as if the Acquisition had been completed on 30 September 2016 for the unaudited pro forma consolidated statement of net assets and on 1 April 2015 for the unaudited pro forma consolidated income statement. The unaudited pro forma financial information of the Enlarged Group is based upon (i) the unaudited pro forma consolidated income statement for the year ended 31 March 2016 as set out in Part B of Appendix III to Composite Offer and Response Document dated 5 August 2016 issued jointly by the Company and the Controlling Shareholder; and (ii) the interim financial report of the Company for the six months ended 30 September 2016 as set out in the Company's 30 September 2016 interim report, and adjusted to reflect the effect of the Acquisition.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information.

The unaudited pro forma financial information of the Enlarged Group has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), for the purposes of illustrating the effect of the Acquisition on the financial position of the Enlarged Group as at 30 September 2016 and on the consolidated income statement of the Enlarged Group for the year ended 31 March 2016, pursuant to the terms of the APA by and between the Company and Stonegate. As a result of its hypothetical nature, it may not give a true picture of the financial position or results of the Enlarged Group had the Acquisition been completed as of the specified dates or any future date.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

**UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED
GROUP**

Unaudited Pro Forma Consolidated Statement of Net Assets of the Enlarged Group

	The Group as at 30 September 2016		Pro forma adjustments			Unaudited pro forma consolidated statement of net assets of the Enlarged Group as at 30 September 2016
	HK\$'000 (Note 1)	US\$'000	HK\$'000 (Note 2)	HK\$'000 (Note 3)	HK\$'000 (Note 4)	HK\$'000
Non-current assets						
Property, plant and equipment	532,943	290,482	2,253,018	—	—	2,785,961
Construction in progress	12,125	—	—	—	—	12,125
Intangible assets	28,313	—	—	—	—	28,313
Lease prepayment	10,737	—	—	—	—	10,737
Other non-current assets	37,548	—	—	—	—	37,548
	<u>621,666</u>	<u>290,482</u>	<u>2,253,018</u>	<u>—</u>	<u>—</u>	<u>2,874,684</u>
Current assets						
Inventories	4,014	289	2,242	—	—	6,256
Trade and other receivables	1,778,507	17,846	138,416	—	—	1,916,923
Cash and cash equivalents	537,940	—	—	(901,359)	—	(363,419)
	<u>2,320,461</u>	<u>18,135</u>	<u>140,658</u>	<u>(901,359)</u>	<u>—</u>	<u>1,559,760</u>
Current liabilities						
Trade and other payables	317,414	16,728	129,745	—	15,513	462,672
Bank and other borrowings	104,464	—	—	—	—	104,464
	<u>421,878</u>	<u>16,728</u>	<u>129,745</u>	<u>—</u>	<u>15,513</u>	<u>567,136</u>
Net current assets/ (liabilities)	<u>1,898,583</u>	<u>1,407</u>	<u>10,913</u>	<u>(901,359)</u>	<u>(15,513)</u>	<u>992,624</u>
Total assets less current liabilities	<u>2,520,249</u>	<u>291,889</u>	<u>2,263,931</u>	<u>(901,359)</u>	<u>(15,513)</u>	<u>3,867,308</u>
Non-current liabilities						
Convertible bond	114,794	—	—	—	—	114,794
Convertible note	213,325	—	—	—	—	213,325
Deferred tax liabilities	6,710	—	—	—	—	6,710
Bank and other borrowings	—	—	—	1,294,000	—	1,294,000
Provisions	33,076	8,841	68,572	—	—	101,648
	<u>367,905</u>	<u>8,841</u>	<u>68,572</u>	<u>1,294,000</u>	<u>—</u>	<u>1,730,477</u>
Net assets/(liabilities)	<u><u>2,152,344</u></u>	<u><u>283,048</u></u>	<u><u>2,195,359</u></u>	<u><u>(2,195,359)</u></u>	<u><u>(15,513)</u></u>	<u><u>2,136,831</u></u>

APPENDIX IV	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group

	The Group for the year ended 31 March 2016		Pro forma adjustments			Unaudited pro forma consolidated income statement of Enlarged Group for the year ended 31 March 2016
	<i>HK\$'000</i> <i>(Note 5)</i>	<i>US\$'000</i>	<i>HK\$'000</i> <i>(Note 6)</i>	<i>HK\$'000</i> <i>(Note 7)</i>	<i>HK\$'000</i> <i>(Note 4)</i>	<i>HK\$'000</i>
Revenue	122,868	117,938	914,788	—	—	1,037,656
Costs of sales	(110,442)	(205,469)	(1,593,723)	919,209	—	(784,956)
Gross profit/(loss)	12,426	(87,531)	(678,935)	919,209	—	252,700
Other income	304	—	—	—	—	304
Administrative expenses	(27,309)	(16,090)	(124,802)	—	—	(152,111)
Other operating expenses	(8,580)	(5,236)	(40,613)	—	—	(49,193)
Exploration expenses, including dry holes	(1,512)	(16,727)	(129,743)	—	—	(131,255)
Fair value loss on equity investment at fair value through profit or loss	(351)	—	—	—	—	(351)
Impairment losses	—	(468,797)	(3,636,230)	3,636,230	—	—
Net finance costs	(17,251)	(19,808)	(153,641)	(71,299)	—	(242,191)
Gain on disposal of Divestment Group	28,759	—	—	—	—	28,759
Listing expense arising from the reverse acquisition	(282,959)	—	—	—	—	(282,959)
Transaction costs	(60,000)	—	—	—	(15,513)	(75,513)
(Loss)/profit before tax	(356,473)	(614,189)	(4,763,964)	4,484,140	(15,513)	(651,810)
Income tax expense	745	—	—	—	—	745
(Loss)/profit for the year	<u>(355,728)</u>	<u>(614,189)</u>	<u>(4,763,964)</u>	<u>4,484,140</u>	<u>(15,513)</u>	<u>(651,065)</u>

APPENDIX IV	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

- (1) The balances are extracted from the unaudited consolidated statement of financial position of the Group as at 30 September 2016 as set out in the Company's published interim report for the six months ended 30 September 2016.
- (2) Upon completion of the Acquisition, the assets acquired and the liabilities assumed will be accounted for in the consolidated financial statements of the Group in accordance with Hong Kong Financial Reporting Standard 3 (Revised), *Business Combinations*, and are measured at their fair values at the date of acquisition. For the purposes of the pro forma financial information, the assets acquired and the liabilities assumed are translated to Hong Kong dollars at the exchange rate of US\$0.1289 to HK\$1 prevailing at 30 September 2016.

For the purpose of the unaudited pro forma financial information, the allocation of the purchase price is determined based on the Directors' estimates of the fair value of the identifiable assets acquired and liabilities assumed of the Target Assets on 31 October 2016 and were estimated by the Directors of the Company with the assistance of an independent professional adviser using the market approach. The recognised amount of the identifiable assets acquired and liabilities assumed are as follows:

	Carrying amounts	Fair value adjustments	Fair values
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Property, plant and equipment	164,094	126,388	290,482
Inventories	289	—	289
Trade and other receivables	17,846	—	17,846
Trade and other payables	(16,728)	—	(16,728)
Provisions	(8,841)	—	(8,841)
	<u>156,660</u>	<u>126,388</u>	<u>283,048</u>
Total	<u>156,660</u>	<u>126,388</u>	<u>283,048</u>

Since the amount of the relative fair value of assets acquired and liabilities assumed at the Closing Date may be substantially different from their relative fair values used in the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the respective values of the assets and liabilities to be recorded in the consolidated financial statements of the Group as well as the depreciation and depletion for subsequent period may be different from the amounts shown in this appendix.

For the purpose of the unaudited pro forma financial information, the Directors of the Company have assessed whether there is any impairment indicator in respect of the property, plant and equipment expected to arise from the Acquisition following the principles set out in Hong Kong Accounting Standard 36 "Impairment of Assets". Based on the Directors' assessment, the Directors of the Company consider that there is no impairment indicator on the property, plant and equipment with assumed values set out above.

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

- (3) This adjustment represents the financing and settlement arrangement of the Acquisition. Pursuant to the APA, the Purchase Price for the Acquisition is US\$278,000,000, subject to adjustments as set forth in the APA upon the Closing Date. For the purpose of the pro forma financial information, assuming 31 October 2016 were the Closing Date, the amount of adjustments calculated according to the APA would be an upward adjustment of US\$5,048,000 and the estimated consideration for the Acquisition would be US\$283,048,000 (equivalent to approximately HK\$2,195,359,000 when translated to Hong Kong dollars at the exchange rate of USD0.1289 to HK\$1 prevailing at 30 September 2016). Details of the estimated Purchase Price after adjustment is discussed in the “Letter from the Board — 2.4 Consideration” in this Circular.

The Group intends to finance the Acquisition through a combination of its own internal resource and bank borrowing. Consideration amounting to HK\$1,294,000,000 will be settled through the draw down of a five year term bank loan and the remaining part of the total consideration of HK\$901,359,000 will be settled in cash. Details of the bank loan arrangement is discussed in the “Letter from the Board — 4.1 Bank loan”.

Since the amount of adjustments upon the actual Closing Date is subject to change and may be different from the amount of adjustments used in the pro forma financial information, the actual consideration and cash and cash equivalents may be different from the amounts stated in this pro forma financial information.

- (4) The adjustment represents the accrual for estimated acquisition-related costs (including fees payable to legal advisers, financial advisers, reporting accountants, valuers, printer, taxes and other expenses) of approximately HK\$15,513,000. The adjustment is not expected to have a continuing effect on the Enlarged Group.
- (5) The financial information of the Group is extracted from the unaudited pro forma consolidated income statement for the year ended 31 March 2016 as set out in Part B of Appendix III to Composite Offer and Response Document dated 5 August 2016 jointly issued by the Company and the Controlling Shareholder.
- (6) The financial information of the Target Assets is extracted from the unaudited profit and loss statement on the identifiable net income stream of the Target Assets, and is translated to Hong Kong dollars at the average exchange rate of US\$0.1290 to HK\$1 for the year ended 31 March 2016.
- (7) The adjustments represent the annual depreciation and depletion arising from the fair value adjustments to property, plant and equipment on a unit-of production basis. The depreciation and depletion in the property, plant and equipment in the historical financial information of the Target Assets was calculated based on the book value of the assets before impairment charge of US\$468,797,000 which was taken as of 31 December 2015. Pro forma adjustments are made for the depreciation and depletion for year based on estimated fair value of the property, plant and equipment acquired as if the Acquisition was completed on 1 April 2015. The actual depreciation and depletion may be different from the estimated amounts shown in the unaudited pro forma financial information depending on the actual fair value adjustments to property, plant and equipment. The adjustment is expected to have a continuing effect on the Enlarged Group.

For the purposes of the pro forma financial information, the impairment losses on property, plant and equipment of US\$468,797,000 (equivalent to approximately HK\$3,636,230,000 translated to Hong Kong dollars at the average exchange rate of US\$0.1290 to HK\$1 for the year ended 31 March 2016 in relation to the income statement) formerly recognised by the Sellers was reversed as the Directors of the Company considered the recoverable amounts of the property, plant and equipment measured based on the higher of value in use and fair values less costs of disposals are higher than their carrying amounts. The adjustment is not expected to have a continuing effect on the Enlarged Group.

The adjustment represents additional finance cost arising from interest payments on bank loan of HK\$1,294,000,000 obtained from a commercial bank to finance the Acquisition which is expected to have a continuing effect on the Enlarged Group.

- (8) No adjustment has been made to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 30 September 2016.

**B ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.



**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

TO THE DIRECTORS OF IDG ENERGY INVESTMENT GROUP LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of IDG Energy Investment Group Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of net assets as at 30 September 2016 and the unaudited pro forma consolidated statement of profit or loss for the year ended 31 March 2016 and related notes as set out in Part A of Appendix IV to the circular dated 9 March 2017 (the “**Circular**”) issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the completion of the proposed acquisition of all of the right, title and interest in and to the properties and interests described in asset purchase agreement entered into by the Company, Stonegate Production Company, LLC, Stonegate Dimmit Properties, LLC and Dimmit/La Salle Saltwater Disposal Company, LLC on 21 November 2016 (the “**Proposed Acquisition**”) on the Group's financial position as at 30 September 2016 and the Group's financial performance for the year ended 31 March 2016 as if the Proposed Acquisition had taken place at 30 September 2016 and 1 April 2015, respectively. As part of this process, information about the Group's financial position as at 30 September 2016 has been extracted by the Directors from the interim report of the Group for the six months ended 30 September 2016, on which no review report has been published. The information about the Group's financial performance for the year ended 31 March 2016 has been extracted by the Directors from the unaudited pro forma financial information as set out in Part B of Appendix III to the composite offer document dated 5 August 2016 (the “**Composite Document**”) on which a report has been published as set out in Part C of Appendix III to the Composite Document.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“**HKSAE**”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 September 2016 or 1 April 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong
9 March 2017



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March 9, 2017

Board of Directors
IDG Energy Investment Group Limited
Suite 2302, Wing On Centre,
111 Connaught Road Central,
Hong Kong

**COMPETENT PERSON'S REPORT ON ASSETS
TO BE ACQUIRED BY IDG ENERGY INVESTMENT GROUP LIMITED
IN STATE OF TEXAS IN THE UNITED STATES**

25.2 EXECUTIVE SUMMARY

At your request, Ryder Scott Company, L.P. (Ryder Scott) has prepared an estimate of the proved, probable and possible reserves, future production and income and an estimate of the 1C and 2C contingent resources as of November 30, 2016 attributable to certain leasehold interests to be acquired by IDG Energy Investment Group Limited (IDG Energy) pursuant to an asset purchase agreement dated November 2016. The subject properties are located in the state of Texas, United States. The reserves included herein were estimated based on the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (SPE-PRMS) based on escalated price and cost parameters (SPE-PRMS forecast case) provided by IDG Energy. Such forecasts were based on projected escalations or other forward looking changes to current prices and/or costs as noted. In addition, a price sensitivity was conducted using the same production forecast projections as the base case and +/-10% of the current forecast of future oil prices and costs. This price sensitivity case is presented in summary form in section 25.8 "Economic Evaluation."

The estimated reserves and future income amounts presented in this report's base case, as of November 30, 2016, are related to escalated hydrocarbon price parameters. The future hydrocarbon prices used in the preparation of this report's base case were specified by IDG Energy, in accordance with the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As a result of both economic and political forces, there is significant uncertainty regarding the forecasting of future hydrocarbon prices. The recoverable reserves and the income attributable thereto have a direct relationship to the hydrocarbon prices actually received; therefore, volumes of reserves actually recovered and amounts of income actually received may differ significantly from the estimated quantities presented in this report. An alternative escalated price scenario is included in 25.8 "Economic Evaluation" of this report.

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The competent person of this report is Mr. Daniel R. Olds, who shall take the overall responsibility of this Competent Person's Report.

The results of this study are summarized as follows.

ESCALATED PARAMETERS

Estimated Net Reserves and Income Data
Attributable to Certain Leasehold Interests to Be Acquired By
IDG Energy Investment Group Limited
As of November 30, 2016

	Proved Reserves		
	Producing	Undeveloped	Total Proved
Net Remaining Reserves			
Oil/Condensate — Barrels	9,820,721	9,514,008	19,334,729
Plant Products — Barrels	3,110,355	1,999,126	5,109,481
Gas — MMCF	21,674	17,063	38,737
Income Data (M\$)			
Future Gross Revenue	\$854,110	\$848,878	\$1,702,988
Deductions	344,763	463,405	808,168
Future Net Income (FNI)	509,347	385,473	894,820
Income Tax	<u>82,972</u>	<u>136,380</u>	<u>219,352</u>
After Income Tax FNI	\$426,375	\$249,093	\$675,468
Discounted After Income Tax FNI @ 10%	\$219,746	\$54,843	\$274,589
	Proved Reserves		
	Producing	Undeveloped	Total Proved
Net Remaining Reserves			
Oil/Condensate — Barrels	133,175	444,896	578,071
Plant Products — Barrels	21,477	90,638	112,115
Gas — MMCF	183	774	957
Income Data (M\$)			
Future Gross Revenue	\$10,678	\$40,108	\$50,786
Deductions	1,072	5,709	6,781
Future Net Income (FNI)	9,606	34,399	44,005
Income Tax	<u>3,362</u>	<u>12,040</u>	<u>15,402</u>
After Income Tax FNI	\$6,244	\$22,359	\$28,603
Discounted After Income Tax FNI @ 10%	\$2,810	\$9,175	\$11,985

	Possible Reserves		
	Producing	Undeveloped	Total Possible
Net Remaining Reserves			
Oil/Condensate — Barrels	133,699	450,967	584,666
Plant Products — Barrels	21,562	92,056	113,618
Gas — MMCF	184	786	970
Income Data (M\$)			
Future Gross Revenue	\$10,711	\$40,687	\$51,398
Deductions	1,041	5,728	6,769
Future Net Income (FNI)	9,670	34,959	44,629
Income Tax	<u>3,385</u>	<u>12,236</u>	<u>15,621</u>
After Income Tax FNI	\$6,285	\$22,723	\$29,008
Discounted After Income Tax FNI @ 10%	\$2,827	\$9,289	\$12,116
	Total Proved (1P)	Total Proved + Probable (2P)	Total Proved + Probable + Possible (3P)
Net Remaining Reserves			
Oil/Condensate — Barrels	19,334,729	19,912,800	20,497,466
Plant Products — Barrels	5,109,481	5,221,596	5,335,214
Gas — MMCF	38,736	39,693	40,663
Income Data (M\$)			
Future Gross Revenue	\$1,702,988	\$1,753,774	\$1,805,172
Deductions	808,168	814,949	821,718
Future Net Income (FNI)	894,820	938,825	983,454
Income Tax	<u>219,352</u>	<u>234,754</u>	<u>250,375</u>
After Income Tax FNI	\$675,468	\$704,071	\$733,079
Discounted After Income Tax FNI @ 10%	\$274,589	\$286,574	\$298,690
		Gross (8/8ths) Contingent Resources	
		Total 1C	Total 2C
Gross Remaining Resources			
Oil/Condensate — Barrels		29,718,176	36,446,204
Gas — MMCF		97,855	120,015

The estimated production profiles associated with the proved and proved + probable (2P) reserves estimates presented above are presented graphically in the section of 25.6(b)(xv).

Liquid hydrocarbons are expressed in standard 42 gallon barrels (Barrels). All gas volumes are reported on an "as sold" basis expressed in millions of cubic feet (MMCF) at the official temperature and pressure bases of the areas in which the gas reserves are located. In this report, the revenues, deductions, and income data are expressed as thousands of U.S. dollars (M\$).

The estimates of the reserves and contingent resources, future production, and income attributable to the subject properties in this report were prepared using the economic software package ARIES™ Petroleum Economics and Reserves Software, a copyrighted program of Halliburton. The program was used at the request of IDG Energy. Ryder Scott has found this program to be generally acceptable, but notes that certain summaries and calculations may vary due to rounding and may not exactly match the sum of the properties being summarized. Furthermore, one line economic summaries may vary slightly from the more detailed cash flow projections of the same properties, also due to rounding. The rounding differences are not material.

The future gross revenue is after the deduction of production taxes. The deductions incorporate the normal direct costs of operating the wells, ad valorem taxes, recompletion costs, development costs, and certain abandonment costs net of salvage. The future net income is before general administrative overhead, and has not been adjusted for outstanding loans that may exist nor does it include any adjustment for cash on hand or undistributed income.

Ryder Scott prepared the after income tax cashflow in accordance with the disclosure requirements set forth in the listing rules intended for public disclosure as an exhibit in filings made with the Stock Exchange by IDG Energy. Based on information provided by IDG, Ryder Scott has accepted their preliminary pre-deal estimate of Purchase Price Allocation (PPA) of 20% of the acquisition price to tangible equipment, and will deplete the remaining 80% as leasehold acquisition. IDG Energy has advised us that a proper PPA will be done after the completion of the transaction. A corporate tax rate of 35% was used in the preparation of this report.

Liquid hydrocarbon reserves account for approximately 98 percent of the total future gross revenue from proved reserves and gas reserves account for the remaining 2 percent of total future gross revenue from the proved reserves reported herein. Liquid hydrocarbon reserves account for approximately 98 percent of the total future gross revenue from probable reserves and gas reserves account for the remaining 2 percent of total future gross revenue from the probable reserves reported herein. Liquid hydrocarbon reserves account for approximately 98 percent of the total future gross revenue from possible reserves and gas reserves account for the remaining 2 percent of total future gross revenue from the possible reserves reported herein.

The discounted future net income shown above was calculated using a discount rate of 10 percent per annum compounded monthly. Future net income for the reserves was discounted at four other discount rates which were also compounded monthly. These results are shown in summary form as follows. The discounted rates are listed in the table below.

**Discounted Future Net Income (Before Income Tax) M\$
As of November 30, 2016**

Discount Rate Percent	Total (1P)		Total (2P)	Total (3P)
	Proved	Total Probable	Proved + Probable	Proved + Probable + Possible
5	\$518,743	\$25,908	\$544,651	\$570,857
7.5	\$419,764	\$21,542	\$441,306	\$463,087
10	\$349,319	\$18,495	\$367,814	\$386,511
12	\$306,397	\$16,645	\$323,042	\$339,868
15	\$257,010	\$14,501	\$271,511	\$286,167

**Discounted Future Net Income (After Income Tax) M\$
As of November 30, 2016**

Discount Rate Percent	Total (1P)		Total (2P)	Total (3P)
	Proved	Total Probable	Proved + Probable	Proved + Probable + Possible
5	\$401,104	\$16,823	\$417,927	\$434,944
7.5	\$327,527	\$13,974	\$341,502	\$355,631
10	\$274,589	\$11,985	\$286,574	\$298,690
12	\$242,032	\$10,776	\$252,809	\$263,702
15	\$204,220	\$9,375	\$213,595	\$223,071

The results shown above are presented for your information and should not be construed as our estimate of fair market value.

The effective date of the asset evaluation reported in this report is November 30, 2016. As of the date of this report, Ryder Scott is not aware of any material change in the assets reported since the effective date.

This report covers all of the mineral assets to be acquired by IDG Energy in Eagle Ford region of Texas. Ryder Scott is unaware of any additional property to be acquired by IDG Energy in this area or any assets outside of the properties contained in this report.

This Competent Person's Report has been prepared within the context of the Competent Person's understanding of the effects of petroleum legislation, taxation, and other regulations that currently apply to the assets analyzed. While Ryder Scott has accepted the accounts and information provided to us by IDG Energy as factual, we have not independently confirmed the information provided by IDG Energy. Ryder Scott has no reason to conclude that the rights of

IDG Energy to explore, mine, or explore and mine; the relevant Resources and Reserves are different from those assumed in this report. The Competent Person's Report is, and must remain, an independent opinion despite certain information used in the preparation of the Competent Person's Report having been given to it by IDG Energy.

Asset Portfolio

IDG Energy has agreed to acquire a portfolio of production and development assets in the Eagle Ford shale of Texas, United States (see following figures), located in the Dimmit, Frio, and La Salle counties. The properties evaluated by Ryder Scott represent 100 percent of the total net proved, probable and possible liquid hydrocarbon reserves and 100 percent of the total net proved, probable and possible gas reserves of IDG Energy in Texas as of November 30, 2016.

The subject properties have an areal extent of roughly 56,054 gross acres (25,591 net acres).

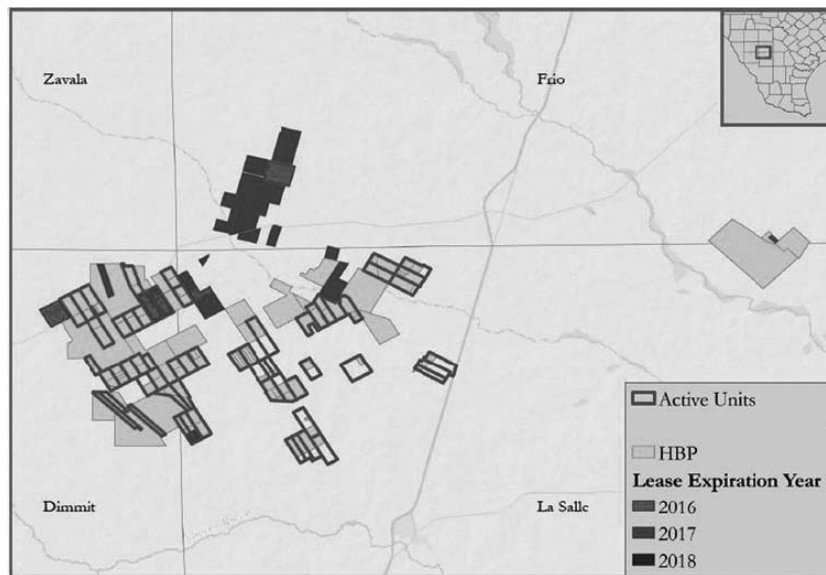


Figure 1. Subject Properties (provided by IDG Energy) as of November 30, 2016.

Reserves and Resources Included in This Report

The proved, probable and possible reserves and contingent resources included herein conform to the definitions of reserves and contingent resources sponsored and approved by the Society of Petroleum Engineers (SPE), the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG) and the Society of Petroleum Evaluation Engineers (SPEE) as set forth in the 2007 SPE/WPC/AAPG/SPEE Petroleum Resources Management System (SPE-PRMS) based on escalated price and cost parameters (SPE-PRMS forecast case). The estimated quantities of reserves and contingent resources presented in this report based on escalated price and cost parameters (SPE-PRMS forecast case) may differ significantly from the quantities which would be estimated using constant price and cost parameters (SPE-PRMS constant case). An abridged version of the SPE/WPC/AAPG/SPEE reserves and contingent resources terms and definitions used herein are included as attachments to this report and entitled "Petroleum Reserves Definitions" and "Petroleum Resource Classification and Definitions." It should be noted that the SPE-PRMS does not specify the names for the various categories of incremental contingent and prospective resources. The terms contingent resources are terms selected by Ryder Scott to convey the incremental quantities of resources and their associated level of uncertainty in this report.

The various reserve and contingent resources development and production status categories are defined in the attachment to this report entitled "Petroleum Reserves and Resources Status Definitions and Guidelines."

No attempt was made to quantify or otherwise account for any accumulated gas production imbalances that may exist. The gas volumes presented herein do not include volumes of gas consumed in operations as reserves or contingent resources.

While it may reasonably be anticipated that the future prices received for the sale of production and the operating costs and other costs relating to such production may also increase or decrease from existing levels, such changes were omitted from consideration in making this evaluation.

Reserves and Resources Classification

Recoverable petroleum resources may be classified according to the SPE-PRMS into one of three principal resource classifications: prospective resources, contingent resources, or reserves. The distinction between prospective and contingent resources depends on whether or not there exists one or more wells and other data indicating the potential for moveable hydrocarbons (e.g. the discovery status). Discovered petroleum resources may be classified as either contingent resources or as reserves depending on the chance that if a project is implemented it will reach commercial producing status (e.g. chance of commerciality). The distinction between various "classifications" of resources and reserves relates to their discovery status and increasing chance of commerciality. Commerciality is not solely determined based on the economic status of a project which refers to the situation where the income from an operation exceeds the expenses involved in, or attributable to, that operation. Conditions addressed in the determination of commerciality also include technological, economic, legal, environmental, social, and governmental factors. While economic factors are

generally related to costs and product prices, the underlying influences include, but are not limited to, market conditions, transportation and processing infrastructure, fiscal terms and taxes.

Certain estimated recoverable volumes have been classified as contingent resources in this report due to one or more contingencies. These contingencies are related to a lack of commitment to drill certain locations at the time of this report; these locations were not included in IDG Energy's present development plans.

Reserves and Resources Uncertainty

All reserve and resource estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. Estimates will generally be revised only as additional geologic or engineering data becomes available or as economic conditions change.

Reserves are "those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions." The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved.

Proved oil and gas reserves are "those quantities of petroleum which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations."

Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. Probable reserves are "those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves." For probable reserves, it is "equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserves" (cumulative 2P volumes). Possible reserves are "those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than probable reserves." For possible reserves, the "total quantities ultimately recovered from the project have a low probability to exceed the sum of the proved plus probable plus possible reserves" (cumulative 3P volumes).

The reserves included herein were estimated using deterministic methods and presented as incremental quantities. Under the deterministic incremental approach, discrete quantities of reserves are estimated and assigned separately as proved, probable or possible based on their individual level of uncertainty.

Contingent resources are "those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more

contingencies.” For reports prepared by Ryder Scott, the range of uncertainty for discrete incremental quantities of contingent resources shall be termed 1C Incremental (1Ci), 2C Incremental (2Ci) and 3C Incremental (3Ci) where (i) denotes a specific incremental quantity. Contingent resources categorized as 2Ci (2C Incremental) are those additional contingent resources beyond the contingent resources categorized as 1Ci (1C Incremental) and are less likely to be recovered than 1Ci contingent resources. Contingent resources categorized as 3Ci (3C Incremental) are those additional contingent resources that are less likely to be recovered than 2Ci (2C Incremental) contingent resources.

The contingent resources included herein were estimated using deterministic methods and presented as cumulative quantities. For contingent resources estimated using the deterministic cumulative approach, quantities of contingent resources are estimated and assigned as 1C, 2C or 3C based on the level of uncertainty for the cumulative volume. Under the deterministic cumulative approach, 1C denotes the low estimate, 2C denotes the best estimate and 3C denotes the high estimate.

The reserves and resource volumes and income quantities attributable to the different reserve and resource classifications that are included herein have not been adjusted to reflect these varying degrees of risk associated with them and thus are not comparable. Petroleum quantities classified as reserves or contingent resources should not be aggregated with each other without due consideration of the significant differences in the criteria associated with their classification. In particular, there may be a significant risk that accumulations containing contingent resources will not achieve commercial production. Moreover, estimates of reserves and resources may increase or decrease as a result of future operations, effects of regulation by governmental agencies or geopolitical risks. As a result, the estimates of oil and gas reserves and resources have an intrinsic uncertainty. The reserves and contingent resources included in this report are therefore estimates only and should not be construed as being exact quantities. They may or may not be actually recovered, and if recovered, the revenues therefrom and the actual costs related thereto could be more or less than the estimated amounts.

Methodology Employed for Estimates of Reserves and Resources

The estimation of reserve and resource quantities involves two distinct determinations. The first determination results in the estimation of the quantities of recoverable oil and gas and the second determination results in the estimation of the uncertainty associated with those estimated quantities. The process of estimating the quantities of recoverable oil and gas reserves and resources relies on the use of certain generally accepted analytical procedures. These analytical procedures fall into three broad categories or methods: (1) performance-based methods, (2) volumetric-based methods and (3) analogy. These methods may be used individually or in combination by the reserve evaluator in the process of estimating the quantities of reserves and/or resources. Reserve evaluators must select the method or combination of methods which in their professional judgment is most appropriate given the nature and amount of reliable geoscience and engineering data available at the time of the estimate, the established or anticipated performance characteristics of the reservoir being evaluated, and the stage of development or producing maturity of the property.

In many cases, the analysis of the available geoscience and engineering data and the subsequent interpretation of this data may indicate a range of possible outcomes in an estimate, irrespective of the method selected by the evaluator. When a range in the quantity of recoverable hydrocarbons is identified, the evaluator must determine the uncertainty associated with the incremental quantities of those recoverable hydrocarbons. If the quantities are estimated using the deterministic incremental approach, the uncertainty for each discrete incremental quantity is addressed by the reserve or resource category assigned by the evaluator. Therefore, it is the categorization of incremental recoverable quantities that addresses the inherent uncertainty in the estimated quantities reported.

Estimates of reserve and resource quantities and their associated categories or classifications may be revised in the future as additional geoscience or engineering data become available. Furthermore, estimates of the recoverable quantities and their associated categories or classifications may also be revised due to other factors such as changes in economic conditions, results of future operations, effects of regulation by governmental agencies or geopolitical or economic risks as previously noted herein.

The reserves and contingent resources for the properties included herein were estimated by performance, analogy, or a combination of methods. In general, reserves attributable to producing wells and/or reservoirs were estimated by performance methods. These performance methods include, but may not be limited to, decline curve analysis which utilized extrapolations of historical production and pressure data available through July 2016 in those cases where such data were considered to be definitive. The data used in this analysis were furnished to Ryder Scott by IDG Energy and were considered sufficient for the purpose thereof. In certain cases, producing reserves were estimated by the probabilistic or analogy method. This method was used where there were inadequate historical performance data to establish a definitive trend and where the use of production performance data as a basis for the estimates was considered to be inappropriate.

Reserves attributable to undeveloped reserves and resources included herein were estimated by the analogy method supported by type well analysis. The analogy method utilized pertinent well data furnished to Ryder Scott by IDG Energy that were available through July 2016.

Assumptions and Data Considered for Estimates of Reserves and Resources

To estimate recoverable oil and gas reserves and resources and related future net cash flows, we consider many factors and assumptions including, but not limited to, the use of reservoir parameters derived from geological, geophysical and engineering data which cannot be measured directly, economic criteria based on the cost and price assumptions as noted herein, and forecasts of future production rates. Under the SPE-PRMS Section 2.2.2 and Table 3, proved reserves must be demonstrated to be commercially recoverable under defined economic conditions, operating methods and governmental regulations from a given date forward. We have applied the same criteria for commercially recoverable to the probable and possible reserves and contingent resources included in this report.

IDG Energy has informed us that they have furnished us all of the material accounts, records, geological and engineering data, and reports and other data required for this investigation. In preparing our forecast of future production and income, we have relied upon data furnished by IDG Energy with respect to property interests owned, production and well tests from examined wells, normal direct costs of operating the wells or leases, other costs such as transportation and processing costs, ad valorem and severance taxes, recompletion and development costs, development plans, abandonment costs after salvage, product prices, geological structural and isochore maps, well logs, core analyses, and pressure measurements. Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data supplied by IDG Energy.

In summary, we consider the assumptions, data, methods and analytical procedures used in this report appropriate for the purpose hereof, and we have used all such methods and procedures that we consider necessary and appropriate to prepare the estimates of reserves and contingent resources herein.

Future Production Rates

For wells currently on production, our forecasts of future production rates are based on historical performance data. If no production decline trend has been established, future production rates were projected based on developed type wells, or adjusted for the effects of curtailment where appropriate, until a decline in ability to produce was anticipated. An estimated rate of decline was then applied to depletion of the reserves. If a decline trend has been established, this trend was used as the basis for estimating future production rates.

Test data and other related information were used to estimate the anticipated initial production rates for those wells or locations that are not currently producing. For reserves not yet on production, sales were estimated to commence at an anticipated date furnished by IDG Energy. Wells or locations that are not currently producing may start producing earlier or later than anticipated in our estimates due to unforeseen factors causing a change in the timing to initiate production. Such factors may include delays due to weather, the availability of rigs, the sequence of drilling, completing and/or recompleting wells and/or constraints set by regulatory bodies.

The future production rates from wells currently on production or wells or locations that are not currently producing may be more or less than estimated because of changes including, but not limited to, reservoir performance, operating conditions related to surface facilities, compression and artificial lift, pipeline capacity and/or operating conditions, producing market demand and/or allowables or other constraints set by regulatory bodies.

The table below presents IDG Energy's development plans by year and reserve classification. Also included are summaries for the Total Proved (1P), Total Proved plus Probable (2P) and Total Proved plus Probable plus Possible (3P). We have incorporated IDG Energy's development plans into our projections of production, operating and development costs.

IDG ENERGY DEVELOPMENT SCHEDULE						
GROSS WELLS (PROD & INJ)						
Year	Proved	Probable	Possible	1P	2P	3P
2017	10	0	0	10	10	10
2018	60	0	0	60	60	60
2019	110	0	0	110	110	110
2020	0	0	0	0	0	0
TOTAL	180	0	0	180	180	180

Table 1. IDG Energy's Development Plans.

Year	Active Wells	All Leases — Proved			Gross CAPEX M\$	Gross OPEX M\$
		Gross Oil Production (Barrels)	Gross NGL Production (Barrels)	Gross Gas Production (Barrels)		
2016	288	471,724	119,780	1,205	-	1,468
2017	292	4,537,808	1,203,585	12,112	22,738	16,065
2018	323	5,947,689	1,381,888	14,158	79,191	17,724
2019	416	9,275,184	2,043,046	21,267	129,873	22,109
2020	465	7,378,368	1,675,023	17,420	11,152	22,440
2021	462	5,253,453	1,218,074	12,618	143	19,272
2022	458	4,208,412	990,998	10,241	87	17,808
2023	454	3,552,746	846,524	8,733	96	17,018
2024	452	3,094,285	743,553	7,663	94	16,451
2025	446	2,747,481	661,737	6,819	243	15,913
2026	442	2,478,014	599,418	6,174	61	15,641
2027	441	2,261,279	549,164	5,654	130	15,527
2028	441	2,077,253	505,702	5,205	244	15,264
2029	429	1,923,017	468,128	4,820	166	15,039
2030	427	1,794,212	437,608	4,505	64	15,054
Sub Total		57,000,920	13,444,228	138,592	244,283	242,794
Remainder		25,172,634	5,764,300	59,996	13,317	307,775
Total Future		82,173,554	19,208,528	198,588	257,600	550,569

Table 2. Total Gross (8/8ths) Proved Production, CAPEX, and OPEX.

Year	Active Wells	All Leases — Probable			Gross CAPEX M\$	Gross OPEX M\$
		Gross Oil Production (Barrels)	Gross NGL Production (Barrels)	Gross Gas Production (Barrels)		
2016	0	11,994	1,934	21	0	20
2017	0	101,998	17,087	181	0	176
2018	0	151,344	27,568	293	0	232
2019	0	333,815	68,812	730	0	424
2020	0	256,878	53,019	563	0	383
2021	0	172,114	35,302	375	0	257
2022	0	132,534	27,105	288	0	200
2023	0	108,753	22,205	236	0	167
2024	0	92,670	18,904	201	0	144
2025	0	80,987	16,511	175	0	127
2026	0	72,080	14,690	156	0	116
2027	0	65,043	13,253	141	0	108
2028	0	59,332	12,088	128	0	101
2029	0	54,598	11,124	118	0	95
2030	0	50,605	10,310	109	0	91
Sub Total		1,744,746	349,913	3,715	0	2,639
Remainder		849,255	173,559	1,842	0	4,142
Total Future		2,594,001	523,472	5,557	0	6,782

Table 3. Total Gross (8/8ths) Probable Production, CAPEX, and OPEX.

Year	Active Wells	All Leases — Possible			Gross CAPEX M\$	Gross OPEX M\$
		Gross Oil Production (Barrels)	Gross NGL Production (Barrels)	Gross Gas Production (Barrels)		
2016	0	12,067	1,946	21	0	20
2017	0	102,967	17,285	183	0	177
2018	0	151,860	27,997	297	0	236
2019	0	327,624	67,479	716	0	426
2020	0	254,964	52,619	559	0	387
2021	0	170,677	35,013	372	0	260
2022	0	131,424	26,886	285	0	202
2023	0	107,852	22,030	234	0	169
2024	0	91,913	18,758	199	0	146
2025	0	80,335	16,387	174	0	129
2026	0	71,506	14,581	155	0	117
2027	0	64,531	13,157	140	0	109
2028	0	58,871	12,002	127	0	102
2029	0	54,177	11,045	117	0	96
2030	0	50,218	10,239	109	0	92
Sub Total		1,730,985	347,423	3,688	0	2,668
Remainder		843,175	172,257	1,829	0	4,101
Total Future		2,574,160	519,680	5,517	0	6,769

Table 4. Total Gross (8/8ths) Possible Production, CAPEX, and OPEX.

Year	Active Wells	All Leases — 1P				
		Gross Oil Production (Barrels)	Gross NGL Production (Barrels)	Gross Gas Production (Barrels)	Gross CAPEX M\$	Gross OPEX M\$
2016	288	471,724	119,780	1,205	0	1,468
2017	292	4,537,808	1,203,585	12,112	22,738	16,065
2018	323	5,947,689	1,381,888	14,158	79,191	17,724
2019	416	9,275,184	2,043,046	21,267	129,873	22,109
2020	465	7,378,368	1,675,023	17,420	11,152	22,440
2021	462	5,253,453	1,218,074	12,618	143	19,272
2022	458	4,208,412	990,998	10,241	87	17,808
2023	454	3,552,746	846,524	8,733	96	17,018
2024	452	3,094,285	743,553	7,663	94	16,451
2025	446	2,747,481	661,737	6,819	243	15,913
2026	442	2,478,014	599,418	6,174	61	15,641
2027	441	2,261,279	549,164	5,654	130	15,527
2028	441	2,077,253	505,702	5,205	244	15,264
2029	429	1,923,017	468,128	4,820	166	15,039
2030	427	1,794,212	437,608	4,505	64	15,054
Sub Total		57,000,920	13,444,228	138,592	244,283	242,794
Remainder		25,172,634	5,764,300	59,996	13,317	307,775
Total Future		82,173,552	19,208,528	198,588	257,600	550,569

Table 5. Total Gross (8/8ths) 1P Production, CAPEX, and OPEX.

Year	Active Wells	All Leases — Proved + Probable (2P)				
		Gross Oil Production (Barrels)	Gross NGL Production (Barrels)	Gross Gas Production (Barrels)	Gross CAPEX M\$	Gross OPEX M\$
2016	288	483,718	121,714	1,226	0	1,488
2017	292	4,639,806	1,220,672	12,293	22,738	16,241
2018	323	6,099,033	1,409,456	14,451	79,191	17,956
2019	416	9,608,999	2,111,858	21,997	129,873	22,533
2020	465	7,635,246	1,728,042	17,983	11,152	22,823
2021	462	5,425,567	1,253,376	12,993	143	19,529
2022	458	4,340,946	1,018,103	10,529	87	18,008
2023	454	3,661,499	868,729	8,969	96	17,185
2024	452	3,186,955	762,457	7,864	94	16,595
2025	446	2,828,468	678,248	6,994	243	16,040
2026	442	2,550,094	614,108	6,330	61	15,757
2027	441	2,326,322	562,417	5,795	130	15,635
2028	441	2,136,585	517,790	5,333	244	15,365
2029	429	1,977,615	479,252	4,938	166	15,134
2030	427	1,844,817	447,918	4,614	64	15,145
Sub Total		58,745,666	13,794,141	142,307	244,283	245,433
Remainder		26,021,889	5,937,859	61,838	13,317	311,917
Total Future		84,767,553	19,732,000	204,145	257,600	557,350

Table 6. Total Gross (8/8ths) Proved + Probable (2P) Production, CAPEX, and OPEX.

Year	All Leases — Proved + Probable + Possible (3P)					Gross CAPEX M\$	Gross OPEX M\$
	Active Wells	Gross Oil Production (Barrels)	Gross NGL Production (Barrels)	Gross Gas Production (Barrels)			
2016	288	495,785	123,660	1,247	0	1,508	
2017	292	4,742,773	1,237,957	12,476	22,738	16,418	
2018	323	6,250,893	1,437,453	14,748	79,191	18,192	
2019	416	9,936,623	2,179,337	22,713	129,873	22,959	
2020	465	7,890,210	1,780,661	18,542	11,152	23,210	
2021	462	5,596,244	1,288,389	13,365	143	19,788	
2022	458	4,472,370	1,044,989	10,814	87	18,210	
2023	454	3,769,351	890,759	9,203	96	17,354	
2024	452	3,278,868	781,215	8,063	94	16,740	
2025	446	2,908,803	694,635	7,168	243	16,169	
2026	442	2,621,600	628,689	6,485	61	15,874	
2027	441	2,390,853	575,574	5,935	130	15,744	
2028	441	2,195,456	529,792	5,460	244	15,467	
2029	429	2,031,792	490,297	5,055	166	15,230	
2030	427	1,895,035	458,157	4,723	64	15,237	
Sub Total		60,476,651	14,141,564	145,995	244,283	248,101	
Remainder		26,865,064	6,110,116	63,667	13,317	316,018	
Total Future		87,341,713	20,251,680	209,662	257,600	564,119	

Table 7. Total Gross (8/8ths) Proved + Probable + Possible (3P) Production, CAPEX, and OPEX.

Hydrocarbon Prices

IDG Energy furnished us with the escalated price deck in effect on November 30, 2016. The basis of this oil and condensate price deck was originally published by Wood Mackenzie in May 2016. The hydrocarbon prices used herein are based on SPE PRMS price parameters and the Hong Kong Exchange requirements for a forecast (escalated) case. Estimates of future price parameters have been revised in the past because of changes in governmental policies, changes in hydrocarbon supply and demand, and variations in general economic conditions. The price parameters used in this report may be revised in the future for similar reasons.

According to HKSE Chapter 18.33(4), “the bases for the forecast case must be disclosed”. Ryder Scott has reviewed the price forecast provided by IDG Energy, and found it to be within the range of forecasts of crude price projections utilized in the industry by various investment banks, private equity firms, and our own projection which was effective on September 30, 2016.

Oil and Condensate

The future West Texas Intermediate Crude oil prices, as specified by IDG Energy is \$47.80/bbl for the remainder of 2016, \$54.50 for 2017, \$68.86 for 2018, \$77.63 for 2019, \$87.26 for 2020, \$85.16 for 2021, \$84.06 for 2022, \$85.17 for 2023, \$83.37 for 2024, \$82.66 for 2025, \$84.31 for 2026, \$89.09 for 2027, \$91.51 for 2028, \$94.63 for 2029, \$100.46 for 2030, \$100.48 for 2031, \$109.98 for 2032, \$119.15 for 2033, and held constant after that.

Plant Products

Plant product prices at Mont Belvieu, Texas, are estimated to average approximately 20.3% of crude oil prices as furnished by IDG Energy. This percentage was accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the plant sales data used by IDG Energy.

Gas

The future sale natural gas prices, as specified by IDG Energy is \$2.92/MCF for the remainder of 2016, \$3.24 for the first quarter of 2017, \$2.94 for the second quarter of 2017, \$2.98 for the third quarter of 2017, \$3.07 for the fourth quarter of 2017, \$3.25 for the first quarter of 2018, \$2.83 for the second quarter of 2018, \$2.88 for the third quarter of 2018, \$2.99 for the fourth quarter of 2018, \$3.18 for the first quarter of 2019, \$2.82 for the second quarter of 2019, \$2.87 for the third quarter of 2019, \$2.99 for the fourth quarter of 2019, \$3.02 for 2020, \$3.08 for 2021, \$3.14 for 2022, \$3.20 for 2023, \$3.27 for 2024, \$3.33 for 2025, \$3.40 for 2026, \$3.47 for 2027, \$3.54 for 2028, \$3.61 for 2029, \$3.68 for 2030, \$3.75 for 2031, \$3.83 for 2032, \$3.91 for 2033, and held constant after that.

Others

Product prices which were actually used for each property reflect adjustments for gravity, quality, local conditions, gathering and transportation fees and/or distance from market, referred to herein as "differentials." The differentials used in the preparation of this report were furnished to us by IDG Energy. The differentials furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the data used by IDG Energy to determine these differentials.

The effects of derivative instruments designated as price hedges of oil and gas quantities are not reflected in our estimated individual property evaluations.

A price sensitivity case using Ryder Scott's current price and costs forecasts is presented in a later section of this report.

Costs

Operating costs for the leases and wells in this report were furnished by IDG Energy and include only those costs directly applicable to the leases or wells. The operating costs do not include general and administrative costs. The operating costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an

independent verification of the operating cost data used by IDG Energy. No deduction was made for loan repayments, interest expenses, or exploration and development prepayments that were not charged directly to the leases or wells.

The development costs in this report for future horizontal wells were furnished to us by IDG Energy and are based on authorizations for expenditure for the proposed work or actual costs for similar projects. The development costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of these costs. The estimated net cost of abandonment after salvage was included for properties where abandonment costs net of salvage were significant. The net abandonment costs were based on reasonable estimates used for similar properties. Ryder Scott has not performed a detailed study of the abandonment costs or the salvage value and makes no warranty for the estimates.

Because of the direct relationship between volumes of undeveloped reserves and development plans, we include in the undeveloped category only reserves assigned to undeveloped locations that we have been assured will definitely be drilled. IDG Energy has assured us of their intent and ability to proceed with the development activities included in this report, and that they are not aware of any legal, regulatory or political obstacles that would significantly alter their plans. Ryder Scott also specifically discussed the 5-year field development plan as of November 30, 2016 with IDG Energy, who is committed to follow the proposed field development plan for the operated and non-operated assets. Referred to the executed joint operation agreement, IDG Energy, although not the operator, has the right to propose wells to the partners in the project. In the event that other partners do not wish to participate in the proposed well(s), IDG Energy has advised us that they are prepared to take any non-consent interest and proceed with the well(s).

Current operating and development costs used in the estimates within this report are escalated 0.083 percent for the remaining 1 month of 2016 (equivalent to 1.0 percent per year), 1.0 percent per year for 2017 then annually at the rate of 2.0 percent for 2018 and each year thereafter until 2033.

Estimates of Resources

The 1C, 2C and 3C Contingent Resources included herein conform to definitions of 1C, 2C and 3C Contingent resources as specified in the (SPE-PRMS). The definitions of resources are included in the section "Petroleum Resources Definitions" in this report. We have utilized the well tests and additional information from the wells in the area to estimate the volumes.

The Contingent Resources for the reservoirs within the subject properties were estimated by the analogy method supported by the type well analysis. All resources included are based on the assumption of an oil reservoir with solution gas. The type well development utilized for each location is presented in the discussion in this report. The resources included in this report are estimates only and should not be construed as being exact quantities. They may or may not be actually recovered, and estimates of resources may increase or decrease as a result of future operations or as data become available. By definition, the C1, C2, and the C3 resource estimates presented herein are characterized as having different degrees of associated risk and are therefore not comparable.

The Contingent Resources are from areas of the field that currently represent volumes contingent on field development plans or sub-economic volumes. In accordance with the SPE-PRMS these volumes are classified as Contingent Resources.

In the course of our study IDG Energy did not provide a drilling schedule for well locations included in the Contingent Resource areas. The volumes associated with these locations are contingent pending inclusion in IDG Energy's field development plans. Ryder Scott did not project a production forecast for these volumes or conduct an economic evaluation on these locations and therefore cannot quantify the volumes that will be recovered within the current terms of the lease or whether these volumes are economic. At IDG Energy's request we have included the entire technically recoverable volumes in this report.

The recoverable contingent resource volumes have a direct relationship to the hydrocarbon prices actually received; therefore, volumes of contingent and undiscovered prospective resources actually recovered may differ significantly from the estimated quantities presented in this report. The results of this study are summarized below.

Gross (8/8ths) Technically Recoverable Oil Resources
Attributable To Certain Leasehold Interests to Be Acquired by
IDG Energy Investment Group Limited
As of November 30, 2016

	Gross (8/8ths) Contingent Resources	
	Total 1C	Total 2C
Gross Remaining Resources		
Oil/Condensate — Barrels	29,718,175	36,446,205
Gas — MMCF	97,855	120,015

Table 8. Summary of Contingent Resources.

Note: In accordance with SPE PRMS definitions, the resource volumes shown above are cumulative (2C includes 1C, and 3C includes 2C plus 1C).

Terms of Usage

The results of our third party study, presented in report form herein, were prepared in accordance with the disclosure requirements set forth in the listing rules intended for public disclosure as an exhibit in filings made with the Stock Exchange by IDG Energy.

This report was prepared for the exclusive use and sole benefit of IDG Energy Investment Group Limited and may not be put to other use without our prior written consent for such use. We have provided IDG Energy Investment Group Limited with a digital version of the original signed copy of this report. In the event there are any differences between the digital version included in filings made by IDG Energy Investment Group Limited and the original signed report letter, the original signed report letter shall control and supersede the digital version. The data and work papers used in the preparation of this report are available for examination by authorized parties in our offices. Please contact us if we can be of further service.

25.3 INTRODUCTION

Standards of Independence and Professional Qualification

This report relied on and incorporated data supplied by IDG Energy as described in the Executive Summary. We consider the data used in this report appropriate and sufficient for the preparation of the estimates of reserves and future net reserves here in. The reserves are supported by detailed Geologic and Engineering analysis and incorporate such data presented by IDG Energy.

Ryder Scott is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world since 1937. Ryder Scott is employee-owned and maintains offices in Houston, Texas; Denver, Colorado; and Calgary, Alberta, Canada. We have over eighty engineers and geoscientists on our permanent staff. By virtue of the size of our firm and the large number of clients for which we provide services, no single client or job represents a material portion of our annual revenue. We do not serve as officers or directors of any privately-owned or publicly-traded oil and gas company and are separate and independent from the operating and investment decision-making process of our clients. This allows us to bring the highest level of independence and objectivity to each engagement for our services.

Ryder Scott actively participates in industry related professional societies and organizes an annual public forum focused on the subject of reserves evaluations and SEC regulations. Many of our staff have authored or co-authored technical papers on the subject of reserves related topics. We encourage our staff to maintain and enhance their professional skills by actively participating in ongoing continuing education.

Prior to becoming an officer of the Company, Ryder Scott requires that staff engineers and geoscientists have received professional accreditation in the form of a registered or certified professional engineer's license or a registered or certified professional geoscientist's license, or the equivalent thereof, from an appropriate governmental authority or a recognized self-regulating professional organization.

We are independent petroleum engineers with respect to IDG Energy, its directors and its advisors in respect of the proposed acquisition of the subject properties. Neither we nor any of our employees have any financial interest in the subject properties or in IDG Energy and neither the employment to do this work nor the compensation is contingent on our estimates of reserves and resources for the properties which were reviewed.

IDG Energy has informed us that they have furnished us all of the material accounts, records, geological and engineering data, and reports and other data required for this investigation. In preparing our forecasts of future production and income, we have relied upon data furnished by IDG Energy with respect to property interests owned, production and well tests from examined wells, normal direct costs of operating the wells or leases, other costs such as transportation and/or processing fees, ad valorem and production taxes, recompletion and development costs, development plans, abandonment costs after salvage, product prices, geological structural and isochore maps, well logs, core analyses,

and pressure measurements. Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data supplied by IDG Energy.

In summary, we consider the assumptions, data, methods and analytical procedures used in this report appropriate for the purpose hereof, and we have used all such methods and procedures that we consider necessary and appropriate to prepare the estimates of reserves herein.

IDG Energy has entered into an indemnification agreement with Ryder Scott. The indemnification is typical for the industry, and does not include indemnification for fraud or gross negligence.

In the course of preparing this report, Ryder Scott has made a site visit to the subject properties on January 26 and 27, 2017.

The effective date of the estimates provided within this report is November 30, 2016. These estimates were based upon data available through July 31, 2016.

The professional qualifications of the undersigned, the technical persons primarily responsible for reviewing and approving the reserves information discussed in this report, are included below.

The results of this study, presented herein, are based on technical analysis conducted by teams of geoscientists and engineers from Ryder Scott. The professional qualifications of the undersigned, the technical persons primarily responsible for overseeing, reviewing and approving the evaluation of the reserves information discussed in this report, are included below.

Professional Qualifications of Primary Technical Person — Mr. Daniel R. Olds

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Daniel R. Olds was the primary technical person responsible for overseeing the estimate of the reserves, future production, and income prepared by Ryder Scott presented herein.

Mr. Olds, an employee of Ryder Scott Company, L.P. (Ryder Scott) since 2001, is a Managing Senior Vice President and also serves as an Engineering Group Coordinator responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies worldwide. He is a member of Ryder Scott's Board of Directors. Before joining Ryder Scott, Mr. Olds served in a number of engineering and evaluation positions with PricewaterhouseCoopers, Wintershall Oil and Gas Company and Cities Service Oil Company. For more information regarding Mr. Olds' geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com/Company/Employees.

Mr. Olds earned a Bachelor of Science degree in Petroleum Engineering from West Virginia University in 1981, an MBA from the University of Houston in 1991 and is a licensed Professional Engineer in the State of Texas. He is also a member of the Society of Petroleum Evaluation Engineers (past president) and the Society of Petroleum Engineers.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Olds fulfills. For 2015, Mr. Olds had over 45 hours of continuing education hours related to reserves, reserve evaluation, and ethics. More specifically, 2015 training included short courses on reserves assignments for developed unconventional reservoirs and geological considerations for unconventional reservoirs. Mr. Olds has had at least 30 hours of continuing education for each of the last 5 years.

Based on his educational background, professional training and more than 34 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Olds has attained the professional qualifications as a Reserves Estimator and Reserves Auditor set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007.

Professional Qualifications of Primary Technical Person — Mr. Eric T. Nelson

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Mr. Eric T. Nelson is the primary technical person responsible for the estimate of the reserves, future production and income.

Mr. Nelson, an employee of Ryder Scott Company, L.P. (Ryder Scott) since 2005, is a Managing Senior Vice President responsible for ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Nelson served in a number of engineering positions with Exxon Mobil Corporation. For more information regarding Mr. Nelson's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com/Company/Employees.

Mr. Nelson earned a Bachelor of Science degree in Chemical Engineering from the University of Tulsa in 2002 (summa cum laude) and a Master of Business Administration from the University of Texas in 2007 (Dean's Award). He is a licensed Professional Engineer in the State of Texas. Mr. Nelson is also a member of the Society of Petroleum Engineers.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of 15 hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Nelson fulfills. As part of his 2015 continuing education hours, Mr. Nelson attended over 20 hours of training during 2015 covering such topics as updates concerning the

implementation of the latest SEC oil and gas reporting requirements, evaluations of resource play reserves, evaluation of simulation models, procedures and software, and ethics training.

Based on his educational background, professional training and more than 10 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Nelson has attained the professional qualifications as a Reserves Estimator set forth in Article III of the “Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information” promulgated by the Society of Petroleum Engineers as of February 19, 2007.

Professional Qualifications of Primary Technical Person — Dr. He Zhang

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Dr. He Zhang is one of the primary technical persons responsible for the estimate of the reserves, future production and income.

Dr. Zhang, an employee of Ryder Scott Company, L.P. (Ryder Scott) since 2012, is a Senior Petroleum Engineer responsible for ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Dr. Zhang served in a number of engineering positions with Schlumberger Limited since 2007. For more information regarding Dr. Zhang's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com/Company/Employees.

Dr. Zhang earned dual Bachelor degrees in Computer Application and Polymer Chemistry from the University of Science and Technology of China in 2002 and 2003, respectively, and a doctorate degree in petroleum engineering from Texas A&M University in 2010. He is a licensed Professional Engineer in the State of Texas. He is also a member of the Society of Petroleum Evaluation Engineers (SPEE) and a Certified Petroleum Engineer of the Society of Petroleum Engineers (SPE). Dr. Zhang is currently also an adjunct in teaching petroleum engineering courses at Univ. of Houston — Victoria, and has co-authored over 40 technical papers on various petroleum engineering subjects.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of 15 hours of continuing education annually, including at least one hour in the area of professional ethics, which Dr. Zhang fulfills. As part of his 2016 continuing education hours, Dr. Zhang attended over 20 hours of training during 2016 covering such topics as updates concerning the implementation of the latest SEC oil and gas reporting requirements, evaluations of resource play reserves, evaluation of simulation models, procedures and software, and ethics training.

Based on his educational background, professional training and 5 years of practical experience in the estimation and evaluation of petroleum reserves, Dr. Zhang has attained the professional qualifications as a Reserves Estimator set forth in Article III of the

“Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information” promulgated by the Society of Petroleum Engineers as of February 19, 2007.

According to 25.3.i, this report includes the abbreviated definition of the categories of Reserves and Resources used in this Competent Person's Report below. A comprehensive petroleum reserves and resources classification and definitions of 2007 Petroleum Resources Management System (SPE-PRMS) is included at the end of this report.

SPE-PRMS Definitions
Recoverable Resources Classes and Sub-Classes
As Adapted From:
2007 Petroleum Resources Management System¹

Class/Sub-Class	Definition	Guidelines
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.	<p>Reserves must satisfy four criteria: they must be discovered, recoverable, commercial and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status.</p> <p>To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame.</p> <p>A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.</p> <p>To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests</p>

Class/Sub-Class	Definition	Guidelines
On Production	The development project is currently producing and selling petroleum to market.	<p>The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project "chance of commerciality" can be said to be 100%.</p> <p>The project "decision gate" is the decision to initiate commercial production from the project.</p>
Approved for Development	All necessary approvals have been obtained, capital funds have been committed, and implementation of the development project is under way.	<p>At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies, such as outstanding regulatory approvals or sales contracts.</p> <p>Forecast capital expenditures should be included in the reporting entity's current or following year's approved budget.</p> <p>The project "decision gate" is the decision to start investing capital in the construction of production facilities and/or drilling development wells.</p>
Justified for Development	Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.	<p>In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("forecast case") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class).</p> <p>The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.</p>
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.	Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

Class/Sub-Class	Definition	Guidelines
Development Pending	A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.	<p>The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to “On Hold” or “Not Viable” status.</p> <p>The project “decision gate” is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.</p>
Development Unclarified or on Hold	A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.	<p>The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a re-classification of the project to “Not Viable” status.</p> <p>The project “decision gate” is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.</p>
Development Not Viable	A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.	The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions. The project “decision gate” is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.	Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.
Prospect	A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.	Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.

Class/Sub-Class	Definition	Guidelines
Lead	A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.
Play	A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

**SPE-PRMS Definitions
Reserves Status Definitions and Guidelines**

Status	Definition	Guidelines
Developed Reserves	Developed Reserves are expected quantities to be recovered from existing wells and facilities.	Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.
Developed Producing Reserves	Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.	Improved recovery reserves are considered producing only after the improved recovery project is in operation.
Developed Non-Producing Reserves	Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.	<p>Shut-in Reserves are expected to be recovered from</p> <ol style="list-style-type: none"> (1) completion intervals which are open at the time of the estimate but which have not yet started producing; (2) wells which were shut-in for market conditions or pipeline connections; or (3) wells not capable of production for mechanical reasons. <p>Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.</p>
Undeveloped Reserves	Undeveloped Reserves are quantities expected to be recovered through future investments:	<p>Undeveloped Reserves are expected to be recovered from</p> <ol style="list-style-type: none"> (1) new wells on undrilled acreage in known accumulations; (2) deepening existing wells to a different (but known) reservoir; (3) from infill wells that will increase recovery; or (4) where a relatively large expenditure (e.g., when compared to the cost of drilling a new well) is required to <ol style="list-style-type: none"> (a) recomplete an existing well; or (b) install production or transportation facilities for primary or improved recovery projects.

¹ Petroleum Resources Management System, prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE); reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE), March 2007.

25.4 SUMMARY OF ASSETS

The subject properties listed are all located in the Eagle Ford shale in Dimmit, Frio, and La Salle counties, Texas, United States. Offset operators include Carrizo, Chesapeake, and TRC, among others. The properties evaluated by Ryder Scott represent 100 percent of the total net proved, probable and possible liquid hydrocarbon reserves and 100 percent of the total net proved, probable and possible gas reserves of the subject properties in Texas as of November 30, 2016. The subject properties' net interest varies by lease and thus the weighted average net interest can change over time based on forecasted production rates. Therefore, while estimates of net interests are presented within this report, it should be noted that those net interests are estimates only. IDG Energy states that the asset of interest has an areal extent of approximately 56,054 gross acres (25,591 net acres).

The estimated reserves presented in this report, as of November 30, 2016, are related to hydrocarbon prices based on escalated price parameters. As a result of both economic and political forces, there is significant uncertainty regarding the forecasting of future hydrocarbon prices. The recoverable reserves volumes and the income attributable thereto have a direct relationship to the hydrocarbon prices actually received; therefore, volumes of reserves actually recovered and amounts of income actually received may differ significantly from the estimated quantities presented in this report. The results of this study are summarized below.

	Gross Remaining Reserves		Net Remaining Reserves	
	Proved (1P)	Proved + Probable (2P)	Proved (1P)	Proved + Probable (2P)
Oil — Barrels	82,173,552	84,767,554	19,334,730	19,912,802
NGL — Barrels	19,208,528	19,732,000	5,109,480	5,221,596
Gas — MMcf	198,588	204,145	38,736	39,693
	Gross Remaining Reserves		Net Remaining Reserves	
	Proved + Probable + Possible (3P)		Proved + Probable + Possible (3P)	
Oil — Barrels	87,341,714		20,497,468	
NGL — Barrels	20,251,680		5,335,213	
Gas — MMcf	209,662		40,663	
	Gross (8/8ths) Contingent Resources			
	Total 1C		Total 2C	
Gross Remaining Resources				
Oil/Condensate — Barrels	29,718,175		36,446,205	
Gas — MMCF	97,855		120,015	

Note: In accordance with SPE PRMS definitions, the resource volumes shown above are cumulative (2C includes 1C).

25.5 DISCUSSION

General Description of Eagle Ford

The Eagle Ford shale gas and oil play is located within the Texas Maverick Basin. It was first discovered by Petrohawk in 2008, and the initial well was located in the Hawkville field in LaSalle County, Texas. Since then the Eagle Ford has been one of the most actively drilled targets for unconventional oil and gas in the United States. The following figure is generated from public data sources as of September 2016. Oil prices have dropped sharply since 2015, and production has decreased primarily to a lower level of drilling activity. By September 2016, approximately 5742 wells have been drilled to produce the Eagle Ford shale; over 5500 of these wells are horizontal wells.

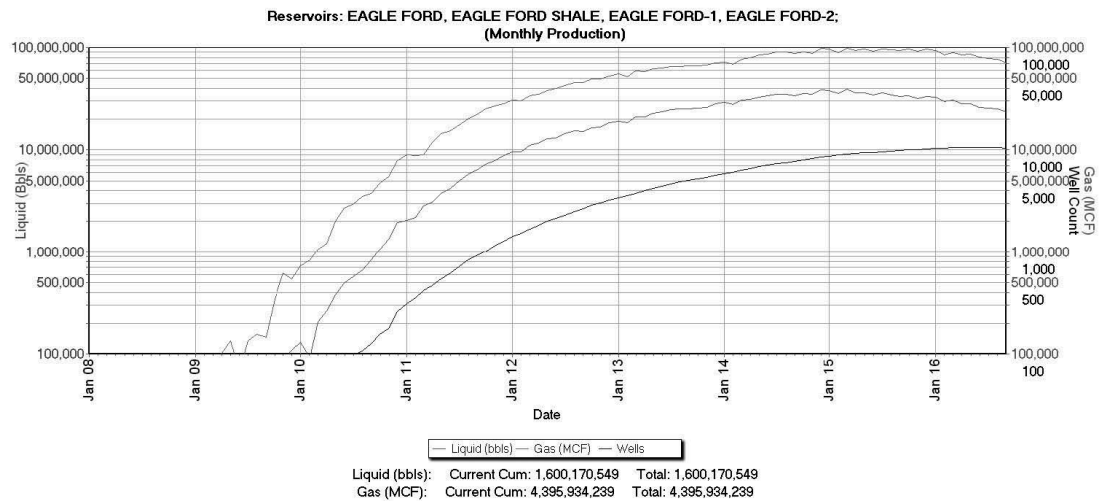


Figure 2. Historical Eagle Ford Production.

Summary of Eagle Ford Geology

The following general geologic discussion consists of excerpts from the U.S. Energy Information Administration's "Updates to the EIA Eagle Ford Play Maps" (December, 2014).

The Eagle Ford shale is a hydrocarbon-bearing, Late Cretaceous formation that was deposited in a marine continental shelf environment. The Eagle Ford formation consists of organic-rich calcareous mudrock with mineralogy ranging from 40–90% carbonate minerals, 15–30% clay, and 15–20% silica (quartz). The total-organic-carbon content (TOC) ranges from 2–12%, thermal maturity (%Ro) 0.45–1.4%, API gravity 28–62o, porosity 8–12%, and pressure gradient 0.5–0.8+ (psi/ft) (Za Za Energy, 2013). The formation is divided into two units: an upper unit, characterized by interlayered light and dark gray calcareous mudrock deposited during a regressive interval (sea level falling),

and a lower unit of mostly dark gray mudstone deposited during a transgressive interval (from rises in sea levels). The Eagle Ford sits above the Buda Limestone and unconformably below the Austin Chalk (Parra et al., 2013).

Structural and Tectonic Features

The structural and tectonic features that influenced the depositional extent, depth, and thickness of the productive and prospective regions of the Eagle Ford formation are included on the map in Figure 3. The extent of the Eagle Ford formation and variations in its thickness and stratigraphy are in large part constrained by regional tectonic features, including the Maverick Basin, the San Marcos Arch, the Stuart City and Sligo shelf Margin, and the East Texas Basin (Hentz and Ruppel, 2011; Hentz et al., 2014).

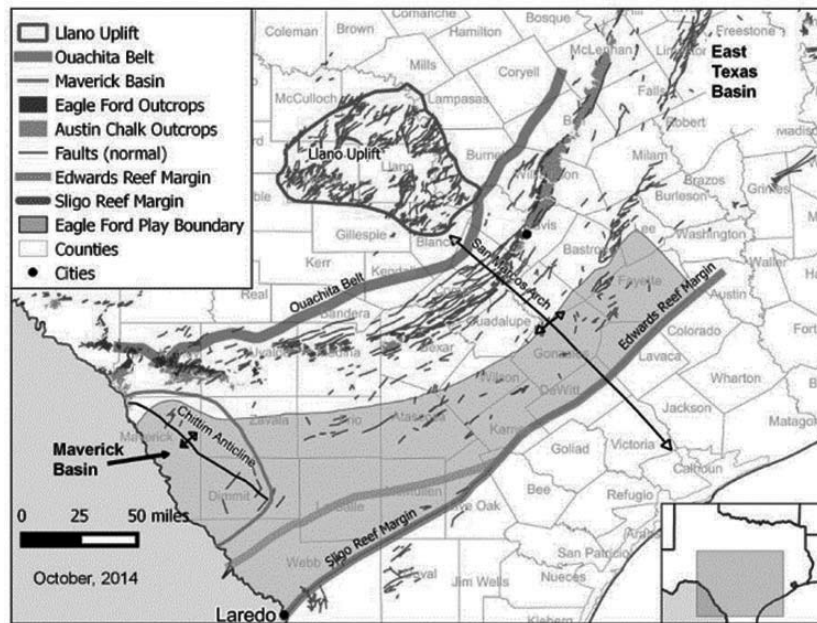


Figure 3. Major Structural and Tectonic Features in the Region of the Eagle Ford Play.
Sources: U.S. Geological Survey (Condon and Dyman, 2006),
Bureau of Economic Geology (Hentz and Ruppel, 2011)

The Eagle Ford formation is thickest in the Maverick Basin and thins to a minimum in the San Marcos Arch region. The Eagle Ford formation continues into the southwest part of the East Texas Basin as a combination of the Maness and Eagle Ford Group facies and grades into coarser sandstone units of Woodbine to the east (Hentz and Ruppel, 2011).

The organic rich carbonate mudrock of the lower Eagle Ford, the primary target of the Eagle Ford play, grades into the more silica-rich Pepper Shale northeast of the San Marcos Arch. The Pepper Shale was deposited in the East Texas Basin and consists of distal deltaic facies that formed on the western edge of the sandstone-rich fluvial-deltaic Woodbine Group (Hentz et al., 2014). Within the Pepper Shale, discontinuous low-permeability sandstone layers are the primary target for drilling and completion (Hentz et

al. 2014). Depths of the southeast dipping Eagle Ford range from outcrops to 17,000 feet at the Stuart City shelf margin. The depth gradients show greatest variation on the flanks and crest of the San Marcos Arch (Figure 4).

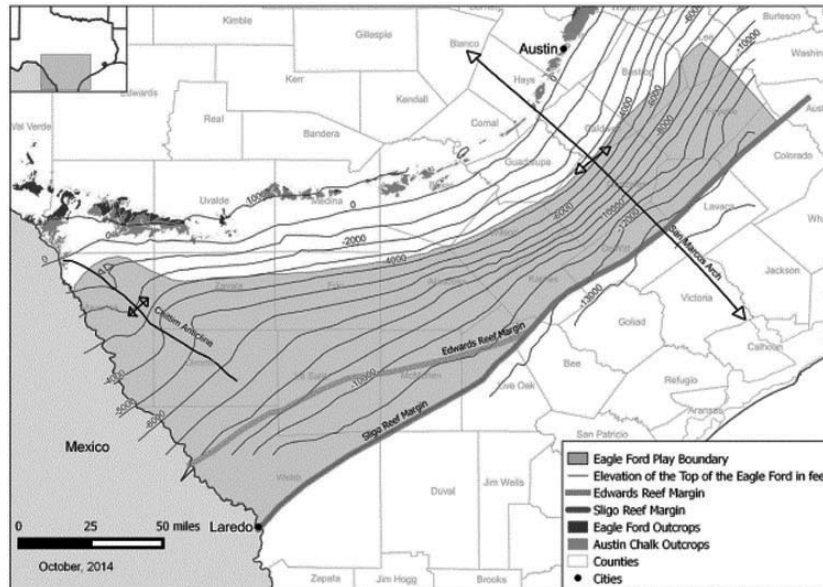


Figure 4. Eagle Ford Play.

Sources: U.S. Energy Information Administration, DrillingInfo, Inc., Texas Natural Resources Information, U.S. Geological Survey, Texas Bureau of Economic Geology.

Structures that pre-date deposition of the Eagle Ford formation include the Permian-Pennsylvanian Ouachita Belt—a zone of uplift that formed when the continents (Africa, North and South America) collided to form Pangea (Condon and Dyman, 2006). The San Marcos Arch, also formed during Permian-Pennsylvanian compression, forms a broad regional arch over which sediments of the Eagle Ford formation were deposited and are thinnest. The Edwards and Sligo Reef Margins are Early Cretaceous continental shelf edge reefs (Condon and Dyman, 2006) that pre-date the Eagle Ford deposition, but that mark the edge of the Late Cretaceous continental shelf marine environment that characterizes the most prospective region of the Eagle Ford shale. The Sligo Reef Margin is considered the southern limit of the Eagle Ford play. Structures that post-date deposition of the Eagle Ford formation include the Chittim anticline (part of a series of folds and faults interpreted to have formed during the late Cretaceous to Tertiary), and related Laramide compression (a regional convergent tectonic event) (Condon and Dyman, 2006).

The petroleum system is a unifying concept that encompasses all the elements and process of hydrocarbon formation. The elements include the source, reservoir, seal, and overburden rock. The processes include trap formation, hydrocarbon generation, hydrocarbon expulsion, hydrocarbon migration, and hydrocarbon accumulation. In unconventional reservoirs, such as the Eagle Ford, low permeability and mobility of the formation keep the hydrocarbons trapped in place. This differs from conventional reservoirs that require a trap to accumulate hydrocarbons.

The Eagle Ford Shale is a Cretaceous sediment that was traditionally known as a source rock in South and East Texas. The subject properties are located in the Dimmit, Frio, and La Salle counties, which is in the oil window of Eagle Ford shale. Further, as the subject properties currently have certain leasehold interests of 301 wells producing from Eagle Ford, it is evident that this asset has hydrocarbon resources in this shale formation.

References:

Condon, S.M. and Dyman, T.S., 2006, 2003 Geologic Assessment of Undiscovered Conventional Oil and Gas Resources in the Upper Cretaceous Navarro and Taylor Groups, Western Gulf Province, Texas, U.S. in Chapter 2 of Petroleum Systems and Geologic Assessment of Undiscovered Oil and Gas, Navarro and Taylor Groups, Western Gulf Province, Texas: Geological Survey Digital Data Series DDS-69-H.

U.S. Energy Information Administration. Updates to the EIA Eagle Ford Play Maps. December. 2014.

Hentz, T.F., and Ambrose, W.A., and D.C. Smith, in press, Eaglebine play of the southwestern East Texas Basin: Stratigraphic and depositional framework of the Upper Cretaceous (Cenomanian-Turonian) Woodbine and Eagle Ford Groups, (in press; preliminary version published online Ahead of Print 08 August 2014): AAPG Bulletin, doi: 10.1306/07071413232

Parra, P.A., Rubio, N., Ramirez, C., Guerra, V.A., Campos, I.R., Trejo, M.D., Olguin, J. Vargas, C.H., Valbuena, R., Soler, D.F., Weimann, M.I., Lujan, V., Bonningue, P., Reyes, P.G., Martinez, R., Munoz, R., Rodriguez, E., and Garcia, M., 2013, Unconventional Reservoir Development in Mexico: Lessons Learned From the Frist Exploratory Wells, Society of Petroleum Engineers, Unconventional Resources Conference- USA held in The Woodlands, Texas, USA, 10–12 April 2013, SPE 164545

Za Za Energy Company Corporation, Presentation, 2013, Investor Presentation December 2014, p.14., <http://www.zazaenergy.com/>

25.6 FIELD, LICENSES AND ASSETS**25.6(a)**

All of the proved, probable, possible reserves and contingent resources of the subject properties are attributable to certain leasehold interests of the Eagle Ford have been summarized in the section of 25.2.

25.6(b)(i) The Nature and Extent of any Rights to Explore and Extract Hydrocarbons

All of the reserves to be acquired by IDG Energy are attributable to certain leasehold interests of the Eagle Ford region. The asset includes approximately 25,591 net acres (roughly 56,054 gross acres) across three counties: Dimmit (10,164 net acres), Frio (6,354 net acres), and La Salle (9,073 net acres). The volumes of reserves presented within the "Summary of Assets" section of this report are those attributable to certain leasehold interest of IDG Energy. Ryder Scott is unaware of any other assets that are material to IDG Energy. Because all of the reserves are attributable to the same leasehold interests to be acquired by IDG Energy, the following topics generally do not vary between the proved, probable, and possible reserves.

Ryder Scott did not verify the lease expiration dates of the leases covering the subject properties. However, over 80% of the gross acreage is held by production. There is limited land re-negotiation required in the near term as shown in Figure 1, provided by IDG Energy. In this reserves evaluation, all of the proved, probable, and possible reserves and contingent resources are strictly limited in the acreage that is held by production (HBP). As long as IDG Energy maintains hydrocarbon production from the existing wells and complies with the routine terms of those leases regarding the payment of royalties, the leases associated with those wells will not expire. Ryder Scott cannot predict the loss of leases due to shut in operations on specific wells for various reasons, such as changes in economic conditions, results of future operations, effects of regulation by governmental agencies or geopolitical or economic risks as previously noted herein.

During the commercial production stage, production wells from this area may be abandoned due to the lack of economic feasibility. If the other party or parties agree to abandon production from the lease area, all parties shall pay abandonment costs in proportion to their respective percentage of working interests in the area. In this report, the estimated net cost of abandonment after salvage was included for properties where abandonment costs net of salvage were significant. The net abandonment costs were based on reasonable estimates used for similar properties. Ryder Scott has not performed a detailed study of the abandonment costs or the salvage value and makes no warranty for the estimates.

25.6(b)(ii) Description of Geological Characteristics

The “Discussion” section of this report includes general information regarding the geological characteristics of the Eagle Ford region. The Eagle Ford Shale is a Cretaceous sediment that was traditionally known as a source rock in South and East Texas. The formation is the source rock for the Austin Chalk oil and gas formation. The subject properties are located in the Dimmit, Frio, and La Salle counties, which are in the oil window of eagle ford shale.

		Maverick basin and San Marcos arch	East Texas basin
Upper Cretaceous	Coniacian, Santonian, Campanian	Austin Chalk	Austin Group
	Turonian	Eagle Ford Shale	Eagle Ford Group
			Pepper Shale Woodbine Group
	Cenomanian		Maness Shale
		Buda Limestone	Buda Limestone
		Del Rio Shale	Del Rio (Grayson) Sh.
	Georgetown Ls.	Georgetown Ls.	

Figure 5. Conventional Lithostratigraphy of Eagle Ford Shale Play Area. Correlation of Stratigraphic Units of North America (COSUNA), Childs, O.E. AAPG Bulletin, 1985.

25.6(b)(iii) Characteristics of the Reservoir

Ryder Scott has performed a saturation-porosity-thickness map as shown in the following. The drilled wells as part of the subject properties are labelled in color.

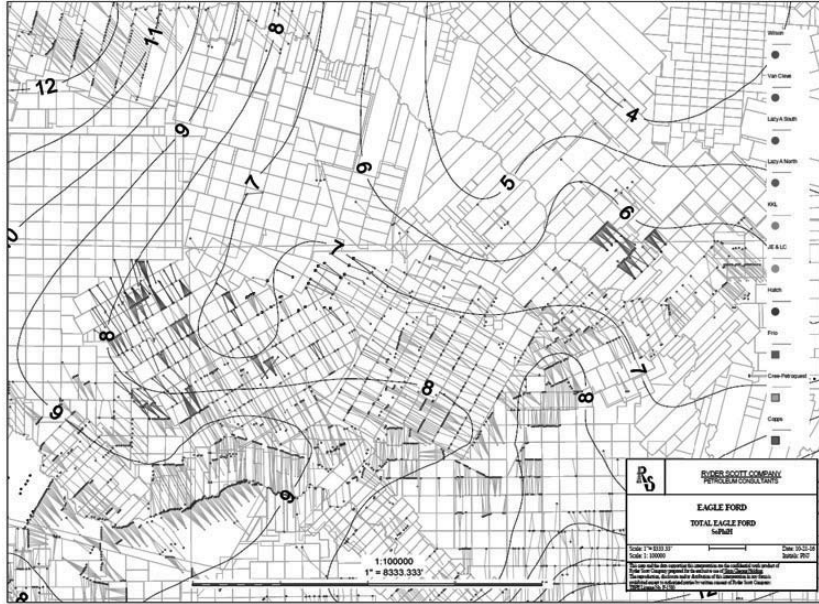


Figure 6. Saturation-Porosity-Thickness (SoPhiH) Map of the Subject Properties.

Eagle Ford shale is considered as a source rock and homogenous in the subject properties' leasehold area. Ryder Scott produced a map for estimated ultimate recovery (EUR) per lateral length in the unit of barrel per foot. The subject properties' producing leases are labelled in color on the following map.

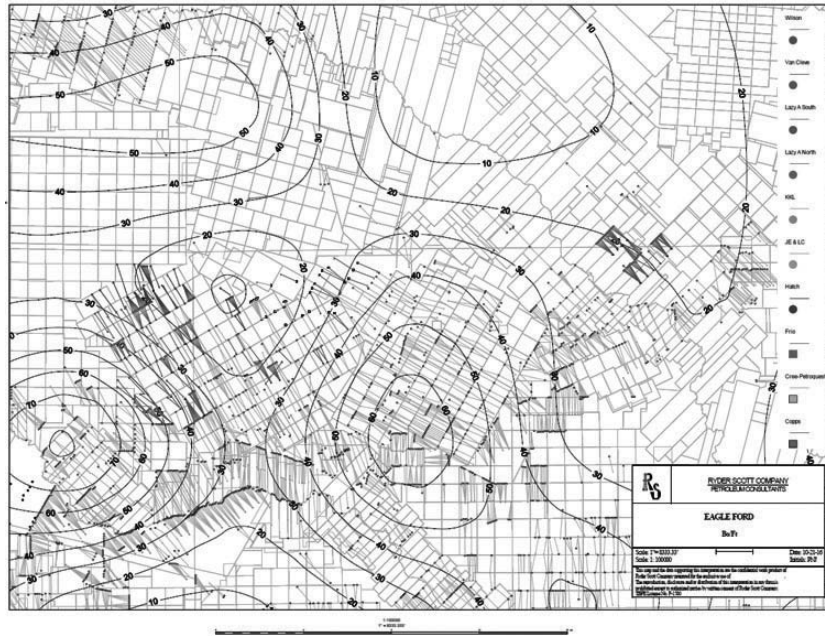


Figure 7. Estimated Ultimate Recovery (EUR) per Lateral Length (ft) Map of the Subject Properties.

25.6(b)(iv) Details of any Exploration Drilling

IDG Energy did not provide any exploration plan to Ryder Scott, and no prospective resources are included in this report.

25.6(b)(v) Date Production Started

Initial production of the subject properties' asset started in 2010. The asset is now significantly developed. The cumulative production as of November 30, 2016 is approximately 35.71 million barrels of oil equivalent (MMBOE). For this cumulative figure, a BOE is an equivalent unit basis wherein natural gas is converted to oil equivalent using a factor of 6,000 cubic feet of natural gas per one barrel of oil equivalent. MMBOE means million barrels of oil equivalent.

25.6(b)(vi) Development History and Plan

The following table provides information regarding the development history and field developed plan attributable to the subject properties in Eagle Ford area. As of the effective date of this report, there were 301 active producers in the contract area. IDG Energy has provided a field development plan to drill 180 proved locations in the next three years.

Year	IDG ENERGY DEVELOPMENT HISTORY AND SCHEDULE						
	GROSS PRODUCTION WELLS						
	PDP	Proved	Probable	Possible	1P	2P	3P
2010	4	0	0	0	4	4	4
2011	15	0	0	0	15	15	15
2012	43	0	0	0	43	43	43
2013	64	0	0	0	64	64	64
2014	110	0	0	0	110	110	110
2015	42	0	0	0	42	42	42
2016	23	0	0	0	23	23	23
2017	0	10	0	0	10	10	10
2018	0	60	0	0	60	60	60
2019	0	110	0	0	110	110	110
2020	0	0	0	0	0	0	0
TOTAL	<u>301</u>	<u>180</u>	<u>0</u>	<u>0</u>	<u>481</u>	<u>481</u>	<u>481</u>

Table 9. Subject Properties Development History and IDG Energy's Schedule.

25.6(b)(vii) and (viii) Details of Any Geological and Commercial Risk Assessment for Contingent Resources

The subject properties are located in the geologically continuous Eagle Ford shale play as shown in the Ryder Scott maps Figure 6 and 7. IDG Energy's field development plan is constrained by available capital, and therefore Ryder Scott only considered the locations planned to be drilled as reserves. The locations not in IDG Energy's development plans were considered contingent resources due to the lack of commitment to drill.

25.6(b)(ix) Methods Employed for Exploration and/or Extraction

The contingent resources included herein were estimated by the analogy method supported by the type well analysis. The analogy method utilized pertinent well data furnished to Ryder Scott by IDG Energy that were available through July 2016.

Hydrocarbons are produced through unconventional oil field technology, and include the use of horizontal completion and hydraulic fracturing of the wells.

25.6(b)(x) and (xi) Field Development Plans and Maps

IDG Energy has proposed future drilling locations as shown in the following figure. Not all of these locations were scheduled within IDG Energy's drilling schedule, so a portion of these locations was considered to be contingent resources.

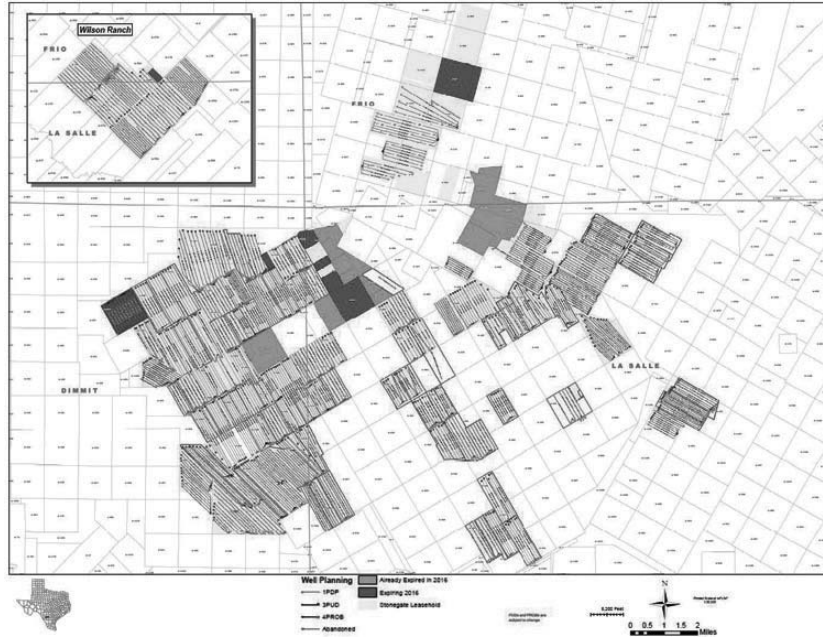


Figure 8. Field Development Plans of IDG Energy.

The area attributable to certain leasehold interests to be acquired by IDG Energy has been divided into 9 regions. Monte Carlo probabilistic method has been used to develop type well for each region.

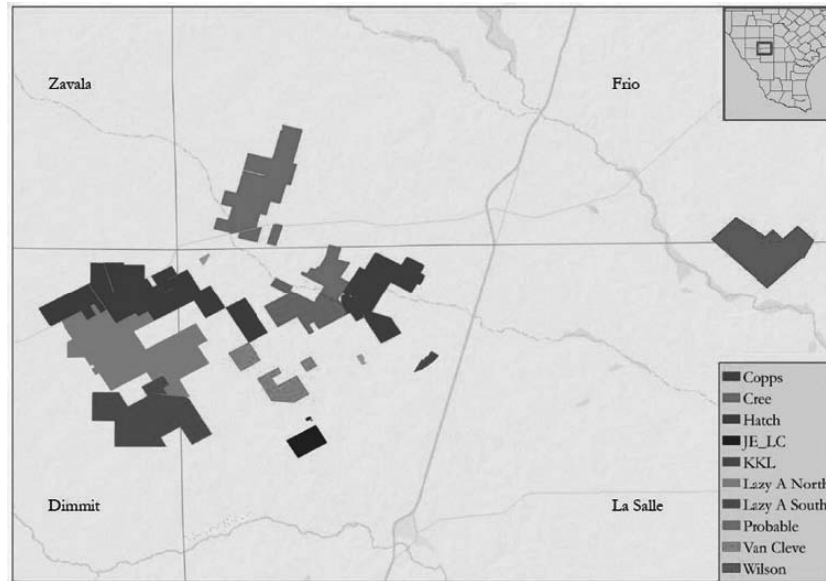


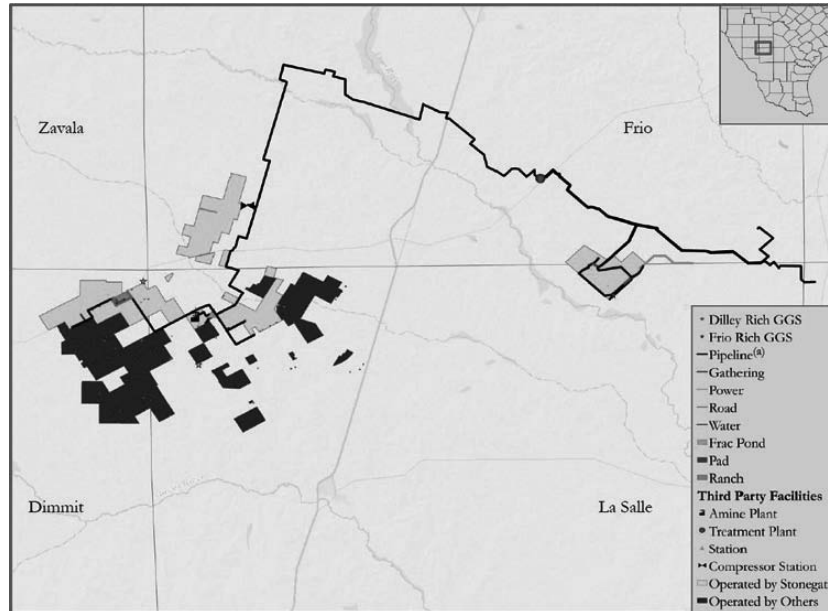
Figure 9. Key Development Areas Map from IDG Energy.

IDG Energy's drilling activity is constrained by available capital, and therefore Ryder Scott cannot book all the locations as reserves. Consequently, IDG Energy has proposed 180 locations as the current field development plan, and Ryder Scott has assigned proved, probable, and possible undeveloped reserves to these locations. The remaining potential locations are considered as contingent resources due to the lack of development plans and commitment to drill.

Ryder Scott specifically discussed the 5-year field development plan as of November 30, 2016 with IDG Energy, who has indicated to us their commitment to follow the proposed field development plan for the operated and non-operated assets. According to the Joint Operating Agreements for the area to be assigned to IDG Energy, although will not be the operator, will have the right to propose wells to the partners in the project. In the event that other partners do not wish to participate in the proposed well(s), IDG Energy has advised us that they are prepared to take any non-consent interest and proceed with the well(s).

25.6(b)(xii) Discussion on Plant, Machinery, and Facilities

Ryder Scott has not performed a detailed review of the facilities located on the leases to be acquired by IDG Energy in Eagle Ford region. Ryder Scott relies on the history of production and hydrocarbon sales as provided by IDG Energy, and it is assumed that these facilities will be adequate to handle the estimated future production from the field. In the case of undrilled wells, the cost estimates include necessary facilities to handle the production from those wells.



**Figure 10. Midstream Infrastructure Overview.
Provided by IDG Energy.**

25.6(b)(xiii) Production Schedules and the Basis for Any Estimations

For wells currently on production, our forecasts of future production rates are based on historical performance data. If no production decline trend has been established, future production rates were estimated based on constructed type well, or adjusted for the effects of curtailment where appropriate, until a decline in ability to produce was anticipated. An estimated rate of decline was then applied to depletion of the reserves. If a decline trend has been established, this trend was used as the basis for estimating future production rates.

Test data and other related information were used to estimate the anticipated initial production rates for those wells or locations that are not currently producing. For reserves not yet on production, sales were estimated to commence at an anticipated date furnished by IDG Energy. Wells or locations that are not currently producing may start producing earlier or later than anticipated in our estimates due to unforeseen factors causing a change in the timing to initiate production. Such factors may include delays due to weather, the availability of rigs, the sequence of drilling, completing and/or recompleting wells and/or constraints set by regulatory bodies.

The future production rates from wells currently on production or wells or locations that are not currently producing may be more or less than estimated because of changes including, but not limited to, reservoir performance, operating conditions related to surface facilities, compression and artificial lift, pipeline capacity and/or operating conditions, producing market demand and/or allowables or other constraints set by regulatory bodies.

25.6(b)(xiv) Comments on Any Production Forecasts Made by the Mineral Company

Within the scope of this project, Ryder Scott has not reviewed any production forecasts made by IDG Energy. Ryder Scott is unaware of any such production forecasts.

25.6(b)(xv) Statement of Reserves

The estimated reserves of the subject properties are presented in the table “Estimated Net Reserves and Income Data” within the section entitled “25.2 Executive Summary”.

The estimation of reserve and resource quantities involves two distinct determinations. The first determination results in the estimation of the quantities of recoverable oil and gas and the second determination results in the estimation of the uncertainty associated with those estimated quantities. The process of estimating the quantities of recoverable oil and gas reserves and resources relies on the use of certain generally accepted analytical procedures. These analytical procedures fall into three broad categories or methods: (1) performance-based methods, (2) volumetric-based methods and (3) analogy. These methods may be used individually or in combination by the reserve evaluator in the process of estimating the quantities of reserves and/or resources. Reserve evaluators must select the method or combination of methods which in their professional judgment is most appropriate given the nature and amount of reliable geoscience and engineering data available at the time of the estimate, the established or anticipated performance characteristics of the reservoir being evaluated, and the stage of development or producing maturity of the property.

Reserves attributable to undeveloped reserves and resources included herein were estimated by the analogy method supported by type well analysis. The analogy method utilized pertinent well data furnished to Ryder Scott by IDG Energy that were available through July 2016.

During this reserve evaluation, no original hydrocarbon in place has been derived or was considered necessary given it is a shale evaluation. The well drainage area is limited by the stimulated reservoir volume (SRV) that is created by the hydraulic fracturing of the well. Essentially all of the future production is expected to come from the SRV. As such, recovery factors only represent the SRV, and not the entire reservoir. The overall recovery factor that may be achieved for the reservoir is subject to the future well placement density, horizontal well lateral length, and completion advancement.

Field level projections for Ryder Scott’s 1P and 2P reserves are included in the following figures. The green line represents the 1P projection including all the proved producing and undeveloped wells. The grey line, which is marginally above the green, represents the 2P projection profiles for the same number of wells as no probable undeveloped wells has been assigned. The probable volume reflects the incremental from the proved undeveloped locations.

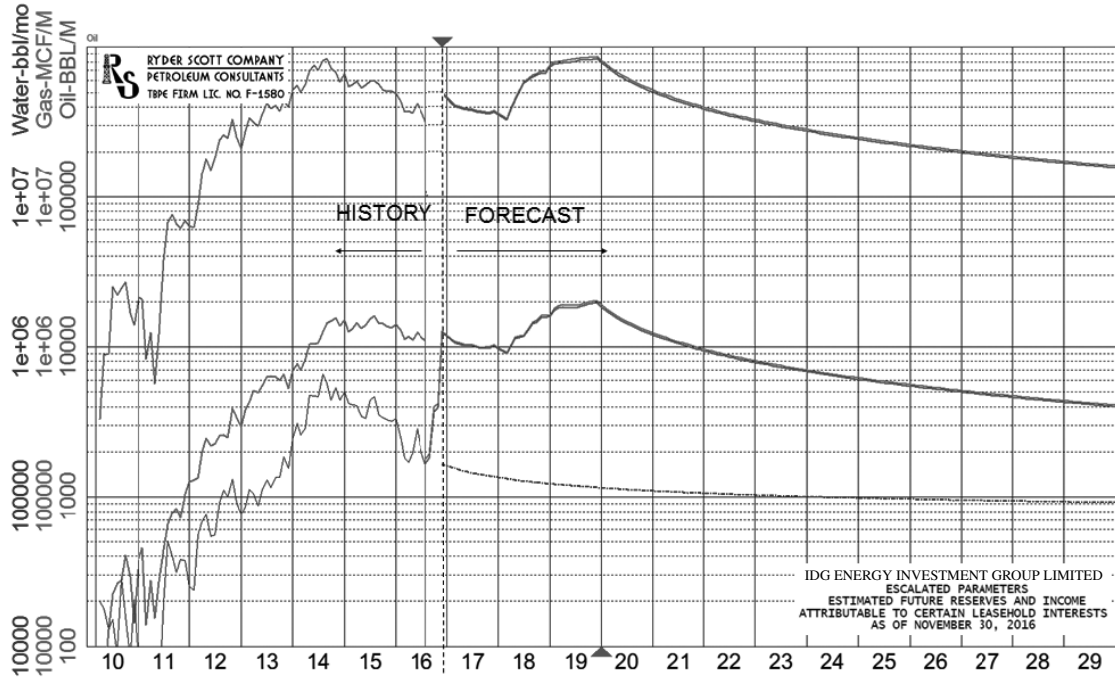


Figure 11. 1P and 2P Production profile for assets to be acquired by IDG Energy. As of November 30, 2016.

25.7 BUSINESS

IDG Energy is principally engaged in the exploration, development and production of petroleum. The subject properties are located in the Dimmit, Frio, and La Salle counties. Offset operators include Carrizo, Chesapeake, and TRC, among others. The Eagle Ford shale gas and oil play is located within the Texas Maverick Basin. It was first discovered by Petrohawk in 2008, and the initial well was located in the Hawkville field in LaSalle County, Texas. The first production well on the subject properties’ acreage started production in March 2010; the field now has 301 producing wells. The field is currently in a development-production phase.

Given the Petroleum Reserves outlined in this report for the subject properties, and taking into consideration the U.S.'s growing economy and the corresponding strong demand for oil and gas, the long term prospects for the subject properties and the related oil production operations in the Eagle Ford region are positive. Other factors supporting the positive outlook for the subject properties' long term prospects include: 1) the Benchmark West Texas Intermediate crude price recently managed to turnaround and has shown signs of recovering from the low levels of approximately \$26.00 per barrel in February 2016 to approximately \$50.00 per barrel in December of 2016; and 2) abundant remaining undrilled well locations to support future production, including approximately 250 contingent resource drilling locations that IDG Energy will have the right to develop. The ability of IDG Energy to commercially and successfully conduct such activities is dependent on future regulatory and economic conditions.

IDG Energy's project in the Eagle Ford region has proposed to run the project by a team of experienced professionals with significant experience in oil field development and production projects inherited from Stonegate Production Company, who previously developed this property. Their direct experience in the area and their knowledge of best operational practices and technologies has been important to the project's successful development to date. The management team, engineers and geologists have a large amount of experience in Eagle Ford field development projects and their expertise represents a key asset of the project. IDG Energy's technical staff has thus far been capable of successfully conducting the business of IDG Energy.

25.8 ECONOMIC EVALUATION

25.8(a)

In the previous section 25.2, Ryder Scott has presented the discounted cash flow of the subject properties' assets in Eagle Ford, which presented separate net present values (NPVs) in the categories of proved reserves, and proved reserve plus probable reserves.

25.8(b)

The cash flows are based on an escalated price case which provide by IDG Energy. The price differentials for oil, NGL, and natural gas are elaborated in the "Hydrocarbon Prices" section of 25.2. Product prices which were actually used for each property reflect adjustments for gravity, quality, local conditions, gathering and transportation fees and/or distance from market, referred to herein as "differentials."

25.8(c)

The operating rights related to the subject properties have been discussed in the section of 25.6(b)(i).

25.8(d)

Ryder Scott has performed the economic analysis of the subject properties' asset based on various discount rates and presented in the section of 25.2 Executive Summary.

25.8(e)

The base case is based on a forecast price deck provided by IDG Energy, which is discussed in the “Hydrocarbon Prices” section of 25.2. The cost parameters are also escalated. This report is effective as of November 30, 2016.

Economic Inputs for Base Case

- The base case hydrocarbon prices are elaborated in the section of “Hydrocarbon Prices” of section 25.2.
- The operating cost is summarized in the following table and varies with different operators provided by IDG Energy. Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data supplied by IDG Energy. The general and administrative (G&A) cost is not considered in this reserve evaluation.

OPERATOR	Fixed	Variable	
	OPEX \$/Month	OPEX Gas, \$/MCF	OPEX Oil, \$/bbl
CHESAPEAKE	3,452	0.01	3.31
CARRIZO	1,772	0.47	9.51
TARC	2,211	0.07	2.67
IDG ENERGY	4,977	0.31	3.11

- The capital expenditure also varies based on horizontal well lateral lengths. The average cost is \$1,607.7M and \$2,630.1M for drilling and completion, respectively. The average drilling and completion cost is \$612.5 per foot of lateral length. The estimated net cost of abandonment after salvage is \$60M per well included for each property.
- For the 126 operated producing wells among the subject properties, which will be operated by IDG Energy, the gas shrinkage factor is 0.613 and the NGL yield is 110.6 bbl/MMCF; for 175 non-operated producing wells among the subject properties operated by other independent operators, the gas shrinkage factor is 0.814 and the NGL yield is 94.2 bbl/MMCF. All the proved undeveloped wells assumed the same shrinkage and NGL parameters as the non-operated wells.

25.8(f)

A table of NPV results for IDG Energy's net economic interest is presented in the section of 25.2 and below with different discount rates, which does not combine volumes or monetary conclusions for different categories. The cashflow results over years are also attached below.

**Discounted Future Net Income M\$
Before Income
Tax Base Case
As of November 30, 2016**

Discount Rate Percent	Total (1P) Proved	Total Probable	Total (2P) Proved + Probable	Total (3P) Proved + Probable + Possible
5	\$518,743	\$25,908	\$544,651	\$570,857
7.5	\$419,764	\$21,542	\$441,306	\$463,087
10	\$349,319	\$18,495	\$367,814	\$386,511
12	\$306,397	\$16,645	\$323,042	\$339,868
15	\$257,010	\$14,501	\$271,511	\$286,167

**Discounted Future Net Income M\$
After Income Tax
Base Case
As of November 30, 2016**

Discount Rate Percent	Total (1P) Proved	Total Probable	Total (2P) Proved + Probable	Total (3P) Proved + Probable + Possible
5	\$401,104	\$16,823	\$417,927	\$434,944
7.5	\$327,527	\$13,974	\$341,502	\$355,631
10	\$274,589	\$11,985	\$286,574	\$298,690
12	\$242,032	\$10,776	\$252,809	\$263,702
15	\$204,220	\$9,375	\$213,595	\$223,071

25.8(g)*Economic Inputs for Price Sensitivity Cases*

The same projections that generated the base case using forecast price and cost parameters were utilized in the price and cost sensitivity cases.

Hydrocarbon Prices

Ryder Scott generated price sensitivity cases using both 10% higher and 10% lower forecast pricing scenarios than the base forecast case commodity price of crude oil, plant products and natural gas as proposed by IDG Energy. Note plant product prices at Mont Belvieu, Texas, are estimated to average approximately 20.3% of crude oil prices.

Estimates of future price parameters have been revised in the past because of changes in governmental policies, changes in hydrocarbon supply and demand, and variations in general economic conditions. The price parameters used in this report may be revised in the future for similar reasons.

The effects of derivative instruments designated as price hedges of oil and gas quantities are not reflected in our individual property evaluations.

Costs

The operating and development costs utilized in the base case were escalated in accordance with Ryder Scott's current policy for the sensitivity case, which is the same as the base case.

Current operating and development costs used in the estimates within this report are escalated 0.083 percent for the remaining 1 month of 2016 (equivalent to 1.0 percent per year), 1.0 percent per year for 2017 then annually at the rate of 2.0 percent for 2018 and each year thereafter until 2033.

High Case

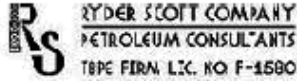
**Discounted Future Net Income M\$
Before Income Tax
High Case
As of November 30, 2016**

Discount Rate Percent	Total (1P) Proved	Total Probable	Total (2P) Proved + Probable	Total (3P) Proved + Probable + Possible
5	\$631,168	\$29,070	\$660,237	\$689,633
7.5	\$513,433	\$24,169	\$537,602	\$562,035
10	\$429,811	\$20,754	\$450,565	\$471,544
12	\$378,879	\$18,681	\$397,560	\$416,443
15	\$320,227	\$16,279	\$336,506	\$352,959

**Discounted Future Net Income M\$
After Income Tax
High Case
As of November 30, 2016**

Discount Rate Percent	Total (1P) Proved	Total Probable	Total (2P) Proved + Probable	Total (3P) Proved + Probable + Possible
5	\$474,196	\$18,875	\$493,071	\$512,156
7.5	\$388,385	\$15,677	\$404,062	\$419,911
10	\$326,840	\$13,448	\$340,287	\$353,881
12	\$289,047	\$12,094	\$301,141	\$313,366
15	\$245,175	\$10,525	\$255,700	\$266,337

The results shown above are presented for your information and should not be construed as our estimate of fair market value.



IDG ENERGY INVESTMENT GROUP LIMITED
ESCALATED PARAMETERS (HIGH CASE)
ESTIMATED FUTURE RESERVES AND INCOME
ATTRIBUTABLE TO CERTAIN LEASEHOLD INTERESTS
AS OF NOVEMBER 30, 2016

PROBABLE

	EXPENSE INTEREST	REVENUE INTERESTS			PRODUCT PRICES			FRI COMPOUNDED MONTHLY, \$		
		Oil/Condensate	Gas	NGL	Gas \$/MCF	Oil/Cond \$/B	RATE	BEFORE TAX	AFTER TAX	
INITIAL							5.00%	29069.7	18875.0	
FINAL							7.50%	24168.5	15677.0	
							10.00%	20753.8	13447.7	
							12.00%	18681.3	12094.2	
							15.00%	16278.7	10524.5	

--END-- MO-YEAR	AVG NO. OF WELLS	ESTIMATED 8/8 THS PRODUCTION			COMPANY NET PRODUCTION			AVERAGE PRICE		
		Oil/Cond	Plt Products	Gas	Oil/Cond	Plt Products	Gas	Oil/Cond	Plt Prod	Gas
12-2016	0.0	11.994	1.934	20.534	3.616	0.583	4.977	45.51	15.04	0.83
12-2017	0.0	101.998	17.087	181.394	30.713	5.144	43.901	52.88	17.15	0.99
12-2018	0.0	151.344	27.568	292.650	37.609	7.008	59.813	68.68	21.67	0.88
12-2019	0.0	333.815	68.812	730.487	65.981	12.942	110.458	78.30	24.13	0.76
12-2020	0.0	256.878	53.019	562.836	56.632	11.247	95.953	88.90	27.23	0.87
12-2021	0.0	172.114	35.302	374.758	37.706	7.436	63.468	86.59	26.58	0.94
12-2022	0.0	132.534	27.105	287.739	29.044	5.711	48.740	85.38	26.24	1.00
12-2023	0.0	108.753	22.205	235.727	23.856	4.683	39.969	86.60	26.59	1.07
12-2024	0.0	92.670	18.904	200.674	20.348	3.990	34.057	84.62	26.03	1.15
12-2025	0.0	80.957	16.511	175.275	17.798	3.488	29.769	83.84	25.81	1.22
12-2026	0.0	72.090	14.690	155.942	15.851	3.105	26.502	85.66	26.32	1.29
12-2027	0.0	65.043	13.253	140.691	14.311	2.803	23.921	90.92	27.82	1.37
12-2028	0.0	59.332	12.088	128.327	13.060	2.557	21.827	93.58	28.57	1.45
12-2029	0.0	54.538	11.124	118.085	12.022	2.354	20.051	97.01	29.55	1.53
12-2030	0.0	50.635	10.310	109.451	11.146	2.182	18.626	103.42	31.37	1.60
S-Tot	0.0	1744.746	349.913	3714.572	389.692	75.233	542.134	81.60	25.31	1.02
Rem	0.0	845.414	172.768	1834.055	187.579	36.730	313.455	122.32	36.72	1.84
Total	0.0	2590.151	522.681	5548.628	577.272	111.963	955.609	94.83	29.05	1.29
Cumulative Ultimate		38.254	0.000	65.508						
		2628.425	522.681	5614.134						

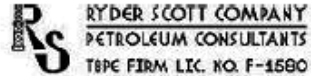
--END-- MO-YEAR	COMPANY FUTURE GROSS REVENUE (FGR)			PRODUCTION TAXES			FGR AFTER PRODUCT TAXES	
	Oil/Cond	Plant Prod	Total	Oil/Cond	Gas/PP	Total	ANNUAL	DISCOUNTED
12-2016	164.6	8.8	173.4	7.6	1.0	8.6	96.6	96.2
12-2017	1624.1	88.2	1712.3	74.7	9.9	84.6	969.3	913.0
12-2018	2382.8	151.9	2534.7	118.8	15.3	134.2	1337.3	1337.3
12-2019	5166.5	312.2	5478.7	237.7	29.7	267.4	2447.8	2447.8
12-2020	5034.7	305.3	5340.0	231.6	29.7	261.3	2202.6	2202.6
12-2021	3265.0	197.6	3462.6	150.2	19.1	169.3	1296.6	1296.6
12-2022	2479.8	149.8	2629.6	114.1	14.9	129.0	894.6	894.6
12-2023	2066.0	124.5	2190.5	95.0	12.5	107.5	677.9	677.9
12-2024	1721.9	103.9	1825.8	79.2	10.7	89.9	513.2	513.2
12-2025	1492.2	90.0	1582.2	68.6	9.5	78.1	404.1	404.1
12-2026	1357.7	81.7	1439.4	62.5	8.7	71.2	334.6	334.6
12-2027	1301.1	78.0	1379.1	59.8	8.3	68.2	292.1	292.1
12-2028	1222.1	73.1	1295.2	56.2	7.9	64.1	249.7	249.7
12-2029	1166.3	69.6	1235.9	53.6	7.5	61.2	216.9	216.9
12-2030	1152.7	68.5	1221.2	53.0	7.4	60.4	195.3	195.3
S-Tot	31797.6	1904.0	33701.6	1462.7	191.8	1654.5	19485.7	12072.1
Rem	22944.5	1348.7	24293.2	1055.4	144.3	1199.8	12719.8	1375.5
Total	54742.2	3252.7	57994.8	2518.1	336.2	2854.3	32205.6	13447.7

LIFE - 50.00 YEARS DISCOUNT RATE @ 10.00 %

THESE DATA ARE PART OF A RYDER SCOTT REPORT AND ARE SUBJECT TO THE CONDITIONS IN THE TEXT OF THE REPORT
THESE DATA WERE GENERATED USING THE ARIES PROGRAM

APPENDIX V

COMPETENT PERSON'S REPORT



IDG ENERGY INVESTMENT GROUP LIMITED
 ESCALATED PARAMETERS (HIGH CASE)
 ESTIMATED FUTURE RESERVES AND INCOME
 ATTRIBUTABLE TO CERTAIN LEASEHOLD INTERESTS
 AS OF NOVEMBER 30, 2016

POSSIBLE

	REVENUE INTERESTS			PRODUCT PRICES		FNI RATE	COMPOUNDED MONTHLY, \$		
	EXPENSE INTEREST	Oil/Condensate	Gas	NGL	Gas \$/MCF		Oil/Cond \$/B	BEFORE TAX	MONTHLY
INITIAL						5.00%	29396.0		19085.4
FINAL						7.50%	24433.6		15848.3
						10.00%	20978.8		13593.2
						12.00%	18882.7		12224.5
						15.00%	16453.0		10637.2

MO-YEAR	AVG NO. OF WELLS	ESTIMATED 8/8 THS PRODUCTION			COMPANY NET PRODUCTION			AVERAGE PRICE		
		Oil/Cond MMBL	Plt Products MMBL	Gas MMCF	Oil/Cond MMBL	Plt Products MMBL	Gas MMCF	Oil/Cond \$/B	Plt Prod \$/B	Gas \$/M
12-2016	0.0	12.067	1.946	20.658	3.638	0.587	5.007	45.51	15.04	0.83
12-2017	0.0	102.967	17.285	183.488	31.004	5.203	44.406	52.88	17.15	0.99
12-2018	0.0	151.860	27.997	297.209	38.205	7.176	61.246	68.68	21.67	0.88
12-2019	0.0	327.624	67.480	716.343	66.304	13.008	111.025	78.30	24.16	0.77
12-2020	0.0	254.963	52.619	558.584	57.315	11.399	97.287	88.90	27.26	0.88
12-2021	0.0	170.677	35.012	371.683	38.130	7.532	64.284	86.59	26.60	0.94
12-2022	0.0	131.424	26.886	285.414	29.366	5.784	49.366	85.38	26.26	1.01
12-2023	0.0	107.852	22.030	233.869	24.121	4.743	40.484	86.60	26.61	1.08
12-2024	0.0	91.913	18.758	199.130	20.574	4.042	34.499	84.63	26.05	1.16
12-2025	0.0	80.335	16.387	173.955	17.996	3.534	30.159	83.84	25.83	1.22
12-2026	0.0	71.506	14.581	154.791	16.028	3.146	26.851	85.66	26.35	1.30
12-2027	0.0	64.531	13.157	139.670	14.471	2.840	24.238	90.92	27.84	1.38
12-2028	0.0	58.871	12.002	127.410	13.207	2.591	22.118	93.58	28.60	1.45
12-2029	0.0	54.177	11.045	117.253	12.158	2.385	20.360	97.01	29.58	1.53
12-2030	0.0	50.218	10.239	108.690	11.272	2.212	18.877	103.42	31.40	1.61
S-Tot	0.0	1730.985	347.423	3688.147	393.789	76.181	650.206	81.60	25.33	1.03
Rem	0.0	820.543	167.915	1782.542	184.955	36.376	310.469	122.28	36.76	1.85
Total	0.0	2551.528	515.339	5470.688	578.744	112.557	960.675	94.60	29.02	1.29
Cumulative		38.495	0.000	65.903						
Ultimate		2590.023	515.339	5536.592						

MO-YEAR	COMPANY FUTURE GROSS REVENUE (FGR)		GAS	OTHER	Total	PRODUCTION TAXES		Total	FGR AFTER PRODUCT TAXES
	Oil/Cond MS	Plant Prod MS				Oil/Cond MS	GAS/PP MS		
12-2016	165.5	8.8	4.2	0.0	178.5	7.6	1.0	8.6	169.9
12-2017	1639.5	89.2	43.9	0.0	1772.7	75.4	10.0	85.4	1687.2
12-2018	2623.7	155.5	54.0	0.0	2833.2	120.7	15.7	136.4	2696.8
12-2019	5191.9	314.2	85.9	0.0	5592.0	238.8	30.0	268.8	5323.2
12-2020	5095.5	310.7	85.5	0.0	5491.7	234.4	29.7	264.1	5227.5
12-2021	3301.8	200.3	60.7	0.0	3562.9	151.9	19.6	171.5	3391.4
12-2022	2507.4	151.9	49.9	0.0	2709.2	115.3	15.1	130.5	2578.7
12-2023	2089.0	126.2	43.7	0.0	2258.9	96.1	12.7	108.8	2150.0
12-2024	1741.1	105.3	39.9	0.0	1886.3	80.1	10.9	91.0	1795.3
12-2025	1508.9	91.3	36.9	0.0	1637.0	69.4	9.6	79.0	1558.0
12-2026	1372.9	82.9	34.9	0.0	1490.7	63.2	8.8	72.0	1418.7
12-2027	1315.7	79.1	33.4	0.0	1428.2	60.5	8.4	69.0	1359.2
12-2028	1235.9	74.1	32.2	0.0	1342.2	56.9	8.0	64.8	1277.4
12-2029	1179.5	70.5	31.2	0.0	1281.2	54.3	7.6	61.9	1219.3
12-2030	1165.8	69.4	30.4	0.0	1265.6	53.6	7.5	61.1	1204.5
S-Tot	32134.1	1929.6	666.6	0.0	34730.2	1478.2	194.7	1672.9	33057.4
Rem	22616.0	1337.1	573.8	0.0	24527.0	1040.3	143.3	1183.7	23343.3
Total	54750.1	3266.7	1240.4	0.0	59257.2	2518.5	338.0	2856.5	56400.7

MO-YEAR	DEDUCTIONS			BEFORE INCOME TAXES		US FEDERAL INCOME TAX	AFTER INCOME TAXES	
	OPERATING COSTS MS	DEVELOPMENT COSTS MS	TOTAL MS	ANNUAL MS	DISCOUNTED MS		ANNUAL MS	DISCOUNTED MS
12-2016	20.5	0.0	20.5	149.5	148.9	52.3	97.2	96.8
12-2017	181.7	0.0	181.7	1505.5	1427.3	526.9	978.6	921.7
12-2018	242.9	0.0	242.9	2453.9	2100.1	858.9	1595.0	1359.3
12-2019	439.9	0.0	439.9	4883.3	3802.4	1709.2	3174.1	2460.5
12-2020	400.6	0.0	400.6	4827.0	3446.3	1689.4	3137.5	2229.8
12-2021	268.2	0.0	268.2	3123.2	2023.5	1093.1	2030.1	1311.6
12-2022	208.6	0.0	208.6	2370.1	1395.0	829.5	1540.6	904.8
12-2023	174.6	0.0	174.6	1975.4	1056.6	691.4	1284.0	685.6
12-2024	150.1	0.0	150.1	1645.3	799.8	575.8	1069.4	519.1
12-2025	132.8	0.0	132.8	1425.2	629.8	498.8	926.4	408.8
12-2026	120.7	0.0	120.7	1298.0	521.3	454.3	843.7	338.5
12-2027	112.5	0.0	112.5	1246.7	455.2	436.3	810.3	295.5
12-2028	105.1	0.0	105.1	1172.3	389.1	410.3	762.0	252.6
12-2029	99.2	0.0	99.2	1120.2	338.0	392.1	728.1	219.4
12-2030	95.1	0.0	95.1	1109.5	304.3	388.3	721.2	197.6
S-Tot	2752.4	0.0	2752.4	30305.0	18837.4	10606.7	19698.2	12201.7
Rem	3437.8	0.0	3437.8	19905.5	2141.4	6966.9	12938.6	1391.5
Total	6190.2	0.0	6190.2	50210.5	20978.8	17573.7	32636.8	13593.2

LIFE - 50.000 YEARS

DISCOUNT RATE @ 10.00 %

THESE DATA ARE PART OF A RYDER SCOTT REPORT AND ARE SUBJECT TO THE CONDITIONS IN THE TEXT OF THE REPORT
 THESE DATA WERE GENERATED USING THE ARIES PROGRAM

Low Case

**Discounted Future Net Income M\$
Before Income Tax
Low Case
As of November 30, 2016**

Discount Rate Percent	Total (1P) Proved	Total Probable	Total (2P) Proved + Probable	Total (3P) Proved + Probable + Possible
5	\$407,139	\$22,743	\$429,882	\$452,889
7.5	\$326,539	\$18,914	\$345,453	\$364,578
10	\$269,073	\$16,236	\$285,309	\$301,723
12	\$234,067	\$14,609	\$248,677	\$263,444
15	\$193,861	\$12,723	\$206,584	\$219,443

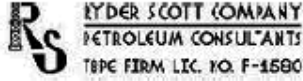
**Discounted Future Net Income M\$
After Income Tax
Low Case
As of November 30, 2016**

Discount Rate Percent	Total (1P) Proved	Total Probable	Total (2P) Proved + Probable	Total (3P) Proved + Probable + Possible
5	\$328,506	\$14,770	\$343,275	\$358,216
7.5	\$266,917	\$12,270	\$279,187	\$291,594
10	\$222,456	\$10,522	\$232,978	\$243,615
12	\$195,076	\$9,459	\$204,535	\$214,096
15	\$163,272	\$8,226	\$171,497	\$179,812

The results shown above are presented for your information and should not be construed as our estimate of fair market value.

APPENDIX V

COMPETENT PERSON'S REPORT



IDG ENERGY INVESTMENT GROUP LIMITED
 ESCALATED PARAMETERS (LOW CASE)
 ESTIMATED FUTURE RESERVES AND INCOME
 ATTRIBUTABLE TO CERTAIN LEASEHOLD INTERESTS
 AS OF NOVEMBER 30, 2016

PROVED

EXPENSE INTEREST	REVENUE INTERESTS			PRODUCT PRICES		FNI COMPOUNDED MONTHLY, M\$		
	Oil/Condensate	Gas	NGL	Gas \$/MCF	Oil/Cond \$/B	RATE	BEFORE TAX	AFTER TAX
INITIAL						5.00%	407138.9	328505.6
FINAL						7.50%	326539.0	266916.7
						10.00%	269072.6	222456.4
						12.00%	234067.3	195076.1
						15.00%	193861.1	163271.6

MO-YEAR	AVG NO. OF WELLS	ESTIMATED 8/8 THIS PRODUCTION	COMPANY NET PRODUCTION	AVERAGE PRICE
		Oil/Cond Plt Products	Oil/Cond Plt Products Gas	Oil/Cond Plt Prod Gas
		---MBSL---	---MBSL---MBCF---	---\$/B---\$/B---\$/M---
12-2016	289.0	471.724	1205.192	36.86 10.77 0.12
12-2017	292.2	4536.686	12106.630	42.92 12.28 0.25
12-2018	322.8	5946.041	14152.318	55.57 16.01 0.21
12-2019	415.7	9273.874	21257.564	63.21 18.56 0.19
12-2020	463.9	7376.096	17398.752	67.91 20.97 0.25
12-2021	459.6	5249.749	12608.926	70.06 20.23 0.30
12-2022	454.8	4203.395	10232.182	69.12 19.84 0.35
12-2023	452.2	3549.032	844.865	70.15 20.03 0.40
12-2024	445.8	3085.548	737.165	68.54 19.59 0.46
12-2025	437.5	2732.513	655.634	67.91 19.40 0.52
12-2026	430.8	2458.625	6097.038	69.40 19.79 0.58
12-2027	427.1	2242.075	540.355	73.71 20.90 0.64
12-2028	423.0	2062.346	496.990	75.89 21.48 0.71
12-2029	414.8	1905.658	456.714	78.69 22.26 0.77
12-2030	412.2	1777.190	425.385	83.93 23.65 0.83
S-Tot	0.0	56870.544	13374.471	65.39 18.73 0.36
Rem	0.0	24381.788	5480.159	98.75 28.40 1.05
Total	0.0	81252.336	18854.630	75.03 21.36 0.56
Cumulative Ultimate		26748.044	0.000	
		108000.368	18854.623	248916.992

MO-YEAR	Oil/Cond	COMPANY FUTURE GROSS REVENUE (FGR)	PRODUCTION TAXES	FGR AFTER PRODUCT TAXES
	Plant Prod Gas	Gas Other	Oil/Cond GAS/PP Total	Plant Prod Gas
	---M\$---	---M\$---	---M\$---	---M\$---
12-2016	3363.5	441.4	35.1	282.5
12-2017	59824.1	5035.9	719.6	3183.6
12-2018	82172.8	6516.0	621.4	4315.3
12-2019	120333.9	8850.9	684.5	6250.5
12-2020	122079.0	8955.5	844.4	6350.6
12-2021	85351.4	6431.9	726.8	4463.1
12-2022	68062.0	5216.7	693.3	3574.1
12-2023	58732.6	4539.9	682.1	3093.3
12-2024	50100.8	3888.8	690.2	2648.1
12-2025	44085.4	3436.8	685.8	2337.1
12-2026	40578.8	3162.4	694.8	2155.9
12-2027	39385.9	3058.1	704.3	2093.9
12-2028	37327.7	2886.4	711.7	2096.9
12-2029	35723.8	2734.2	713.4	1901.5
12-2030	35566.7	2702.7	719.2	1892.7
S-Tot	884588.3	67857.6	9926.6	46529.5
Rem	543208.0	38378.4	11195.3	3718.0
Total	1427896.3	106236.0	21121.9	75235.1

MO-YEAR	DEDUCTIONS			BEFORE INCOME TAXES			AFTER INCOME TAXES		
	OPERATING COSTS	DEVELOPMENT COSTS	TOTAL	ANNUAL	DISCOUNTED	US FEDERAL INCOME TAX	ANNUAL	DISCOUNTED	
	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	---M\$---	
12-2016	1448.4	0.0	1448.4	4109.1	4092.8	575.4	3533.8	3519.7	
12-2017	15831.3	22762.1	38593.4	23802.6	22676.4	447.2	23355.5	21890.4	
12-2018	17419.6	79191.0	96610.6	-11615.7	-10312.6	-10481.0	-1134.8	-1807.6	
12-2019	21661.7	129892.1	151553.9	-27935.1	-22367.9	-13570.4	-14364.5	-12670.1	
12-2020	21930.6	11221.4	33152.1	92376.1	65850.5	22700.3	69675.9	49410.0	
12-2021	18876.1	115.3	18991.4	69055.6	44732.4	13739.1	55316.5	35739.0	
12-2022	17495.0	90.4	17585.4	52812.6	31083.5	9963.5	42849.1	25167.2	
12-2023	16717.0	192.8	16909.8	43951.4	23511.7	8158.1	35793.3	19113.9	
12-2024	15985.4	260.9	16246.2	35785.5	17399.7	7048.2	28737.3	13950.5	
12-2025	15372.0	259.5	15631.5	30239.4	13364.6	6465.7	23773.7	10491.5	
12-2026	14925.0	156.2	15081.2	27198.9	10925.1	6335.0	20863.8	8168.6	
12-2027	14761.5	156.0	14917.5	26136.8	9544.1	6797.8	19339.0	7052.6	
12-2028	14563.5	240.0	14803.5	24135.4	8012.1	6476.0	17659.4	5855.2	
12-2029	14239.7	242.3	14482.0	22787.5	6874.1	6176.4	16611.2	5004.5	
12-2030	14211.1	188.6	14399.7	22696.2	6226.8	6250.2	16446.1	4507.3	
S-Tot	235438.0	244968.6	480406.6	435536.4	231613.4	77081.4	358455.1	195592.7	
Rem	276779.4	12516.3	289295.9	274780.4	37459.1	77655.0	197125.5	26863.7	
Total	512217.3	257484.9	769702.5	710316.7	269072.5	154736.4	555580.6	222456.4	

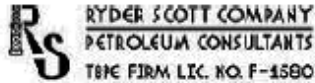
LIFE - 50.000 YEARS

DISCOUNT RATE @ 10.00 %

THESE DATA ARE PART OF A RYDER SCOTT REPORT AND ARE SUBJECT TO THE CONDITIONS IN THE TEXT OF THE REPORT
 THESE DATA WERE GENERATED USING THE ARIES PROGRAM

APPENDIX V

COMPETENT PERSON'S REPORT



IDG ENERGY INVESTMENT GROUP LIMITED
 ESCALATED PARAMETERS (LOW CASE)
 ESTIMATED FUTURE RESERVES AND INCOME
 ATTRIBUTABLE TO CERTAIN LEASEHOLD INTERESTS
 AS OF NOVEMBER 30, 2016

PROBABLE

	REVENUE INTERESTS			PRODUCT PRICES		MONTHLY, MS			
	EXPENSE INTEREST	Oil/Condensate	Gas	NGL	Gas \$/MCF	Oil/Cond \$/B	FNI RATE	COMPOUNDED BEFORE TAX	AFTER TAX
INITIAL							5.00%	22742.6	14769.7
FINAL							7.50%	18914.0	12270.4
							10.00%	16236.4	10521.6
							12.00%	14609.3	9458.6
							15.00%	12722.6	8225.8

--END-- MO-YEAR	AVG NO. OF WELLS	ESTIMATED 3/8 THS PRODUCTION			COMPANY NET PRODUCTION			AVERAGE PRICE		
		Oil/Cond MBBL	Pit Products MBBL	Gas MMCF	Oil/Cond MBBL	Pit Products MBBL	Gas MMCF	Oil/Cond \$/B	Pit Prod \$/B	Gas \$/M
12-2016	0.0	11.994	1.934	20.534	3.615	0.583	4.977	35.95	12.31	0.25
12-2017	0.0	101.998	17.087	181.394	30.713	5.144	43.901	41.98	14.05	0.38
12-2018	0.0	151.344	27.568	292.650	37.609	7.008	59.813	54.90	17.75	0.29
12-2019	0.0	333.815	68.812	730.487	65.981	12.942	110.458	62.78	19.74	0.17
12-2020	0.0	256.878	53.019	562.836	55.632	11.247	95.993	71.45	22.28	0.27
12-2021	0.0	171.134	35.302	374.758	37.706	7.436	63.468	69.56	21.47	0.32
12-2022	0.0	132.534	27.105	287.739	29.044	5.711	48.740	68.57	21.47	0.43
12-2023	0.0	108.753	22.205	235.727	23.856	4.683	39.969	69.57	21.75	0.49
12-2024	0.0	92.870	18.904	200.674	20.348	3.990	34.057	67.95	21.29	0.55
12-2025	0.0	80.987	16.511	175.275	17.798	3.488	29.769	67.31	21.11	0.61
12-2026	0.0	72.080	14.690	155.942	15.851	3.105	26.502	68.80	21.54	0.68
12-2027	0.0	65.043	13.253	140.691	14.311	2.803	23.921	73.10	22.76	0.74
12-2028	0.0	59.332	12.068	128.327	13.060	2.557	21.827	75.28	23.38	0.80
12-2029	0.0	54.598	11.124	118.085	12.022	2.354	20.091	78.08	24.18	0.87
12-2030	0.0	50.605	10.310	109.451	11.146	2.182	18.626	83.33	25.67	0.87
S-Tot	0.0	1744.746	349.913	3714.572	389.692	75.233	642.114	65.47	20.71	0.39
Rem	0.0	856.022	174.588	1853.378	190.472	37.199	317.493	98.81	30.05	1.06
Total	0.0	2600.768	524.501	5567.950	580.164	112.431	959.606	76.42	23.80	0.61

	Cumulative	Ultimate
	38.264	0.000
	2639.032	524.501
		5633.458

--END-- MO-YEAR	COMPANY FUTURE		GROSS REVENUE (FGR)			PRODUCTION TAXES			FGR AFTER	
	Oil/Cond MS	Plant Prod MS	Gas MS	Other MS	Total MS	Oil/Cond MS	GAS/PP MS	Total MS	PRODUCT TAXES MS	
12-2016	130.0	7.2	1.2	0.0	138.4	6.0	0.6	6.6	131.8	
12-2017	1289.3	72.2	16.5	0.0	1378.1	59.3	6.7	66.0	1312.1	
12-2018	2064.9	124.3	17.2	0.0	2206.4	95.0	10.6	105.6	2100.8	
12-2019	4142.1	255.5	18.9	0.0	4416.5	190.5	20.6	211.1	4205.4	
12-2020	4046.3	250.6	25.6	0.0	4322.6	186.1	20.7	206.8	4115.7	
12-2021	2622.8	161.7	20.4	0.0	2804.9	120.6	13.7	134.3	2670.6	
12-2022	1991.5	122.6	18.3	0.0	2132.4	91.6	10.6	102.2	2030.3	
12-2023	1659.7	101.9	17.2	0.0	1778.8	76.3	8.9	85.3	1693.5	
12-2024	1382.7	85.0	16.8	0.0	1484.5	63.6	7.6	71.2	1413.2	
12-2025	1198.0	73.6	16.4	0.0	1288.0	55.1	6.7	61.9	1226.1	
12-2026	1090.5	66.9	16.2	0.0	1173.6	50.2	6.2	56.4	1117.2	
12-2027	1046.1	63.8	16.2	0.0	1126.1	48.1	6.0	54.1	1071.9	
12-2028	983.1	59.8	16.1	0.0	1059.0	45.2	5.7	50.9	1008.1	
12-2029	938.7	56.9	16.1	0.0	1011.8	43.2	5.5	48.7	963.1	
12-2030	928.8	56.0	16.1	0.0	1000.9	42.7	5.4	48.1	952.8	
S-Tot	25514.4	1557.8	249.5	0.0	27321.7	1173.7	135.5	1309.2	26012.5	
Rem	18820.9	1117.8	336.1	0.0	20274.9	865.8	109.0	974.8	19300.1	
Total	44335.4	2675.6	585.6	0.0	47596.6	2039.4	244.6	2284.0	45312.6	

--END-- MO-YEAR	DEDUCTIONS			BEFORE INCOME TAXES		US FEDERAL INCOME TAX	AFTER INCOME TAXES	
	OPERATING COSTS MS	DEVELOPMENT COSTS MS	TOTAL MS	ANNUAL MS	DISCOUNTED MS		ANNUAL MS	DISCOUNTED MS
12-2016	19.4	0.0	19.4	112.4	111.9	39.3	73.0	72.8
12-2017	171.0	0.0	171.0	1141.0	1081.9	399.4	741.7	698.7
12-2018	225.3	0.0	225.3	1875.5	1605.1	656.4	1219.1	1038.9
12-2019	410.3	0.0	410.3	3795.1	2955.3	1328.3	2466.8	1912.3
12-2020	369.5	0.0	369.5	3746.3	2674.6	1311.2	2435.1	1730.6
12-2021	248.1	0.0	248.1	2422.5	1569.5	847.9	1574.6	1017.3
12-2022	193.3	0.0	193.3	1837.0	1081.2	642.9	1194.0	701.3
12-2023	161.8	0.0	161.8	1531.7	819.3	516.1	995.6	531.6
12-2024	139.3	0.0	139.3	1273.9	619.3	445.9	828.1	401.9
12-2025	123.4	0.0	123.4	1102.7	487.2	385.9	716.7	316.3
12-2026	112.2	0.0	112.2	1004.9	403.6	351.7	653.2	262.0
12-2027	104.4	0.0	104.4	967.5	353.2	338.6	628.9	229.3
12-2028	97.5	0.0	97.5	910.5	302.2	318.7	591.9	196.2
12-2029	92.0	0.0	92.0	871.2	262.8	304.9	566.3	170.7
12-2030	88.0	0.0	88.0	864.8	237.2	302.7	562.1	154.0
S-Tot	2555.5	0.0	2555.5	23457.0	14564.4	8210.0	15247.1	9433.9
Rem	4310.6	0.0	4310.6	14989.5	1672.0	5246.3	9743.2	1087.7
Total	6866.1	0.0	6866.1	38446.5	16236.4	13456.3	24990.2	10521.6

LIFE - 50.000 YEARS DISCOUNT RATE @ 10.00 %

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APPENDIX V

COMPETENT PERSON'S REPORT



RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
 T&P FIRM LIC. NO. F-1680

IDG ENERGY INVESTMENT GROUP LIMITED
 ESCALATED PARAMETERS (LOW CASE)
 ESTIMATED FUTURE RESERVES AND INCOME
 ATTRIBUTABLE TO CERTAIN LEASEHOLD INTERESTS
 AS OF NOVEMBER 30, 2016

POSSIBLE

EXPENSE INTEREST	REVENUE INTERESTS			PRODUCT PRICES		FNI COMPOUNDED MONTHLY, M\$		
	Oil/ Condensate	Gas	NGL	Gas \$/MCF	Oil/Cnd \$/B	RATE	BEFORE TAX	AFTER TAX
INITIAL						5.00%	23007.6	14941.0
FINAL						7.50%	19125.4	12407.1
						10.00%	16414.1	10636.5
						12.00%	14767.7	9561.1
						15.00%	12859.4	8314.1

--END-- MO-YEAR	AVG NO. OF WELLS	ESTIMATED 8/8 THS PRODUCTION			COMPANY NET PRODUCTION			AVERAGE PRICE		
		Oil/Cond -MBBL-	Plt Products	Gas -MMCF-	Oil/Cond -MBBL-	Plt Products	Gas -MMCF-	Oil/Cond -\$/B-	Plt Prod -\$/B-	Gas -\$/M-
12-2016	0.0	12.067	1.946	20.658	3.638	0.587	5.007	35.95	12.31	0.25
12-2017	0.0	102.967	17.285	183.488	31.004	5.203	44.406	41.98	14.03	0.38
12-2018	0.0	151.860	27.997	297.209	38.205	7.176	61.246	54.90	17.73	0.29
12-2019	0.0	327.624	67.480	716.343	66.304	13.008	111.025	62.78	19.76	0.18
12-2020	0.0	254.963	52.619	558.584	57.315	11.399	97.287	71.45	22.30	0.27
12-2021	0.0	170.677	35.012	371.683	38.130	7.532	64.284	69.56	21.76	0.33
12-2022	0.0	131.424	26.886	285.414	29.366	5.784	49.366	68.57	21.49	0.38
12-2023	0.0	107.852	22.030	233.869	24.121	4.743	40.484	69.57	21.77	0.44
12-2024	0.0	91.913	18.758	199.130	20.574	4.042	34.499	67.95	21.31	0.50
12-2025	0.0	80.335	16.387	173.955	17.996	3.534	30.159	67.31	21.13	0.56
12-2026	0.0	71.506	14.581	154.791	16.028	3.146	26.851	68.80	21.56	0.62
12-2027	0.0	64.531	13.157	139.670	14.471	2.840	24.238	73.10	22.78	0.68
12-2028	0.0	58.871	12.002	127.410	13.207	2.591	22.118	75.28	23.40	0.75
12-2029	0.0	54.177	11.045	117.253	12.158	2.385	20.360	78.09	24.20	0.81
12-2030	0.0	50.218	10.239	108.690	11.272	2.212	18.877	83.33	25.69	0.87
S-Tot	0.0	1730.985	347.423	3688.147	393.789	76.181	650.206	65.48	20.72	0.40
Rem	0.0	846.676	173.005	1836.571	191.594	37.574	320.699	98.81	30.07	1.07
Total	0.0	2577.660	520.428	5524.718	585.382	113.755	970.905	76.39	23.81	0.62
Cumulative		38.495	0.000	65.903						
Ultimate		2616.156	520.428	5590.622						

--END-- MO-YEAR	COMPANY FUTURE GROSS REVENUE (FGR)					PRODUCTION TAXES			FGR AFTER PRODUCT TAXES
	Oil/Cond -M\$-	Plant Prod -M\$-	Gas -M\$-	Other -M\$-	Total -M\$-	Oil/Cond -M\$-	GAS/PP -M\$-	Total -M\$-	
12-2016	130.8	7.2	1.2	0.0	139.2	6.0	0.6	6.7	132.6
12-2017	1301.5	73.0	16.7	0.0	1391.3	59.9	6.7	66.6	1324.7
12-2018	2097.6	127.2	17.6	0.0	2242.5	96.5	10.9	107.4	2135.1
12-2019	4162.4	257.1	20.3	0.0	4439.9	191.5	20.8	212.3	4227.6
12-2020	4095.2	254.2	26.7	0.0	4376.1	188.4	21.1	209.4	4166.7
12-2021	2652.4	163.9	21.1	0.0	2837.4	122.0	13.9	135.9	2701.5
12-2022	2013.7	124.3	18.9	0.0	2156.9	92.6	10.7	103.4	2053.5
12-2023	1678.1	103.3	17.7	0.0	1799.1	77.2	9.1	86.3	1712.9
12-2024	1398.0	86.1	17.3	0.0	1501.5	64.3	7.8	72.1	1429.4
12-2025	1211.3	74.7	16.8	0.0	1302.8	55.7	6.9	62.6	1240.2
12-2026	1102.7	67.8	16.7	0.0	1187.1	50.7	6.3	57.1	1130.1
12-2027	1057.9	64.7	16.6	0.0	1139.1	48.7	6.1	54.8	1084.4
12-2028	994.2	60.6	16.5	0.0	1071.3	45.7	5.8	51.5	1019.8
12-2029	949.4	57.7	16.5	0.0	1023.6	43.7	5.6	49.2	974.3
12-2030	939.3	56.8	16.5	0.0	1012.6	43.2	5.5	48.7	963.9
S-Tot	25784.5	1578.7	257.3	0.0	27620.6	1186.1	137.7	1323.8	26296.8
Rem	18930.6	1130.0	341.8	0.0	20402.5	870.8	110.4	981.2	19421.3
Total	44715.2	2708.8	599.1	0.0	48023.1	2056.9	248.1	2305.0	45718.1

--END-- MO-YEAR	DEDUCTIONS			BEFORE INCOME TAXES		US FEDERAL INCOME TAX	AFTER INCOME TAXES	
	OPERATING COSTS	DEVELOPMENT COSTS	TOTAL	ANNUAL	DISCOUNTED		ANNUAL	DISCOUNTED
12-2016	19.5	0.0	19.5	113.1	112.6	39.6	73.5	73.2
12-2017	172.7	0.0	172.7	1152.0	1092.1	403.2	748.8	705.3
12-2018	228.9	0.0	228.9	1906.2	1631.4	667.2	1239.0	1055.9
12-2019	412.5	0.0	412.5	3815.1	2970.6	1335.3	2479.8	1922.3
12-2020	374.0	0.0	374.0	3792.6	2707.8	1327.4	2465.2	1752.0
12-2021	250.9	0.0	250.9	2450.6	1587.7	857.7	1592.9	1029.1
12-2022	195.5	0.0	195.5	1858.0	1093.6	650.3	1207.7	709.3
12-2023	185.7	0.0	185.7	1549.2	828.8	542.2	1007.0	531.7
12-2024	140.9	0.0	140.9	1288.5	626.4	451.0	837.6	406.6
12-2025	124.9	0.0	124.9	1115.4	492.9	390.4	725.0	319.9
12-2026	113.5	0.0	113.5	1016.6	408.3	355.8	660.8	265.1
12-2027	105.7	0.0	105.7	978.7	357.3	342.5	636.2	232.0
12-2028	98.6	0.0	98.6	921.2	305.7	322.4	598.8	198.5
12-2029	93.0	0.0	93.0	881.3	265.9	308.5	572.8	172.7
12-2030	89.0	0.0	89.0	874.9	239.9	306.2	568.7	155.8
S-Tot	2583.4	0.0	2583.4	23713.4	14721.0	8299.7	15413.7	9535.4
Rem	4115.0	0.0	4115.0	15306.3	1693.1	5357.2	9949.1	1101.2
Total	6698.4	0.0	6698.4	39019.7	16414.1	13656.9	25362.8	10636.5

LIFE - 50,000 YEARS

DISCOUNT RATE @ 10.00 %

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 THESE DATA WERE GENERATED USING THE ARIES PROGRAM

The comparison between the three cashflow results is summarized below.

**Discounted Future Net Income (After Income Tax)
at 10% Discount Rate
As of November 30, 2016**

	Total Proved (1P)	Total Probable	Total (2P) Proved + Probable
Base Case, M\$	\$274,589	\$11,985	\$286,574
High Case, M\$ +10% Commodity Price	\$326,840	\$13,448	\$340,287
Low Case, M\$ -10% Commodity Price	\$222,456	\$10,522	\$232,978

25.8(h)

As indicated in the section of 25.6(b)(x), Ryder Scott did not evaluate or include any value for plant, machinery, or pipeline asset for IDG Energy for this Competent Person's Report.

25.9 Social and Environmental

Ryder Scott is unaware of any material social or environmental issues with respect to the subject properties to be acquired by IDG Energy. The estimates of reserves presented herein were based upon a detailed study of the properties in which IDG Energy plans to derive an interest. No consideration was given in this report to potential environmental liabilities that may exist nor were any costs included for potential liability to restore and clean up damages, if any, caused by past operating practices.

Ryder Scott is not a professional environmental engineering company, and is not qualified to render an opinion regarding the environmental issues that may or may not exist on the properties. This is outside our area of expertise and therefore we make no statements regarding the status of the environmental condition other than reporting the information provided by IDG Energy.

25.10 Basis of Opinion

The evaluation presented herein reflects our informed judgment, based on accepted standards of professional investigation, and is consistent with petroleum engineering and geoscience practices in the industry. However, this report and the conclusions set forth in it are subject to the inherent uncertainties associated with estimates of reserve and resource volumes, and the interpretation of engineering, geological, and geophysical data. This investigation has been conducted within our understanding of the current petroleum legislation, taxation and the regulations that govern the production of hydrocarbons where the assets are located. However, Ryder Scott cannot attest to the ownership, title, any encumbrances that may exist, or to any legal issues involving the licenses or agreements.

Our estimates of reserves (proved, probable and possible) are based upon data supplied by IDG Energy. We accepted the data and information as presented without independent verification.

This report presents our independent professional judgment and should not be considered as a guarantee of results or our estimate of a fair market value. It should be understood that there is uncertainty in petroleum exploration and production and that all evaluations are conducted under the framework of uncertainty. As additional information becomes available, our opinions and judgments will change to incorporate the latest information.

This report only presents the assets specifically contained herein. This study is for the exclusive use of IDG Energy and its advisors. Ryder Scott has given and not withdrawn its written consent to the inclusion of this document with its name included within it and with inclusion therein of its report and references thereto in IDG Energy's circular for the purpose of proposed acquisition of the subject properties. Ryder Scott accepts responsibility for the information contained in this report set out in this part of the document and to the best knowledge and belief of Ryder Scott, having taken all reasonable care to ensure that such is the case, the information contained in such report is in accordance with the facts and does not omit anything likely to affect the import of such information.

Very truly yours,
RYDER SCOTT COMPANY, L.P.
TBPE Firm Registration No. F-1580

Daniel R. Olds

Daniel R. Olds, P.E.
TBPE License No. 60996
Managing Senior Vice President

Eric T. Nelson

Eric T. Nelson, P.E.
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PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

As Adapted From:
2007 PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)¹
Sponsored by:
SOCIETY OF PETROLEUM ENGINEERS (SPE),
WORLD PETROLEUM CONGRESS (WPC)
AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)
AND
SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)

Reserve and resource classification systems are intended to allow the evaluator to follow the progression of changes in the exploration and production life cycle of a reservoir, field, or project that arise as a result of obtaining more technical information or as a result of a change in the economic status. Most systems incorporate terminology to describe the progression of a project from the delineation of an initial prospect, to the confirmation of the prospect through exploration drilling, onto the appraisal and development phase, and finally from initial production through depletion. These reserve and resource definitions thus provide the decision making framework to manage risk and uncertainty through the classification and categorization of the recoverable hydrocarbon volumes.

The term “resources” is generally applied to “all quantities of petroleum (recoverable and unrecoverable) naturally occurring on or within the Earth’s crust, discovered and undiscovered, plus those quantities already produced”.

The term “reserves” is a subset of resources generally applied to the discovered “quantities of petroleum anticipated to be commercially recoverable from known accumulations from a given date forward under defined conditions”.

All reserve and resource estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. Estimates will generally be revised as additional geologic or engineering data becomes available or as economic conditions change.

Estimation of reserves and resources is done under conditions of uncertainty. The method of estimation is called deterministic if a single best estimate of reserves and resources is made based on known geological, engineering, and economic data. The method of estimation is called probabilistic when the known geological, engineering, and economic data are used to generate a range of estimates and their associated probabilities. Because of the differences in uncertainty, caution should be exercised when aggregating quantities of petroleum from different reserves and/or resource classifications.

Reserves and resources may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

Reserves and resources may be attributed to either conventional or unconventional petroleum accumulations under the SPE-PRMS. Petroleum accumulations are considered as either conventional or unconventional based on the nature of their in-place characteristics, extraction method applied, or degree of processing prior to sale. Examples of unconventional petroleum accumulations include coalbed or coalseam methane (CBM/CSM), basin-centered gas, shale gas, gas hydrates, natural bitumen and oil shale deposits. These unconventional accumulations may require specialized extraction technology and/or significant processing prior to sale. The SPE-PRMS acknowledges unconventional petroleum accumulations as reserves and resources regardless of their in-place characteristics, the extraction method applied, or the degree of processing required.

Reserves and resources do not include quantities of petroleum being held in inventory and may be reduced for usage, processing losses and/or non-hydrocarbons that must be removed prior to sale.

SPE-PRMS

In March 2007, the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) jointly approved the “Petroleum Resources Management System” (SPE-PRMS). The SPE-PRMS consolidates, builds on, and replaces guidance previously contained in the 2000 “Petroleum Resources Classification and Definitions” and the 2001 “Guidelines for the Evaluation of Petroleum Reserves and Resources” publications.

Reference should be made to the full SPE-PRMS for the complete definitions and guidelines as the following definitions, descriptions and explanations rely wholly or in part on excerpts from the SPE-PRMS document (passages excerpted in their entirety from the SPE-PRMS document are denoted in italics herein). For convenience, Table 1: “Recoverable Resources Classes and Sub-Classes” from the SPE-PRMS has been reproduced in full and included as an attachment to this document.

The SPE-PRMS incorporates the petroleum initially-in-place as well as the recoverable and unrecoverable petroleum quantities into a common resource classification framework. *Petroleum is defined as a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid, or solid phase.*

The SPE-PRMS defines the major resources classes: Production, Reserves, Contingent Resources, and Prospective Resources, as well as Unrecoverable petroleum. The basic classification scheme requires establishment of criteria for a petroleum discovery and thereafter the distinction between commercial (Reserves) and sub-commercial projects (Contingent Resources) in known accumulations. Under this classification scheme, estimated recoverable quantities from accumulations that have yet to be discovered are termed Prospective Resources. Further, the SPE-PRMS includes all types of petroleum whether currently considered “conventional” or “unconventional”.

Figure 1 shown at the end of this document is a graphical representation of the SPE, WPC, AAPG and SPEE resources classification system. The SPE-PRMS “classifies” reserves and resources according to project maturity and increasing chance of commerciality (vertical

axis) and “categorizes” reserves and resources according to the *range of uncertainty* (horizontal axis) *of the estimated quantities potentially recoverable from an accumulation by a project*. The following definitions apply to the major subdivisions within the resources classification:

Resources Classification (SPE-PRMS)

Recoverable petroleum resources as described herein may be classified into one of three principal resource classifications: Prospective Resources, Contingent Resources, or Reserves. The distinction between Prospective and Contingent Resources depends on whether or not there exists one or more wells and other data indicating the potential for moveable hydrocarbons (e.g. the discovery status). Discovered petroleum resources may be classified as either Contingent Resources or as Reserves depending on the chance that if a project is implemented it will reach commercial producing status (e.g. chance of commerciality). The distinction between various “classifications” of Resources and Reserves relates to their discovery status and increasing chance of commerciality as described herein.

The SPE-PRMS Section 1.1 and Appendix A define the following terms:

Total Petroleum-initially-in-place

Total Petroleum-Initially-in-Place is that quantity of petroleum which is estimated to exist originally in naturally occurring accumulations. Total Petroleum-Initially-in-Place is, therefore, that quantity of petroleum which is estimated, as of a given date, to be contained in known accumulations, plus those quantities already produced therefrom, plus those estimated quantities in accumulations yet to be discovered.

Total Petroleum-Initially-in-Place may be subdivided into Discovered Petroleum-Initially-in-Place and Undiscovered Petroleum-Initially-in-Place, with Discovered Petroleum-Initially-in-Place being limited to known accumulations.

It is recognized that not all of the Petroleum-Initially-in-Place quantities may constitute potentially recoverable resources since the estimation of the proportion which may be recoverable can be subject to significant uncertainty and will change with variations in commercial circumstances, technological developments and data availability.

Given the aforementioned constraints, a portion of the Petroleum-Initially-in-Place may need to be classified as Unrecoverable.

Discovered Petroleum-initially-in-place

Discovered Petroleum-Initially-in-Place is that quantity of petroleum which is estimated, as of a given date, to be contained in known accumulations prior to production.

Discovered Petroleum-Initially-in-Place may be subdivided into Commercial and Sub-commercial categories, with the estimated potentially recoverable portion being classified as Reserves and Contingent Resources respectively, as defined below.

Known Accumulation

The SPE-PRMS defines an accumulation as *an individual body of petroleum-in-place*. For an accumulation to be considered as “known”, it must have been discovered. A discovery is defined as *one petroleum accumulation or several petroleum accumulations collectively, which have been penetrated by one or several exploratory wells which have established through testing, sampling, and/or logging the existence of a significant quantity of potentially moveable hydrocarbons*. The SPE-PRMS states in this context, “significant” implies that there is evidence of a sufficient quantity of petroleum to justify estimating the in-place volume demonstrated by the well(s) and for evaluating the potential for economic recovery. Known accumulations may contain Reserves and/or Contingent Resources.

Reserves

Reserves are defined as those quantities of petroleum which are anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy the following criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied.

Reserves are categorized in accordance with the level of certainty associated with the estimates (horizontal axis shown in Figure 1) and may be further sub-classified based on project maturity and/or characterized by development and production status (Refer to Figure 2 at the end of this document). Reference should be made to the full SPE-PRMS for the complete definitions and guidelines.

Additional Terms used in Reserves Evaluations (SPE-PRMS Definitions)

The SPE-PRMS Sections 2.3, 2.3.4, 2.4 and Appendix A define the following terms as follows:

Improved recovery. *Improved Recovery is the extraction of additional petroleum, beyond Primary Recovery, from naturally occurring reservoirs by supplementing the natural forces in the reservoir. It includes waterflooding and gas injection for pressure maintenance, secondary processes, tertiary processes and any other means of supplementing natural reservoir recovery processes. Improved recovery also includes thermal and chemical processes to improve the in-situ mobility of viscous forms of petroleum. (Also called Enhanced Recovery.)*

Improved recovery projects must meet the same Reserves commerciality criteria as primary recovery projects. There should be an expectation that the project will be economic and that the entity has committed to implement the project in a reasonable time frame (generally within 5 years; further delays should be clearly justified). If there is significant project risk, forecast incremental recoveries may be similarly categorized but should be classified as Contingent Resources.

The judgment on commerciality is based on pilot testing within the subject reservoir or by comparison to a reservoir with analogous rock and fluid properties and where a similar established improved recovery project has been successfully applied.

Incremental recoveries through improved recovery methods that have yet to be established through routine, commercially successful applications are included as Reserves only after a favorable production response from the subject reservoir from either (a) a representative pilot or (b) an installed program, where the response provides support for the analysis on which the project is based.

Similar to improved recovery projects applied to conventional reservoirs, successful pilots or operating projects in the subject reservoir or successful projects in analogous reservoirs may be required to establish a distribution of recovery efficiencies for non-conventional accumulations. Such pilot projects may evaluate both the extraction efficiency and the efficiency of unconventional processing facilities to derive sales products prior to custody transfer.

These incremental recoveries in commercial projects are categorized into Proved, Probable, and Possible Reserves based on certainty derived from engineering analysis and analogous applications in similar reservoirs.

Commercial. *When a project is commercial, this implies that the essential social, environmental and economic conditions are met, including political, legal, regulatory and contractual conditions. In addition, a project is commercial if the degree of commitment is such that the accumulation is expected to be developed and placed on production within a reasonable time frame. While 5 years is recommended as a benchmark, a longer time frame could be applied where for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.*

Proved Reserves (SPE-PRMS Definitions)

The SPE-PRMS Section 2.2.2 and Table 3 define proved oil and gas reserves as follows:

Proved oil and gas reserves. *Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.*

The area of the reservoir considered as Proved includes:

- (1) the area delineated by drilling and defined by fluid contacts, if any, and
- (2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.

In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see “2001 Supplemental Guidelines”, Chapter 8).

Reserves in undeveloped locations may be classified as Proved provided that:

- *The locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive.*
- *Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with the drilled Proved locations.*

For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.

Unproved Reserves (SPE-PRMS Definitions)

The SPE-PRMS Section 2.2.2 and Appendix A define unproved oil and gas reserves as follows:

Unproved oil and gas reserves. *Unproved Reserves are based on geoscience and/or engineering data similar to that used in estimates of Proved Reserves, but technical or other uncertainties preclude such reserves being classified as Proved. Unproved Reserves may be further categorized as Probable Reserves or Possible Reserves. Based on additional data and updated interpretations that indicate increased certainty, portions of Possible and Probable Reserves may be re-categorized as Probable and Proved Reserves.*

Probable Reserves (SPE-PRMS Definitions)

The SPE-PRMS Section 2.2.2 and Table 3 define probable oil and gas reserves as follows:

Probable oil and gas reserves. *Probable Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.*

Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.

Possible Reserves (SPE-PRMS Definitions)

The SPE-PRMS Section 2.2.2 and Table 3 define possible oil and gas reserves as follows:

Possible oil and gas reserves. *Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.*

Possible Reserves may be assigned to areas of a reservoir adjacent to Probable Reserves where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.

Contingent Resources

Contingent Resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there is currently no viable market, or where commercial recovery is dependent on the development of new technology, or where evaluation of the accumulation is insufficient to assess commerciality.

Contingent Resources are categorized according to the range of technical uncertainty associated with the estimates (horizontal axis shown in Figure 1) may be further sub-classified based on project maturity and/or characterized by their economic status (Refer to Figure 2 at the end of this document). Reference should be made to the full SPE-PRMS for the complete definitions and guidelines.

Undiscovered Petroleum-initially-in-place

Undiscovered Petroleum-Initially-in-Place is that quantity of petroleum which is estimated, as of a given date, to be contained in accumulations yet to be discovered.

The estimated potentially recoverable portion of Undiscovered Petroleum-Initially-in-Place is classified as Prospective Resources, as defined below.

Prospective Resources

Prospective Resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future projects. Prospective Resources have both an associated chance of discovery and a chance of development.

Prospective Resources are categorized in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be further sub-classified based on project maturity (Refer to Figure 2 at the end of this document). Reference should be made to the full SPE-PRMS for the complete definitions and guidelines.

Unrecoverable

Unrecoverable is a term that refers to that portion of Discovered or Undiscovered Petroleum Initially-in-Place quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

Additional Terms used in Resources Classification (SPE-PRMS)

Chance of Commerciality

The SPE-PRMS Section 2.1, Table 1 and Appendix A define the following terms relating to commerciality:

The “Chance of Commerciality”, as denoted in the SPE-PRMS and as shown in Figure 1, *is the chance that the project will be developed and reach commercial producing status.*

The chance of commerciality is determined by the probability of a discrete event occurring. In the context of the SPE-PRMS, the discrete event is comprised of one of several conditions, as noted below, which impact the project's commercial viability.

The commercial viability of a development project is dependent on a forecast of the conditions that will exist during the time period encompassed by the project's activities. Commerciality is not solely determined based on the economic status of a project which refers to the situation where the income from an operation exceeds the expenses involved in, or attributable to, that operation. Conditions as noted in the SPE-PRMS include technological, economic, legal, environmental, social, and governmental factors. While economic factors can be summarized as forecast costs and product prices, the underlying influences include, but are not limited to, market conditions, transportation and processing infrastructure, fiscal terms and taxes.

A development project may include one or many wells and associated production and processing facilities. One project may develop many reservoirs, or many projects may be applied to one reservoir. An accumulation or potential accumulation may be subject to several separate and distinct projects that are at different stages of exploration or development. Thus, an accumulation may have recoverable quantities in several resource classes simultaneously.

Commerciality Applied to Reserves

Commerciality as applied to Reserves must be based upon all of the following criteria:

- *Evidence to support a reasonable timetable for development.*
- *A reasonable assessment of the future economics of such development projects meeting defined investment and operating criteria.*
- *A reasonable expectation that there will be a market for all or at least the expected sales quantities of production required to justify development.*
- *Evidence that the necessary production and transportation facilities are available or can be made available.*
- *Evidence that legal, contractual, environmental and other social and economic concerns will allow for the actual implementation of the recovery project being evaluated.*
- *High confidence in the commercial producibility of the reservoir.*

To be included in a Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming.

In general, quantities should not be classified as Reserves unless there is *evidence of firm intention that the accumulation will be developed and placed on production within a reasonable time frame*. In certain circumstances, reserves may be assigned even though development may not occur for some time. *A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project*. The SPE-PRMS recommends *five years as a benchmark, but notes that a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives*.

For a project to be included in a Reserves class *there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests*. *In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests*.

Commerciality Applied to Contingent Resources

Estimated recoverable quantities from known accumulations that are not yet considered mature enough for commercial development as denoted by meeting all of the aforementioned conditions should be classified as Contingent Resources.

Based on assumptions regarding future conditions and their impact on economic viability, projects currently classified as Contingent Resources may be broadly divided into two groups:

- ***Marginal Contingent Resources** are those quantities associated with technically feasible projects that are either currently economic or projected to be economic under reasonably forecasted improvements in commercial conditions but are not committed for development because of one or more contingencies.*
- ***Sub-Marginal Contingent Resources** are those quantities associated with discoveries for which analysis indicates that technically feasible development projects would not be economic and/or other contingencies would not be satisfied under current or reasonable forecasted improvements in commercial conditions. These projects nonetheless should be retained in the inventory of discovered resources pending unforeseen major changes in commercial conditions.*

Those discovered in-place volumes for which a feasible development project cannot be defined using current or reasonably forecast improvements in technology are classified as Unrecoverable.

Resources Categorization (SPE-PRMS)

All estimates of the quantities of petroleum potentially recoverable from an accumulation classified as having Prospective or Contingent Resources or Reserves involve uncertainty. The relative degree of uncertainty may be conveyed by placing the estimated quantities into one of several “categories” as described herein.

The SPE-PRMS Section 2.2 and Appendix A define the following terms:

Range of Uncertainty

The Range of Uncertainty, as denoted in the SPE-PRMS and as shown in Figure 1, reflects a range of estimated quantities potentially recoverable from an accumulation by a project. *Evaluators may assess recoverable quantities and categorize results by uncertainty using the deterministic incremental (risk-based) approach, the deterministic scenario (cumulative) approach, or probabilistic methods.*

Deterministic Methods (SPE-PRMS)

Reserves

For reserves, the range of uncertainty can be reflected as discrete incremental quantities termed Proved, Probable and Possible or expressed in cumulative terms as 1P (Proved), 2P (Proved plus Probable), and 3P (Proved plus Probable plus Possible), respectively.

Contingent Resources

For Contingent Resources, the range of uncertainty is generally expressed in deterministic scenario (cumulative) terms as 1C, 2C, 3C, respectively or in terms of probability using probabilistic methods. While the SPE-PRMS categorization scheme does not specifically prohibit the use of discrete incremental quantities for Contingent Resources, the SPE-PRMS does not denote the terms to be applied to these discrete incremental quantities.

Prospective Resources

For Prospective Resources, the range of uncertainty is generally expressed in deterministic scenario (cumulative) terms as low, best and high estimates or in terms of probability using probabilistic methods. As in the case of Contingent Resources, the SPE-PRMS categorization scheme does not specifically denote terms to be applied to discrete incremental quantities for Prospective Resources.

Incremental Terms for Contingent and Prospective Resources (RYDER SCOTT)

Should evaluators choose to characterize the range of uncertainty for Contingent Resources or Prospective Resources in discrete incremental quantities, they should denote such quantities as such and provide sufficient detail in their report to allow an independent evaluator or auditor to clearly understand the basis for estimation and categorization of the recoverable quantities. For reports prepared by Ryder Scott Company (Ryder Scott), the range of uncertainty for discrete incremental quantities of Contingent Resources shall be termed 1C Incremental (1Ci), 2C Incremental (2Ci) and 3C Incremental (3Ci) and in the case of Prospective Resources shall be termed Low Estimate Incremental (LEi), Best Estimate Incremental (BEi) and High Estimate Incremental (HEi) where (i) denotes a specific incremental quantity.

Best Estimate

Uncertainty in resource estimates is best communicated by reporting a range of potential results. However, if it is required to report a single representative result, the “best estimate” is considered the most realistic assessment of recoverable quantities. The term “best estimate” is used here as a generic expression for the estimate considered being closest to the quantity that will actually be recovered from the accumulation between the date of the estimate and the time of abandonment. In the case of reserves, the best estimate is generally considered to represent *the sum of Proved and Probable estimates (2P)*. It should be noted that under the *incremental (risk-based) approach for Reserves, discrete estimates are made for the quantities in each category for Proved and Probable, and they should not be aggregated without due consideration of their associated risk.* In the case of Contingent Resources and Prospective Resources, the best estimate would be represented by the 2C and Best Estimate, respectively. If probabilistic methods are used, this term would generally be a measure of central tendency of the uncertainty distribution (most likely/mode, median/P50 or mean). The terms “Low Estimate” and “High Estimate” should provide a reasonable assessment of the range of uncertainty in the Best Estimate.

Probabilistic Methods (SPE-PRMS)

If probabilistic methods are used, these estimated quantities should be based on methodologies analogous to those applicable to the definitions of Reserves, Contingent Resources and Prospective Resources; therefore, in general, the resulting probabilities should correspond to the deterministic terms as follows:

- There should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the 1P, 1C or Low Estimate.
- There should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the 2P, 2C or Best Estimate.
- There should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the 3P, 3C or High Estimate.

Comparability of Similar Reserves and Resource Categories

As indicated in Figure 1, the 1C, 2C and 3C Contingent Resource estimates and the Low, Best and High Prospective Resource estimates of potentially recoverable volumes should reflect some comparability with the reserves categories of Proved (1P), Proved plus Probable (2P) and Proved plus Probable plus Possible (3P), respectively. *While there may be a significant risk that sub-commercial or undiscovered accumulations will not achieve commercial production, it is useful to consider the range of potentially recoverable volumes independently of such a risk.*

Without new technical information, there should be no change in the distribution of technically recoverable volumes and their categorization boundaries when conditions are satisfied sufficiently to reclassify a project from Contingent Resources to Reserves.

Aggregation

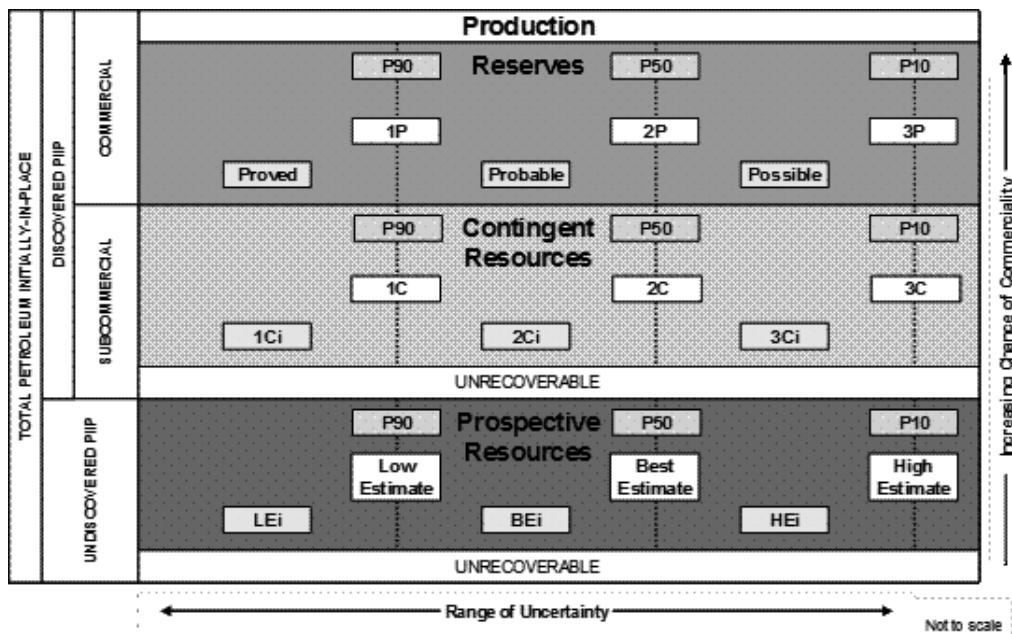
Petroleum quantities classified as Reserves, Contingent Resources or Prospective Resources should not be aggregated with each other without due consideration of the significant differences in the criteria associated with their classification. In particular, there may be a significant risk that accumulations containing Contingent Resources or Prospective Resources will not achieve commercial production. Similarly, reserves and resources of different categories should not be aggregated with each other without due consideration of the significant differences in the criteria associated with their categorization.

Resources Classification System (SPE-PRMS)

Graphical Representation

Figure 1 is a graphical representation of the SPE, WPC, AAPG, SPEE resources classification system. The horizontal axis represents the “Range of Uncertainty” in the estimated potentially recoverable volume for an accumulation by a project, whereas the vertical axis represents the “Chance of Commerciality”, that is, the chance that the project will be developed and reach commercial producing status.

**Figure 1
WPC, AAPG, SPEE
RESOURCES CLASSIFICATION SYSTEM***



*SPE-PRMS Figure 1-1: Resources Classification Framework as modified by Ryder Scott

- P90** Uncertainty from probabilistic methods
*Terms shown represent SPE convention to quote cumulative probability where P90 is the low estimate
- 1P** Uncertainty from deterministic scenario (cumulative) approach
*Terms shown represent SPE-PRMS nomenclature
- 1Ci** Uncertainty from deterministic incremental approach
*Terms shown represent Ryder Scott nomenclature for Contingent and Prospective Resources

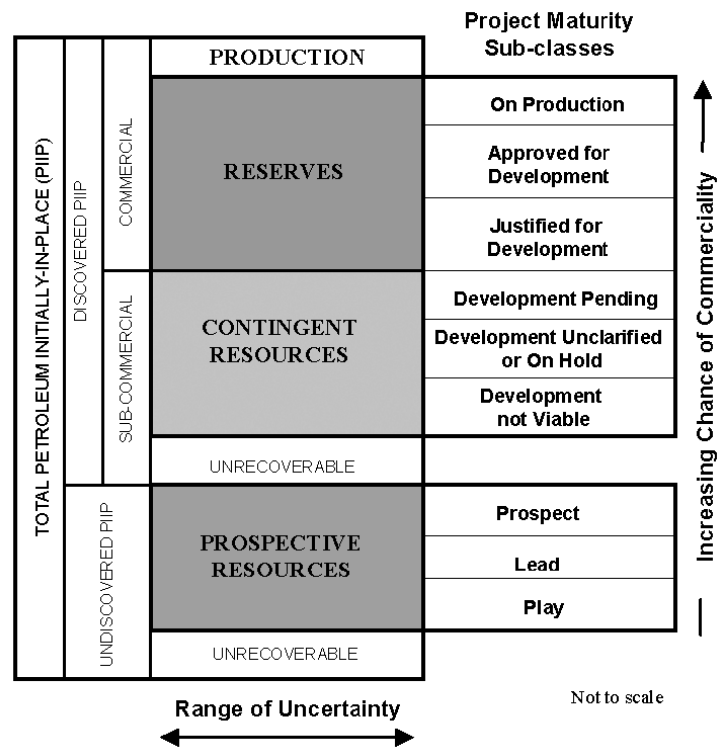
Incremental Terms for Contingent and Prospective Resources as defined by RYDER SCOTT

Should evaluators choose to characterize the range of uncertainty for Contingent Resources or Prospective Resources in discrete incremental quantities, they should denote such quantities as such and provide sufficient detail in their report to allow an independent evaluator or auditor to clearly understand the basis for estimation and categorization of the recoverable quantities. For reports prepared by Ryder Scott Company (Ryder Scott), the range of uncertainty for discrete incremental quantities of Contingent Resources shall be termed 1C Incremental (1Ci), 2C Incremental (2Ci) and 3C Incremental (3Ci) and in the case of Prospective Resources shall be termed Low Estimate Incremental (LEi), Best Estimate Incremental (BEi) and High Estimate Incremental (HEi) where (i) denotes a specific incremental quantity.

Resources Classification System (SPE-PRMS)

Graphical Representation

**Figure 2
SPE, WPC, AAPG, SPEE
PROJECT MATURITY SUB-CLASSES**



¹ Petroleum Resources Management System prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE); reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE), March 2007.

Table 1: Recoverable Resources Classes and Sub-Classes

Class/Sub-Class	Definition	Guidelines
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.	<p>Reserves must satisfy four criteria: they must be discovered, recoverable, commercial and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status.</p> <p>To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame.</p> <p>A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.</p> <p>To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests</p>
On Production	The development project is currently producing and selling petroleum to market.	<p>The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project "chance of commerciality" can be said to be 100%.</p> <p>The project "decision gate" is the decision to initiate commercial production from the project.</p>
Approved for Development	All necessary approvals have been obtained, capital funds have been committed, and implementation of the development project is under way.	<p>At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies, such as outstanding regulatory approvals or sales contracts.</p> <p>Forecast capital expenditures should be included in the reporting entity's current or following year's approved budget.</p> <p>The project "decision gate" is the decision to start investing capital in the construction of production facilities and/or drilling development wells.</p>

Class/Sub-Class	Definition	Guidelines
Justified for Development	Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.	<p>In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("forecast case") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class).</p> <p>The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.</p>
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.	Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.
Development Pending	A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.	<p>The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to "On Hold" or "Not Viable" status.</p> <p>The project "decision gate" is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.</p>

Class/Sub-Class	Definition	Guidelines
Development Unclarified or on Hold	A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.	The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a re-classification of the project to "Not Viable" status. The project "decision gate" is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.
Development Not Viable	A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.	The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions. The project "decision gate" is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.	Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.
Prospect	A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.	Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.
Lead	A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.
Play	A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

¹ Petroleum Resources Management System, prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE); reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE), March 2007.

PETROLEUM RESERVES and RESOURCES STATUS DEFINITIONS and GUIDELINES

As Adapted From:
PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)
Sponsored and Approved by:
SOCIETY OF PETROLEUM ENGINEERS (SPE),
WORLD PETROLEUM COUNCIL (WPC)
AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)
SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)

RESERVES

Reserves status categories define the development and producing status of wells and reservoirs. The SPE-PRMS Table 2 defines the reserves status categories as follows:

DEVELOPED RESERVES (SPE-PRMS DEFINITIONS)

Developed Reserves are expected quantities to be recovered from existing wells and facilities.

Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.

Developed Producing

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing

Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.

Shut-In

Shut-in Reserves are expected to be recovered from:

- (1) completion intervals which are open at the time of the estimate but which have not yet started producing;
- (2) wells which were shut-in for market conditions or pipeline connections; or
- (3) wells not capable of production for mechanical reasons.

Behind-Pipe

Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production.

In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

UNDEVELOPED RESERVES (SPE-PRMS DEFINITIONS)

Undeveloped Reserves are quantities expected to be recovered through future investments.

Undeveloped Reserves are expected to be recovered from:

- (1) new wells on undrilled acreage in known accumulations;
- (2) deepening existing wells to a different (but known) reservoir;
- (3) infill wells that will increase recovery; or
- (4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to
 - (a) recomplete an existing well; or
 - (b) install production or transportation facilities for primary or improved recovery projects.

CONTINGENT RESOURCES

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent resource status categories may address the development and producing status of wells and reservoirs or may reflect the project maturity and/or be characterized by their economic status as noted in the SPE-PRMS Table 1 and Figure 2.

PROSPECTIVE RESOURCES

Prospective resources are by definition undeveloped as they are potentially recoverable from undiscovered accumulations. Prospective resource status categories reflect project maturity as noted in the SPE-PRMS Table 1 and Figure 2.

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March 9, 2017

Board of Directors
IDG Energy Investment Group Limited
Suite 2302, Wing On Centre,
111 Connaught Road Central,
Hong Kong

Dear Sirs,

At your request, Ryder Scott Company, L.P. (Ryder Scott) has prepared a Fair Market Value (FMV) estimate of the proved and probable reserves, future production and income attributable to certain leasehold interests to be acquired by IDG Energy Investment Group Limited (IDG Energy) as of November 30, 2016 pursuant to an asset purchase agreement dated November 2016. The subject properties are located in the state of Texas, United States. The reserves included herein were estimated based on the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (SPE-PRMS) based on escalated price and cost parameters (SPE-PRMS forecast case) provided by IDG Energy. Such forecasts were based on projected escalations or other forward looking changes to current prices and/or costs as noted. This valuation report must be read concurrently with the Competent Person's Report prepared by Ryder Scott, where detailed technical information and data are given in details. This report presents our conclusion of value developed in accordance with the reporting standards of the code for Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports ("VALMIN code"). This letter is intended to present only a summary of the data, reasoning, major assumptions and analysis that were used by Ryder Scott to develop the opinion of value. Possible reserves were excluded from this fair market valuation.

We estimate the FMV of the subject properties reserves, well and lease equipment, and leasehold rights in the subject properties to be **\$306 million**. This value represents our best estimate of the price a willing buyer would pay for the properties based upon our analysis of the reserves and future net income, before income taxes, attributable to the properties as set forth in our report entitled "IDG Energy Investment Group Limited, Estimated Future Reserves and Income Attributable to Certain Leasehold Interests" Dated November 30, 2016.

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FMV as used herein is defined as the estimated value which might be agreed upon by a willing buyer and a willing seller, both being competent and knowledgeable of the material facts and neither being under compulsion to buy or sell. Our estimate of FMV is an opinion based upon our engineering and geological analysis and the use of techniques and methods accepted by the petroleum industry. The actual FMV agreed to by a buyer and seller is the result of economic and business decisions and may be more or less than the FMV presented herein.

The FMV stated above is subject to the estimates, qualifications, and limitations as set forth in the referenced report. The competent evaluator of this valuation report is Mr. Don P. Roesle, who shall take the overall responsibility of this Valuation Report.

SUMMARY OF ASSETS

The subject properties listed in this report are all located in the Eagle Ford shale in Dimmit, Frio, and La Salle counties, Texas, United States, illustrated in the following figure. Offset operators include Carrizo, Chesapeake, and TRC, among others. The properties evaluated by Ryder Scott represent 100 percent of the total net proved and probable liquid hydrocarbon reserves and 100 percent of the total net proved and probable gas reserves of IDG Energy's potential assets to be acquired in Texas as of November 30, 2016. The subject properties' net interest varies by lease and thus can change over time based on forecasted production rates. Therefore, while estimates of net interests are presented within this report, it should be noted that those net interests are estimates only. IDG Energy states that the subject properties have a search extent of approximately 56,054 gross acres (25,591 net acres). IDG Energy proposes to acquire the subject properties and announced on November 22, 2016 at the price of US\$278 million.

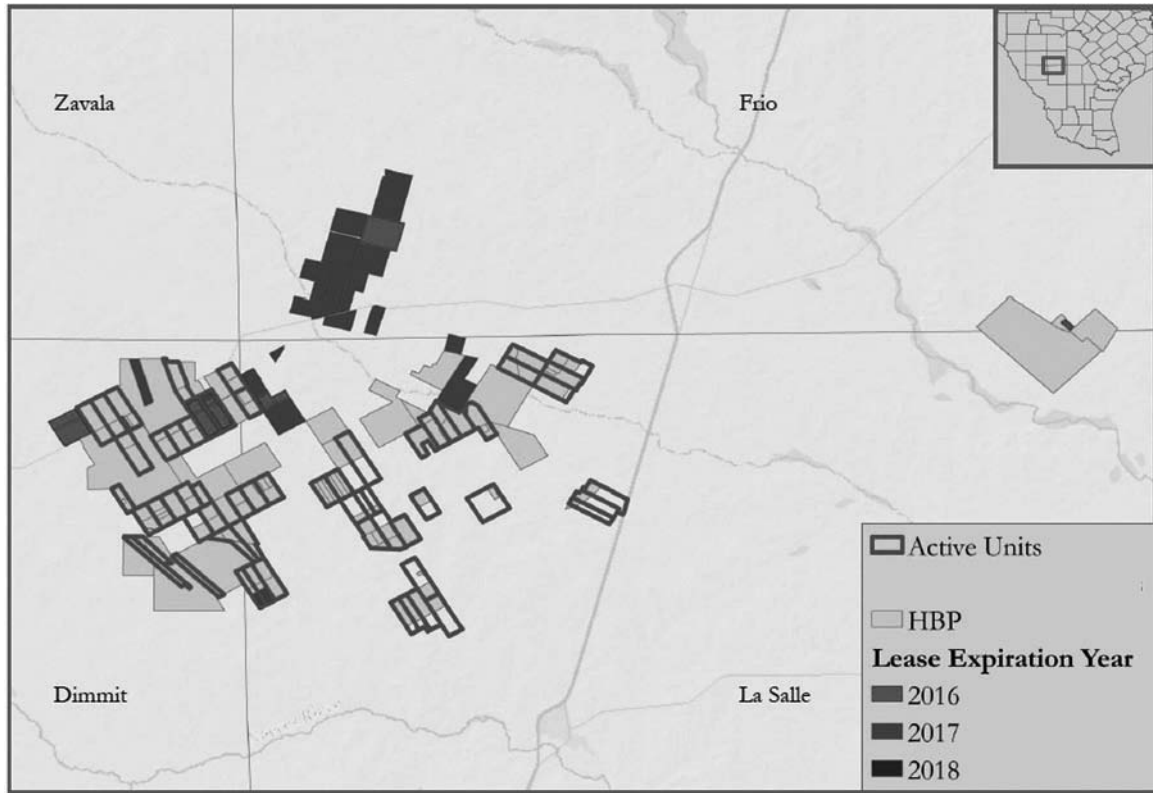


Figure 1. Lease Holdings under the Subject Properties as of November 30, 2016. Provided by IDG Energy.

The estimated reserves presented in the Competent Person’s Report, as of November 30, 2016, are related to hydrocarbon prices based on escalated price parameters. As a result of both economic and political forces, there is significant uncertainty regarding the forecasting of future hydrocarbon prices. The recoverable reserves volumes and the income attributable thereto have a direct relationship to the hydrocarbon prices actually received; therefore, volumes of reserves actually recovered and amounts of income actually received may differ significantly from the estimated quantities presented in this report. The results of this study are summarized as follows.

	Gross Remaining Reserves		Net Remaining Reserves	
	Proved (1P)	Proved + Probable (2P)	Proved (1P)	Proved + Probable (2P)
Oil — Barrels	82,173,552	84,767,554	19,334,729	19,912,801
NGL — Barrels	19,208,528	19,732,000	5,109,481	5,221,597
Gas — MMcf	198,588	204,145	38,736	39,693

Basis of Value

According to “VALMIN Code 8.1”, the basis of value is a statement of the fundamental measurement assumptions of a valuation. The VALMIN Code primarily uses the terms Market Value and Technical Value, although circumstance may require the use of alternative definitions.

Technical Value is an assessment of a Mineral Asset’s future net economic benefit at the valuation date (as of November 30, 2016) under a set of assumptions deemed most appropriate by Ryder Scott, excluding any premium or discount to account for market considerations.

Market Value is the estimated amount (or the cash equivalent of some other consideration) for which the Mineral Asset would exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after appropriate marketing where the parties had each acted knowledgeably, prudently and without compulsion.

Market value may be higher or lower than technical value. A competent evaluator’s report should take such factors into account. The basis of FMV value for the valuation of the subject properties interest is the amount of money (or the cash equivalent of some other consideration) for which the mineral or petroleum asset of security should change hands on the valuation date in an open and unrestricted market between a willing buyer and a willing seller in an “arm’s length” transaction, with each party acting knowledgeably, prudently and without compulsion. The FMV assumes that both the potential buyer and seller are knowledgeable of petroleum operations and have familiarity with the area of the asset.

The FMV gives consideration to various potential risk factors and the cost of capital. Risk is considered in the evaluation by adjusting the discounted cash flow rate. The United States is usually considered lower risk in arriving at the appropriate discount rate. All of the evaluated properties included herein are developed and no value has been assigned to upside exploratory potential.

Additional factors for consideration may also include the current market demand in the region for oil, gas and natural gas liquids interests and the political risk or certainty of the retention of rights and interests in the area under terms and conditions that are historically consistent or predictable. We believe that market demand is currently normal for US shale oil, gas and natural gas liquids interests and that political risk in the United States is low.

Fair Market Value Determination Methodology

According to “VALMIN Code 8.2”, within each Valuation Approach, there are Valuation Methods that share a common rationale or basis but differ in how they are calculated. The selection of the Valuation Approach and underlying Valuation Method used is the responsibility of Ryder Scott and we are not to be influenced by the Commissioning Entity or any other parties.

Three widely accepted Valuation Approaches are:

- (a) *Cost-based approach* is based on the notion of cost contribution to Value. The cost approach provides an indication of value based on the principle that an informed buyer will pay no more than the cost of producing substitute assets with equal utility as the subject assets. Under the cost approach, the historical cost method measures the cost incurred through the development of the subject assets at the time they were developed; the replication cost method measures the amount of investment that would be required to develop assets that are similar to the subject assets; and the replacement cost method measures the amount of investment that would be required to develop the subject assets as they currently stand. The fundamental premise of the cost approach is that a potential user won't, or shouldn't, pay more for a property than it would cost to build an equivalent. The cost of construction minus depreciation, plus land, therefore is a limit, or at least a metric, of market value. We are of the view that the cost approach may not adequately represent the value of the subject properties.
- (b) *Income-based approach* is based on the notion of cashflow generation, which is commonly used in evaluating petroleum asset FMV. In this valuation report, the anticipated benefits of the potential income or cash flow of a Mineral Asset are analyzed. This approach is based on the assumption that a knowledgeable buyer would pay no more than the present value of the expected net income derived by the assets. Ryder Scott believes the income-based approach is the most appropriate approach in this FMV as it integrates a detailed analysis of the expected cash flows and cost of capital. The later section of this valuation report will elaborate the procedures and results in details.
- (c) *Market-based Approach* is based primarily on the notion of substitution. In this Valuation Approach the Mineral Asset being valued is compared with the transaction value of similar Mineral Assets under similar time and circumstance on an open market. Ryder Scott has studied the recent transactions in the Eagle Ford area during this FMV practice. The study shows the FMV should be in the range of \$35,000–60,000 per daily barrel of equivalent production rate, and \$10,000–20,000 per acre. Comparing to our FMV results by the income-based approach by this report, the reasonable checks confirm that the value of assets that we have derived is in the observed range of comparative values.

Date	Buyer	Seller	Field	Acquired Amount
December, 2015		BlackBrush Oil & Gas LP, San Antonio	7,056 net acres in a concentrated part of Karnes County, Texas. 5,170 boe/d (85% liquids)	
April, 2016	EnerVest	GulfTex Energy, San Antonio.	4,198 net acres (75% HBP) in a concentrated part of Karnes County, Texas. 8,568 boe/d (85% liquids)	\$1.3 billion for three deals together since 9/2015
May, 2016		Undisclosed	1,760 net acres in a concentrated part of Karnes County, Texas. More than 2,200 boe/d. 7.8 mmboe of reserves.	
July, 2016	Sundance Energy Australia Limited	Undisclosed	Approximately 5,050 net acres in McMullen County, Texas. 27 gross (9.6 net) wells, primarily operated by Sundance, that are expected to produce 600–700 boe/d during the remainder of 2016. Total proved reserves of approximately 3.0 mmboe, 1.4 mmboe of which are attributed to producing wells.	\$15.5 million
September, 2016	Värde Partners (“Värde”) and Titanium Exploration Partners, LLC (“Titanium”)	Undisclosed	Consists of approximately 3,900 net acres and approximately 1,050 boe/d as of the effective date of the acquisition in Karnes and Gonzales Counties, Texas.	Undisclosed
December, 2016	Carrizo	Sanchez	15,000 net acres Core volatile oil window of the Eagle Ford Shale in LaSalle, Frio, and McMullen counties, TX. Net production was 3,100 boe/d (61% oil). Net reserve is 14.5 mmboe.	\$181 million

Additionally, Ryder Scott checked various financial metrics to evaluate the transaction. The ratio of undiscounted cashflow to price was estimated at 1.76 for proved producing reserves and 2.63 for proved-plus-probable reserves; Ryder Scott found both of these values to be as expected. In addition, the payout period was estimated at 6.7 years, which Ryder Scott found reasonable given the relatively long-life of Eagle Ford shale producing wells.

Assumptions and Data Considered for Estimates of Reserves and Resources

According to the Competent Person's Report, to estimate recoverable oil and gas reserves and resources and related future net cash flows, we consider many factors and assumptions including, but not limited to, the use of reservoir parameters derived from geological, geophysical and engineering data which cannot be measured directly, economic criteria based on the cost and price assumptions as noted herein, and forecasts of future production rates. Under the SPE-PRMS Section 2.2.2 and Table 3, proved reserves must be demonstrated to be commercially recoverable under defined economic conditions, operating methods and governmental regulations from a given date forward. We have applied the same criteria for commercially recoverable to the probable reserves.

IDG Energy has informed us that they have furnished us all of the material accounts, records, geological and engineering data, and reports and other data required for this investigation. In preparing our forecast of future production and income, we have relied upon data furnished by IDG Energy with respect to property interests owned, production and well tests from examined wells, normal direct costs of operating the wells or leases, other costs such as transportation and processing costs, ad valorem and severance taxes, recompletion and development costs, development plans, abandonment costs after salvage, product prices, geological structural and isochore maps, well logs, core analyses, and pressure measurements. Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data supplied by IDG Energy.

In summary, we consider the assumptions, data, methods and analytical procedures used in this report appropriate for the purpose hereof, and we have used all such methods and procedures that we consider necessary and appropriate to prepare the estimates of reserves herein.

Field Development Plans and Maps

IDG Energy has proposed future drilling locations as shown in the following figure. Not all of these locations were scheduled within IDG Energy’s drilling schedule, so a portion of these locations was considered to be contingent resources.

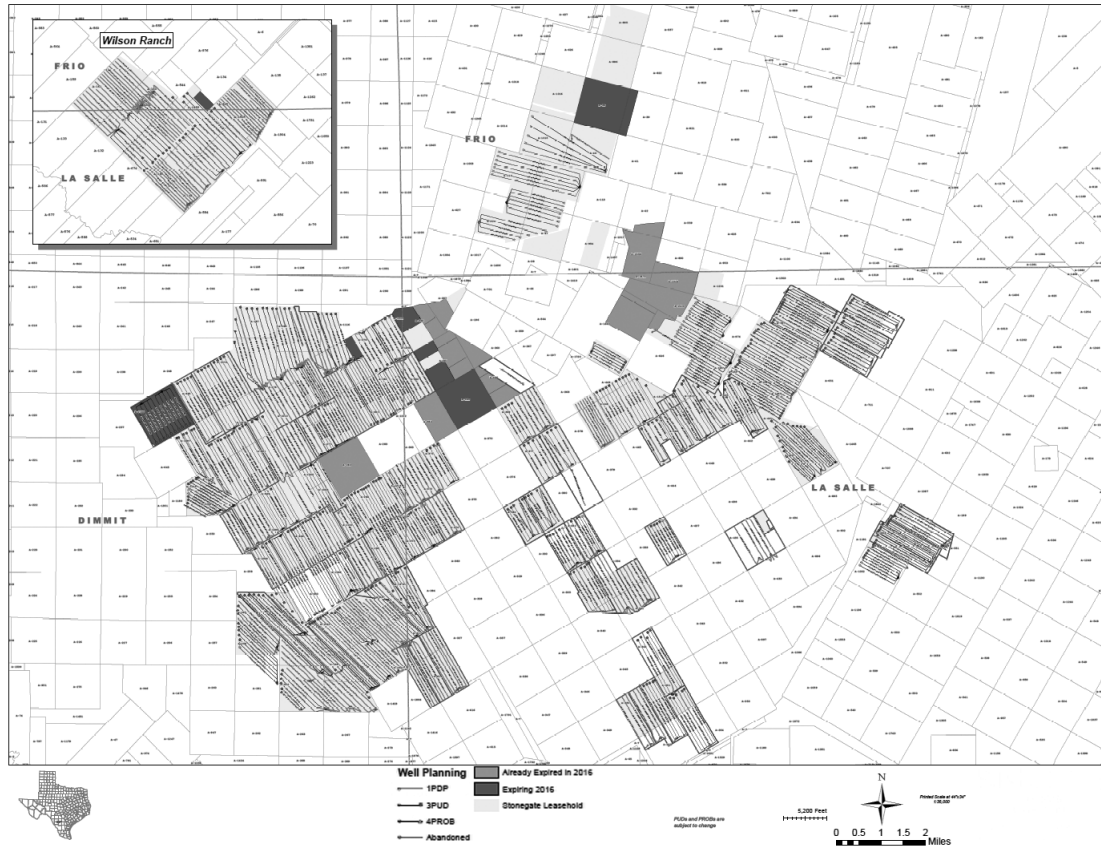


Figure 2. Field Development Plan per IDG Energy if no Capital Constraint is Considered.

The area attributable to certain leasehold interests of IDG Energy has been divided into 9 regions. Monte Carlo probabilistic method has been used to develop type well for each region.

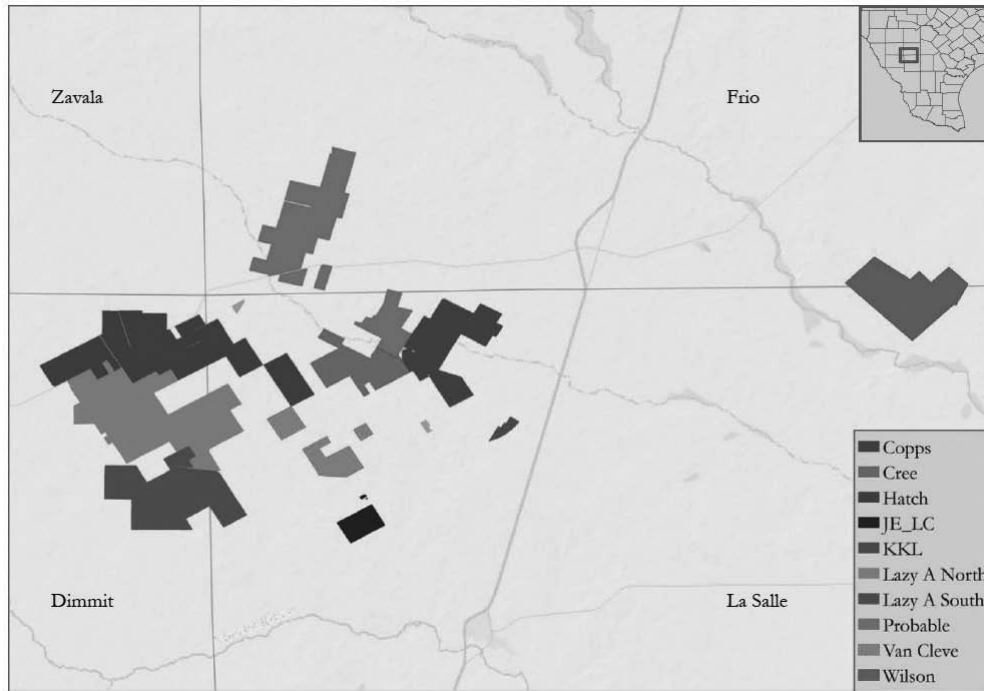


Figure 3. Key Development Areas — Map is Provided by IDG Energy

IDG Energy’s drilling activity is constrained by available capital, and therefore Ryder Scott cannot book all the proposed locations as reserves. Consequently, IDG Energy has proposed 180 locations as the current field development plan, and Ryder Scott has assigned proved and probable undeveloped reserves to these locations. The remaining potential locations are considered as contingent resources due to the lack of a field development plan and commitment to drill.

Ryder Scott specifically discussed the 5-year field development plan as of November 30, 2016 with IDG Energy, who has indicated to us their commitment to follow the proposed field development plan for the operated and non-operated assets. According to the Joint Operating Agreements for the area, IDG Energy, although not the operator, has the right to propose wells to the partners in the project. In the event that other partners do not wish to participate in the proposed well(s), IDG Energy has advised us that they are prepared to take any non-consent interest and proceed with the well(s).

Because of the direct relationship between volumes of undeveloped reserves and development plans, we include in the undeveloped category only reserves assigned to undeveloped locations that we have been assured will definitely be drilled. IDG Energy has assured us of their intent and ability to proceed with the development activities included in this report, and that they are not aware of any legal, regulatory or political obstacles that would

significantly alter their plans. Ryder Scott also specifically discussed the 5-year field development plan as of November 30, 2016 with IDG Energy, who is committed to follow the proposed field development plan for the operated and non-operated assets.

Hydrocarbon Prices

IDG Energy furnished us with the escalated price deck in effect on November 30, 2016. The hydrocarbon prices used herein are based on SPE PRMS price parameters and in comparison with the Hong Kong Exchange requirements for a forecast (escalated) case. Estimates of future price parameters have been revised in the past because of changes in governmental policies, changes in hydrocarbon supply and demand, and variations in general economic conditions. The price parameters used in this report may be revised in the future for similar reasons.

Oil and Condensate

The future West Texas Intermediate Crude oil price, as specified by IDG Energy is \$47.80/bbl for the remainder of 2016, \$54.50 for 2017, \$68.86 for 2018, \$77.63 for 2019, \$87.26 for 2020, \$85.16 for 2021, \$84.06 for 2022, \$85.17 for 2023, \$83.37 for 2024, \$82.66 for 2025, \$84.31 for 2026, \$89.09 for 2027, \$91.51 for 2028, \$94.63 for 2029, \$100.46 for 2030, \$100.48 for 2031, \$109.98 for 2032, \$119.15 for 2033, and held constant after that.

Plant Products

Plant product prices at Mont Belvieu, Texas, are estimated to average approximately 20.3% of crude oil prices.

Gas

The future natural gas sales price, as specified by IDG Energy is \$2.92/MCF for the remainder of 2016, \$3.24 for the first quarter of 2017, \$2.94 for the second quarter of 2017, \$2.98 for the third quarter of 2017, \$3.07 for the fourth quarter of 2017, \$3.25 for the first quarter of 2018, \$2.83 for the second quarter of 2018, \$2.88 for the third quarter of 2018, \$2.99 for the fourth quarter of 2018, \$3.18 for the first quarter of 2019, \$2.82 for the second quarter of 2019, \$2.87 for the third quarter of 2019, \$2.99 for the fourth quarter of 2019, \$3.02 for 2020, \$3.08 for 2021, \$3.14 for 2022, \$3.20 for 2023, \$3.27 for 2024, \$3.33 for 2025, \$3.40 for 2026, \$3.47 for 2027, \$3.54 for 2028, \$3.61 for 2029, \$3.68 for 2030, \$3.75 for 2031, \$3.83 for 2032, \$3.91 for 2033, and held constant after that.

Others

Product prices which were actually used for each property reflect adjustments for gravity, quality, local conditions, gathering and transportation fees and/or distance from market, referred to herein as “differentials”. The differentials used in the preparation of this report were furnished to us by IDG Energy. The differentials furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the data used by IDG Energy to determine these differentials.

The effects of derivative instruments designated as price hedges of oil and gas quantities are not reflected in our estimated individual property evaluations.

Costs

Operating costs for the leases and wells in this report were furnished by IDG Energy and include only those costs directly applicable to the leases or wells. The operating costs include a portion of general and administrative costs allocated directly to the leases and wells. The operating costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the operating cost data used by IDG Energy. No deduction was made for loan repayments, interest expenses, or exploration and development prepayments that were not charged directly to the leases or wells.

The operating cost is summarized in the following table varying with different operators:

OPERATOR	Fixed	Variable	
	OPEX \$/Month	OPEX Gas, \$/MCF	OPEX Oil, \$/bbl
CHESAPEAKE	3,452	0.01	3.31
CARRIZO	1,772	0.47	9.51
TARC	2,211	0.07	2.67
IDG ENERGY	4,977	0.31	3.11

The development costs in this report for future horizontal wells were furnished to us by IDG Energy and are based on authorizations for expenditure for the proposed work or actual costs for similar projects. The development costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of these costs. The estimated net cost of abandonment after salvage was included for properties where abandonment costs net of salvage were significant. Ryder Scott has not performed a detailed study of the abandonment costs or the salvage value and makes no warranty for the estimates.

The capital expenditure is also varied based on horizontal well lateral lengths. The average drilling cost is \$1,607.7M and completion cost is \$2,630.1M. The average drilling and completion cost is \$612.5 per foot of lateral length. The net abandonment costs of \$60,000 per well were based on reasonable estimates used for similar properties.

For 126 producing wells among the subject properties that will be operated by IDG Energy, the gas shrinkage factor is 0.613 and the NGL yield is 110.6 bbl/MMCF; for 175 producing wells among the subject properties operated by other independent operators, the gas shrinkage factor is 0.814 and the NGL yield is 94.2 bbl/MMCF. All the proved undeveloped wells assumed the same shrinkage and NGL parameters as the non-operated properties.

Current operating and development costs used in the estimates within this report are escalated 0.083 percent for the remaining 1 month of 2016 (equivalent to 1.0 percent per year), 1.0 percent per year for 2017 then annually at the rate of 2.0 percent for 2018 and each year thereafter until 2033.

Facilities

Ryder Scott has not performed a detailed review of the facilities located on the subject properties in the Eagle Ford region. Ryder Scott relies on the history of production and hydrocarbon sales as provided by IDG Energy, and it is assumed that these facilities will be adequate to handle the estimated future production from the field. In the case of undrilled wells, the cost estimates include necessary facilities to handle the production from those wells.

Production Schedules and the Basis for Any Estimations

For wells currently on production, our forecasts of future production rates are based on historical performance data. If no production decline trend has been established, future production rates were estimated based on constructed type well curves, or adjusted for the effects of curtailment where appropriate, until a decline in ability to produce was anticipated. An estimated rate of decline was then applied to depletion of the reserves. If a decline trend has been established, this trend was used as the basis for estimating future production rates.

Test data and other related information were used to estimate the anticipated initial production rates for those wells or locations that are not currently producing. For reserves not yet on production, sales were estimated to commence at an anticipated date furnished by IDG Energy. Wells or locations that are not currently producing may start producing earlier or later than anticipated in our estimates due to unforeseen factors causing a change in the timing to initiate production. Such factors may include delays due to weather, the availability of rigs, the sequence of drilling, completing and/or recompleting wells and/or constraints set by regulatory bodies.

The future production rates from wells currently on production or wells or locations that are not currently producing may be more or less than estimated because of changes including, but not limited to, reservoir performance, operating conditions related to surface facilities, compression and artificial lift, pipeline capacity and/or operating conditions, producing market demand and/or allowables or other constraints set by regulatory bodies.

Reserves

As shown in the Competent Person's Report, the net interest share of the proved and probable reserves attributable to the Business is approximately 31.8 MMBOE. For this cumulative figure, a BOE is an equivalent unit basis wherein natural gas is converted to oil equivalent using a factor of 6,000 cubic feet of natural gas per one barrel of oil equivalent. MMBOE means million barrels of oil equivalent.

The reserve summary as outlined in the Competent Person's Report and based on IDG Energy's price deck is included in the following tables:

Key Economic Assumptions

Price Deck	As Stated in the Section Hydrocarbon Prices
Average Oil Differential (\$/bbl)	-5.78
Average Gas Differential (\$/Mcf)	-2.54
Average NGL Differential (% of Oil Price)	20.3%
Fixed Operating Cost (\$/Month/Well)	Refer to the table listed in page VI-11
Oil Variable Operating Cost (\$/bbl)	Refer to the table listed in page VI-11
Gas Variable Operating Cost (\$/MCF)	Refer to the table listed in page VI-11
Drilling Cost (M\$)	1,607.7
Completion Cost (M\$)	2,630.1
Abandonment Cost (M\$/Well)	60.0
Cost Escalation	2016–2017: 1% Annually 2018–2033: 2% Annually 2034+: Stay Constant
Cash Flow Discount Rate	10%

ESCALATED PARAMETERS (Before Income Tax)

Estimated Net Reserves and Income Data Attributable to Certain Leasehold Interests IDG Energy Investment Group Limited As of November 30, 2016

	Proved Reserves		
	Producing	Undeveloped	Total Proved
Net Remaining Reserves			
Oil/Condensate — Barrels	9,820,721	9,514,008	19,334,729
Plant Products — Barrels	3,110,355	1,999,126	5,109,481
Gas — MMCF	21,674	17,063	38,737
Income Data (M\$)			
Future Gross Revenue	\$854,110	\$848,878	\$1,702,988
Deductions	\$344,763	\$463,405	\$808,168
Future Net Income (FNI)	\$509,347	\$385,473	\$894,820
Discounted Before Income Tax			
FNI @ 10%	\$255,956	\$93,363	\$349,319

	Probable Reserves		Total
	Producing	Undeveloped	Probable
Net Remaining Reserves			
Oil/Condensate — Barrels	133,175	444,896	578,071
Plant Products — Barrels	21,477	90,638	112,115
Gas — MMCF	183	774	957
Income Data (M\$)			
Future Gross Revenue	\$10,678	\$40,108	\$50,786
Deductions	<u>\$1,072</u>	<u>\$5,709</u>	<u>\$6,781</u>
Future Net Income (FNI)	\$ 9,606	\$34,399	\$44,005
Discounted Before Income Tax			
FNI @ 10%	\$ 4,337	\$14,158	\$18,495
		Total Proved	Total Proved
		(1P)	+ Probable
			(2P)
Net Remaining Reserves			
Oil/Condensate — Barrels		19,334,729	19,912,801
Plant Products — Barrels		5,109,481	5,221,597
Gas — MMCF		38,736	39,693
Income Data (M\$)			
Future Gross Revenue		\$1,702,988	\$1,753,774
Deductions		<u>\$808,168</u>	<u>\$814,949</u>
Future Net Income (FNI)		\$894,820	\$938,825
Discounted Before Income Tax			
FNI @ 10%		\$349,319	\$367,814

Liquid hydrocarbons are expressed in standard 42 gallon barrels (Barrels). All gas volumes are reported on an “as sold” basis expressed in millions of cubic feet (MMCF) at the official temperature and pressure bases of the areas in which the gas reserves are located. In this report, the revenues, deductions, and income data are expressed as thousands of U.S. dollars (M\$).

The future proved and probable cash flow forecast of the asset to be acquired by IDG Energy is also presented below. This cash flow analysis is the result of reserve evaluation in the Competent Person’s Report. Therefore, all the assumptions in performing this cash flow analysis are inherited from those practices. The key assumptions include commodity prices, all the factors related to engineering data, which are considered for estimates of reserves. In addition, this cashflow is before income tax.

APPENDIX VI

VALUATION REPORT

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
 T8PE FIRM LIC. NO. F-1580

IDG ENERGY INVESTMENT GROUP LIMITED
 ESCALATED PARAMETERS
 ESTIMATED FUTURE RESERVES AND INCOME
 ATTRIBUTABLE TO CERTAIN LEASEHOLD INTERESTS
 AS OF NOVEMBER 30, 2016

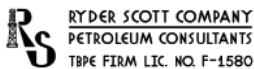
TABLE 1

GRAND SUMMARY											TOTAL PROVED ALL CATEGORIES				
INITIAL FINAL REMARKS	REVENUE INTEREST						PRODUCT PRICES			DISCOUNTED FUTURE NET INCOME - \$ COMPOUNDED MONTHLY					
	Expense Interest	Oil/Condensate	Plant Products	Gas	Oil/Cond (\$/bbl)	Pit. Prod. (\$/bbl)	Gas (\$/Mcf)	5.00 %	7.50 %	10.00 %	12.00 %	15.00 %			
	ESTIMATED 8/8THS PRODUCTION						COMPANY NET PRODUCTION			AVERAGE PRICES					
Year	Number of Wells	Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	Oil/Cond. (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	Oil/Cond. (\$/bbl)	Pit. Prod. (\$/bbl)	Gas (\$/Mcf)					
2016	288	471,724	119,780	1,205	145,507	40,986	289	41.64	11.97	0.41					
2017	292	4,537,806	1,203,586	12,112	1,394,253	410,270	2,893	48.37	13.64	0.55					
2018	323	5,947,690	1,381,888	14,158	1,478,978	407,008	3,006	62.46	17.79	0.50					
2019	416	9,275,185	2,043,046	21,267	1,904,202	477,474	3,690	70.98	20.61	0.48					
2020	465	7,378,369	1,675,023	17,420	1,699,942	428,350	3,326	80.59	23.28	0.56					
2021	462	5,253,453	1,218,074	12,618	1,219,763	318,337	2,432	78.58	22.47	0.61					
2022	458	4,208,410	990,998	10,241	985,891	263,180	1,992	77.53	22.04	0.66					
2023	454	3,552,744	846,524	8,733	838,563	227,433	1,711	78.67	22.24	0.72					
2024	452	3,094,284	743,553	7,663	734,465	201,325	1,508	76.89	21.71	0.79					
2025	446	2,747,479	661,737	6,819	654,190	179,491	1,344	76.19	21.52	0.85					
2026	442	2,478,014	599,418	6,174	591,850	163,287	1,221	77.85	21.92	0.92					
2027	440	2,261,279	549,164	5,654	541,643	150,085	1,120	82.64	23.14	0.99					
2028	434	2,077,252	505,702	5,205	498,114	138,359	1,032	85.06	23.76	1.06					
2029	429	1,923,017	468,129	4,820	461,104	127,932	955	88.18	24.58	1.13					
2030	427	1,794,213	437,608	4,505	430,800	119,772	893	94.01	26.09	1.20					
Sub-Total		57,000,918	13,444,227	138,592	13,579,265	3,653,287	27,412	73.42	20.80	0.68					
Remainder		25,172,630	5,764,301	59,996	5,755,463	1,456,194	11,325	110.57	31.29	1.43					
Total Future		82,173,549	19,208,528	198,588	19,334,728	5,109,481	38,736	84.48	23.79	0.90					
Cumulative Ultimate		26,748,037	0	53,763	252,352										
108,921,586		19,208,528													
COMPANY FUTURE GROSS REVENUE (FGR) - \$											PRODUCTION TAXES - \$				FGR AFTER PRODUCTION TAXES - \$
Year	From Oil/Condensate	From Plant Products	From Gas	Other	Total	Oil/Condensate	Plant Prod./Other	Gas							
2016	6,059,022	490,485	119,475	0	6,668,982	278,715	36,786	8,961			6,344,520				
2017	67,438,867	5,597,495	1,605,271	0	74,641,633	3,102,188	419,813	120,395			70,999,237				
2018	92,378,147	7,242,309	1,517,025	0	101,137,481	4,249,394	543,173	113,777			96,231,136				
2019	135,155,524	9,842,729	1,777,410	0	146,775,662	6,217,154	738,203	133,306			139,686,999				
2020	137,000,794	9,973,553	1,849,181	0	148,823,528	6,302,036	748,015	138,689			141,634,788				
2021	95,845,719	7,153,355	1,476,312	0	104,475,386	4,408,903	536,502	110,723			99,419,257				
2022	76,431,542	5,800,843	1,319,222	0	83,551,607	3,515,851	435,063	98,942			79,501,752				
2023	65,967,381	5,058,147	1,230,395	0	72,255,923	3,034,499	379,362	92,280			68,749,783				
2024	56,472,549	4,371,078	1,187,369	0	62,030,996	2,597,737	327,831	89,053			59,016,376				
2025	49,841,511	3,863,068	1,139,045	0	54,843,625	2,292,709	289,730	85,428			52,175,757				
2026	46,075,646	3,580,058	1,118,693	0	50,774,397	2,119,480	268,504	83,902			48,302,511				
2027	44,762,208	3,473,158	1,103,904	0	49,339,270	2,059,061	260,487	82,793			46,936,929				
2028	42,370,930	3,287,634	1,089,141	0	46,747,704	1,949,063	246,572	81,686			44,470,383				
2029	40,659,782	3,145,194	1,075,226	0	44,880,202	1,870,350	235,890	80,642			42,693,321				
2030	40,501,184	3,124,553	1,068,206	0	44,693,942	1,863,054	234,342	80,115			42,516,431				
Sub-Total	996,960,807	76,003,658	18,675,874	0	1,091,640,339	45,860,194	5,700,274	1,400,690			1,038,679,181				
Remainder	636,409,584	45,569,300	16,239,986	0	698,218,870	29,274,839	3,417,697	1,217,999			664,308,335				
Total Future	1,633,370,391	121,572,959	34,915,859	0	1,789,859,209	75,135,032	9,117,971	2,618,689			1,702,987,516				
DEDUCTIONS - \$											FUTURE NET INCOME BEFORE TAXES - \$				
Year	Operating Costs	Ad Valorem Taxes	Development Costs	Other	Total	Undiscounted		Discounted @ 10.00 %							
2016	624,020	158,576	0	685,505	1,468,101	4,876,419	4,876,419	4,857,092							
2017	7,639,974	1,774,580	22,737,793	6,650,580	38,802,926	32,196,311	37,072,730	30,633,343							
2018	8,232,060	2,405,425	79,191,007	7,086,270	96,914,762	-683,626	36,389,104	-935,153							
2019	9,519,745	3,491,874	129,873,171	9,097,316	151,982,107	-12,295,107	24,093,997	-10,171,790							
2020	10,641,740	3,540,589	11,151,915	8,257,836	33,592,080	108,042,707	132,136,704	77,028,390							
2021	10,700,981	2,485,249	143,110	6,085,747	19,415,087	80,004,170	212,140,874	51,822,444							
2022	10,782,620	1,987,344	87,052	5,037,893	17,894,909	61,606,842	273,747,716	36,257,308							
2023	10,916,348	1,718,565	96,048	4,382,821	17,113,781	51,636,001	325,383,716	27,618,487							
2024	11,053,135	1,475,251	94,052	3,922,688	16,545,127	42,471,248	367,854,966	20,648,836							
2025	11,043,878	1,304,251	243,236	3,564,673	16,156,038	36,019,719	403,874,685	15,915,763							
2026	11,141,211	1,207,429	61,208	3,292,344	15,702,192	32,600,319	436,475,004	13,095,357							
2027	11,278,636	1,173,301	130,217	3,075,396	15,657,549	31,279,381	467,754,384	11,422,011							
2028	11,267,002	1,111,654	244,359	2,885,631	15,508,646	28,961,738	496,716,122	9,613,318							
2029	11,247,707	1,067,231	165,734	2,724,422	15,205,093	27,488,228	524,204,350	8,293,484							
2030	11,394,124	1,062,808	63,571	2,597,174	15,117,677	27,398,754	551,603,103	7,515,737							
Sub-Total	147,483,181	25,964,126	244,282,472	69,346,296	487,076,075	551,603,103	551,603,103	303,614,987							
Remainder	255,038,144	16,606,730	13,316,478	36,130,005	321,091,357	343,216,977	894,820,081	45,703,864							
Total Future	402,521,325	42,570,856	257,598,950	105,476,301	808,167,432	894,820,081	894,820,081	349,318,851							

Life of summary is: 50.00 years.

APPENDIX VI

VALUATION REPORT



IDG ENERGY INVESTMENT GROUP LIMITED
ESCALATED PARAMETERS
ESTIMATED FUTURE RESERVES AND INCOME
ATTRIBUTABLE TO CERTAIN LEASEHOLD INTERESTS
AS OF NOVEMBER 30, 2016

TABLE 2

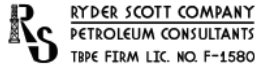
GRAND SUMMARY		REVENUE INTEREST						PRODUCT PRICES			PROVED PRODUCING		
		Expense Interest	Oil/Condensate	Plant Products	Gas	Oil/Cond (\$/bbl)	Pit. Prod. (\$/bbl)	Gas (\$/Mcf)	DISCOUNTED FUTURE NET INCOME - \$ COMPOUNDED MONTHLY				
INITIAL									5.00 %	337,474,623			
FINAL									7.50 %	290,346,906			
REMARKS									10.00 %	255,956,073			
									12.00 %	234,524,961			
									15.00 %	209,256,107			

ESTIMATED 8/8THS PRODUCTION				COMPANY NET PRODUCTION			AVERAGE PRICES			
Year	Number of Wells	Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	Oil/Cond. (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	Oil/Cond. (\$/bbl)	Pit Prod. (\$/bbl)	Gas (\$/Mcf)
2016	288	471,724	119,780	1,205	145,507	40,986	289	41.64	11.97	0.41
2017	288	4,147,696	1,119,945	11,224	1,277,590	385,265	2,679	48.45	13.52	0.55
2018	287	2,885,955	822,396	8,219	885,431	283,308	1,950	62.91	16.96	0.47
2019	285	2,290,736	667,144	6,661	700,832	229,654	1,575	71.72	19.08	0.44
2020	285	1,923,161	567,026	5,658	587,057	194,980	1,335	81.37	21.41	0.49
2021	282	1,664,608	492,896	4,919	506,694	168,874	1,156	79.28	20.90	0.55
2022	278	1,471,154	438,397	4,374	446,945	150,097	1,027	78.18	20.62	0.61
2023	274	1,320,494	395,810	3,949	401,040	135,528	926	79.30	20.88	0.67
2024	272	1,200,337	360,953	3,601	364,248	123,476	844	77.50	20.43	0.74
2025	266	1,097,497	328,207	3,278	332,232	111,724	766	76.78	20.30	0.80
2026	262	1,012,993	303,073	3,028	306,341	103,140	707	78.43	20.71	0.87
2027	260	941,693	282,054	2,818	284,714	95,916	658	83.21	21.88	0.94
2028	254	875,243	262,227	2,621	264,246	89,016	611	85.62	22.49	1.01
2029	249	818,172	244,189	2,442	246,263	82,573	568	88.73	23.29	1.08
2030	247	771,106	230,106	2,302	231,945	77,762	535	94.56	24.73	1.15
Sub-Total		22,892,569	6,634,203	66,299	6,981,083	2,272,297	15,625	71.12	19.09	0.64
Remainder		10,016,136	2,686,924	27,328	2,839,638	838,058	6,049	110.82	29.71	1.40
Total Future		32,908,705	9,321,127	93,627	9,820,721	3,110,355	21,674	82.60	21.95	0.85
Cumulative Ultimate		26,748,037	0	53,763	59,656,742	9,321,127	147,390			

COMPANY FUTURE GROSS REVENUE (FGR) - \$					PRODUCTION TAXES - \$			FGR AFTER PRODUCTION TAXES - \$
Year	From Oil/Condensate	From Plant Products	From Gas	Other	Total	Oil/Condensate	Plant Prod./Other	Gas
2016	6,059,022	490,485	119,475	0	6,668,982	278,715	36,786	8,961
2017	61,905,520	5,207,599	1,467,899	0	68,581,018	2,847,654	390,571	110,092
2018	55,702,855	4,805,306	913,902	0	61,422,062	2,562,331	360,398	68,543
2019	50,261,891	4,380,673	693,383	0	55,335,947	2,312,047	328,550	52,004
2020	47,767,917	4,174,940	654,278	0	52,597,134	2,197,324	313,120	49,071
2021	40,168,349	3,529,563	636,239	0	44,334,150	1,847,744	264,717	42,173,919
2022	34,942,794	3,094,528	625,693	0	38,663,014	1,607,368	232,090	46,927
2023	31,800,656	2,829,548	619,509	0	35,249,713	1,462,830	212,216	46,463
2024	28,228,222	2,523,166	623,243	0	31,374,630	1,298,498	189,237	46,743
2025	25,507,523	2,268,149	613,151	0	28,388,823	1,173,346	170,111	45,986
2026	24,025,362	2,136,169	615,888	0	26,777,419	1,105,167	160,213	46,192
2027	23,691,156	2,099,021	618,625	0	26,408,802	1,089,793	157,427	46,397
2028	22,625,083	2,001,891	617,546	0	25,244,520	1,040,754	150,142	46,316
2029	21,850,104	1,922,945	614,552	0	24,387,600	1,005,105	144,221	46,091
2030	21,931,807	1,922,789	616,398	0	24,470,994	1,008,863	144,209	46,230
Sub-Total	496,468,260	43,386,771	10,049,778	0	549,904,809	22,837,538	3,254,008	753,733
Remainder	314,676,628	24,898,292	8,451,964	0	348,026,884	14,475,124	1,867,372	633,897
Total Future	811,144,888	68,285,063	18,501,743	0	897,931,693	37,312,662	5,121,379	1,387,631

DEDUCTIONS - \$					FUTURE NET INCOME BEFORE TAXES - \$			
Year	Operating Costs	Ad Valorem Taxes	Development Costs	Other	Total	Undiscounted		Discounted @ 10.00 %
2016	624,020	158,576	0	685,505	1,468,101	4,876,419	4,876,419	4,857,092
2017	7,563,121	1,630,416	0	6,125,589	15,319,126	49,913,576	54,789,995	47,441,544
2018	7,696,126	1,460,417	27,494	4,358,928	13,542,966	44,887,825	99,677,820	38,714,457
2019	7,825,461	1,315,783	25,240	3,528,250	12,694,735	39,948,611	139,626,431	31,301,095
2020	7,974,879	1,250,660	90,108	3,019,156	12,334,803	37,702,816	177,329,247	26,847,545
2021	7,980,783	1,054,117	143,110	2,658,111	11,836,122	30,337,850	207,667,097	19,633,875
2022	8,008,018	919,216	87,052	2,393,854	11,408,140	25,368,489	233,035,586	14,922,467
2023	8,086,254	838,025	96,048	2,192,599	11,212,925	22,315,278	255,350,864	11,932,349
2024	8,166,440	745,846	94,052	2,031,826	11,038,164	18,801,988	274,152,852	9,139,926
2025	8,099,448	674,842	243,236	1,887,067	10,904,593	16,094,787	290,247,638	7,109,773
2026	8,137,893	636,513	61,208	1,774,661	10,610,275	14,855,574	305,103,212	5,966,807
2027	8,215,251	627,757	130,217	1,682,146	10,655,371	14,459,815	319,563,027	5,280,056
2028	8,142,349	600,077	244,359	1,591,923	10,578,709	13,428,600	332,991,626	4,457,197
2029	8,060,561	579,702	165,734	1,512,085	10,318,083	12,874,101	345,865,727	3,883,725
2030	8,143,236	581,690	63,571	1,452,514	10,241,010	13,030,682	358,896,409	3,574,603
Sub-Total	112,723,840	13,073,636	1,471,428	36,894,216	164,163,120	358,896,409		235,062,511
Remainder	144,818,755	8,275,285	9,131,868	18,373,768	180,599,677	150,450,814	509,347,224	20,893,561
Total Future	257,542,595	21,348,920	10,603,297	55,267,985	344,762,797	509,347,224		255,956,072

Life of summary is: 50.00 years.



IDG ENERGY INVESTMENT GROUP LIMITED
 ESCALATED PARAMETERS
 ESTIMATED FUTURE RESERVES AND INCOME
 ATTRIBUTABLE TO CERTAIN LEASEHOLD INTERESTS
 AS OF NOVEMBER 30, 2016

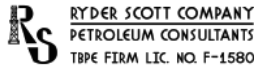
TABLE 3

GRAND SUMMARY				REVENUE INTEREST			PRODUCT PRICES			PROVED UNDEVELOPED		
INITIAL FINAL REMARKS	Expense Interest	Oil/Condensate	Plant Products	Gas	Oil/Cond (\$/bbl)	Plt. Prod. (\$/bbl)	Gas (\$/Mcf)	DISCOUNTED FUTURE NET INCOME - \$ COMPOUNDED MONTHLY				
								5.00 %	7.50 %	10.00 %	12.00 %	15.00 %
								181,268,264	129,417,430	93,362,777	71,872,114	47,753,613

Year	Number of Wells	ESTIMATED 8/8THS PRODUCTION			COMPANY NET PRODUCTION			AVERAGE PRICES		
		Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	Oil/Cond. (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	Oil/Cond. (\$/bbl)	Plt Prod. (\$/bbl)	Gas (\$/Mcf)
2016	0	0	0	0	0	0	0	0.00	0.00	0.00
2017	5	390,110	83,640	888	116,663	25,005	213	47.43	15.59	0.64
2018	36	3,061,735	559,492	5,939	593,547	123,700	1,056	61.79	19.70	0.57
2019	130	6,984,449	1,375,902	14,606	1,203,370	247,820	2,115	70.55	22.04	0.51
2020	180	5,455,208	1,107,997	11,762	1,112,886	233,370	1,992	80.18	24.85	0.60
2021	180	3,588,845	725,178	7,698	713,070	149,463	1,276	78.08	24.25	0.66
2022	180	2,737,256	552,601	5,866	538,946	113,082	965	76.98	23.93	0.72
2023	180	2,232,251	450,714	4,785	437,523	91,905	784	78.09	24.25	0.78
2024	180	1,893,947	382,600	4,062	370,217	77,849	664	76.29	23.74	0.85
2025	180	1,649,983	333,530	3,541	321,957	67,766	578	75.58	23.54	0.91
2026	180	1,465,020	296,344	3,146	285,509	60,147	513	77.23	24.01	0.98
2027	180	1,319,586	267,110	2,836	256,928	54,169	462	82.01	25.37	1.05
2028	180	1,202,009	243,474	2,585	233,868	49,343	421	84.43	26.06	1.12
2029	180	1,104,844	223,939	2,377	214,841	45,359	387	87.55	26.95	1.19
2030	180	1,023,106	207,502	2,203	198,855	42,010	359	93.38	28.61	1.26
Sub-Total		34,108,349	6,810,025	72,293	6,598,181	1,380,990	11,787	75.85	23.62	0.73
Remainder		15,156,494	3,077,377	32,669	2,915,826	618,136	5,276	110.34	33.44	1.48
Total Future		49,264,843	9,887,401	104,962	9,514,007	1,999,126	17,063	86.42	26.66	0.96
Cumulative Ultimate		0	0	0	0	0	0	0	0	0

Year	COMPANY FUTURE GROSS REVENUE (FGR) - \$					PRODUCTION TAXES - \$			FGR AFTER PRODUCTION TAXES - \$
	From Oil/Condensate	From Plant Products	From Gas	Other	Total	Oil/Condensate	Plant Prod./Other	Gas	
2016	0	0	0	0	0	0	0	0	0
2017	5,533,348	389,896	137,371	0	6,060,614	254,534	29,242	10,303	5,766,536
2018	36,675,292	2,437,003	603,123	0	39,715,418	1,687,063	182,775	45,234	37,800,346
2019	84,893,633	5,462,055	1,084,027	0	91,439,715	3,905,107	409,654	81,302	87,043,653
2020	89,232,877	5,798,613	1,194,904	0	96,226,394	4,104,712	434,895	89,618	91,597,169
2021	55,677,371	3,623,792	840,073	0	60,141,235	2,561,159	271,785	63,005	57,245,286
2022	41,488,749	2,706,315	693,529	0	44,888,593	1,908,482	202,973	52,015	42,725,123
2023	34,166,725	2,228,599	610,886	0	37,006,210	1,571,669	167,145	45,816	35,221,579
2024	28,244,327	1,847,913	564,126	0	30,656,366	1,299,239	138,594	42,309	29,176,224
2025	24,333,988	1,594,920	525,894	0	26,454,802	1,119,363	119,619	39,442	25,176,378
2026	22,050,283	1,443,889	502,805	0	23,996,977	1,014,313	108,291	37,710	22,836,663
2027	21,071,052	1,374,137	485,279	0	22,930,468	969,268	103,060	36,396	21,821,744
2028	19,745,847	1,285,743	471,595	0	21,503,184	908,309	96,431	35,370	20,463,075
2029	18,809,678	1,222,249	460,675	0	20,492,602	865,245	91,669	34,551	19,501,137
2030	18,569,377	1,201,764	451,808	0	20,222,949	854,191	90,133	33,886	19,244,739
Sub-Total	500,492,548	32,616,887	8,626,095	0	541,735,530	23,022,655	2,446,266	646,957	515,619,651
Remainder	321,732,956	20,671,008	7,788,021	0	350,191,985	14,799,715	1,550,326	584,102	333,257,843
Total Future	822,225,504	53,287,895	16,414,117	0	891,927,516	37,822,370	3,996,592	1,231,059	848,877,495

Year	DEDUCTIONS - \$					FUTURE NET INCOME BEFORE TAXES - \$		
	Operating Costs	Ad Valorem Taxes	Development Costs	Other	Total	Undiscounted Annual	Undiscounted Cumulative	Discounted @ 10.00 %
2016	0	0	0	0	0	0	0	0
2017	76,853	144,163	22,737,793	524,991	23,483,800	-17,717,265	-17,717,265	-16,808,201
2018	535,934	945,009	79,163,513	2,727,341	83,371,796	-45,571,451	-63,288,716	-39,649,609
2019	1,694,283	2,176,091	129,847,931	5,569,066	139,287,371	-52,243,718	-115,532,434	-41,472,886
2020	2,666,861	2,289,929	11,061,807	5,238,680	21,257,277	70,339,891	-45,192,543	50,180,845
2021	2,720,198	1,431,132	0	3,427,636	7,578,965	49,666,321	4,473,778	32,188,569
2022	2,774,602	1,068,128	0	2,644,039	6,486,769	36,238,353	40,712,131	21,334,841
2023	2,830,094	880,539	0	2,190,222	5,900,856	29,320,723	70,032,854	15,686,499
2024	2,886,696	729,406	0	1,890,862	5,506,963	23,669,261	93,702,114	11,508,910
2025	2,944,430	629,409	0	1,677,606	5,251,445	19,924,932	113,627,047	8,805,990
2026	3,003,319	570,917	0	1,517,683	5,091,918	17,744,745	131,371,791	7,128,550
2027	3,063,385	545,544	0	1,393,250	5,002,178	16,819,566	148,191,357	6,141,955
2028	3,124,653	511,577	0	1,293,707	4,929,937	15,533,138	163,724,495	5,156,121
2029	3,187,146	487,528	0	1,212,336	4,887,010	14,614,127	178,338,622	4,409,759
2030	3,250,888	481,118	0	1,144,661	4,876,668	14,368,072	192,706,694	3,941,135
Sub-Total	34,759,341	12,890,490	242,811,043	32,452,080	322,912,955	192,706,694	385,472,857	68,552,476
Remainder	110,219,389	8,331,446	4,184,609	17,756,236	140,491,680	192,766,163	385,472,857	24,810,303
Total Future	144,978,730	21,221,936	246,995,653	50,208,316	463,404,635	385,472,857	385,472,857	93,362,779



IDG ENERGY INVESTMENT GROUP LIMITED
 ESCALATED PARAMETERS
 ESTIMATED FUTURE RESERVES AND INCOME
 ATTRIBUTABLE TO CERTAIN LEASEHOLD INTERESTS
 AS OF NOVEMBER 30, 2016

TABLE 4

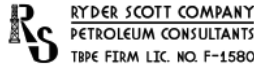
GRAND SUMMARY		REVENUE INTEREST						PRODUCT PRICES			TOTAL PROBABLE ALL CATEGORIES	
INITIAL FINAL REMARKS	Expense Interest	REVENUE INTEREST			PRODUCT PRICES			DISCOUNTED FUTURE NET INCOME - \$ COMPOUNDED MONTHLY				
		Oil/Condensate	Plant Products	Gas	Oil/Cond (\$/bbl)	Plt. Prod. (\$/bbl)	Gas (\$/Mcf)	5.00 %	25,908,082			
								7.50 %	21,542,050			
								10.00 %	18,495,368			
								12.00 %	16,645,410			
								15.00 %	14,500,684			

Year	Number of Wells	ESTIMATED 8/8THS PRODUCTION			COMPANY NET PRODUCTION			AVERAGE PRICES		
		Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	Oil/Cond. (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	Oil/Cond. (\$/bbl)	Plt. Prod. (\$/bbl)	Gas (\$/Mcf)
2016	0	11,994	1,934	21	3,616	583	5	40.73	13.68	0.54
2017	0	101,998	17,087	181	30,713	5,144	44	47.43	15.59	0.68
2018	0	151,344	27,568	293	37,609	7,008	60	61.79	19.70	0.58
2019	0	333,815	68,812	730	65,981	12,942	110	70.54	21.93	0.47
2020	0	256,878	53,019	563	56,632	11,247	96	80.18	24.76	0.57
2021	0	172,114	35,302	375	37,706	7,436	63	78.08	24.16	0.63
2022	0	132,534	27,105	288	29,044	5,711	49	76.98	23.85	0.69
2023	0	108,753	22,205	236	23,856	4,683	40	78.09	24.17	0.75
2024	0	92,670	18,904	201	20,348	3,990	34	76.29	23.66	0.82
2025	0	80,987	16,511	175	17,798	3,488	30	75.58	23.46	0.88
2026	0	72,080	14,690	156	15,851	3,105	27	77.23	23.93	0.95
2027	0	65,043	13,253	141	14,311	2,803	24	82.01	25.29	1.02
2028	0	59,332	12,088	128	13,060	2,557	22	84.43	25.98	1.09
2029	0	54,598	11,124	118	12,022	2,354	20	87.55	26.86	1.16
2030	0	50,605	10,310	109	11,146	2,182	19	93.38	28.52	1.23
Sub-Total		1,744,746	349,913	3,715	389,692	75,233	642	73.53	23.01	0.70
Remainder		849,255	173,559	1,842	188,380	36,883	315	110.56	33.38	1.45
Total Future		2,594,001	523,472	5,557	578,072	112,116	957	85.60	26.42	0.95
Cumulative Ultimate		38,264	0	66						
		2,632,265	523,472	5,623						

Year	COMPANY FUTURE GROSS REVENUE (FGR) - \$				PRODUCTION TAXES - \$			FGR AFTER PRODUCTION TAXES - \$	
	From Oil/Condensate	From Plant Products	From Gas	Other	Total	Oil/Condensate	Plant Prod./Other		Gas
2016	147,271	7,974	2,688	0	157,933	6,774	598	202	150,358
2017	1,456,718	80,203	29,988	0	1,566,909	67,009	6,015	2,249	1,491,636
2018	2,323,849	138,061	34,960	0	2,496,870	106,897	10,354	2,622	2,376,997
2019	4,654,275	283,847	51,566	0	4,989,689	214,097	21,291	3,867	4,750,434
2020	4,540,518	278,433	54,614	0	4,873,565	208,864	20,884	4,096	4,639,721
2021	2,943,915	179,660	39,909	0	3,163,485	135,420	13,474	2,993	3,011,597
2022	2,235,671	136,205	33,627	0	2,405,503	102,841	10,216	2,522	2,289,925
2023	1,862,859	113,180	30,012	0	2,006,051	85,692	8,489	2,251	1,909,620
2024	1,552,301	94,411	27,985	0	1,674,696	71,406	7,081	2,099	1,594,111
2025	1,345,090	81,828	26,267	0	1,453,185	61,874	6,137	1,970	1,383,204
2026	1,224,093	74,306	25,253	0	1,323,652	56,308	5,574	1,894	1,259,876
2027	1,173,587	70,877	24,480	0	1,268,944	53,985	5,316	1,836	1,207,807
2028	1,102,612	66,433	23,873	0	1,192,917	50,720	4,982	1,790	1,135,425
2029	1,052,490	63,236	23,387	0	1,139,113	48,415	4,742	1,754	1,084,202
2030	1,040,760	62,239	22,991	0	1,125,991	47,875	4,668	1,724	1,071,724
Sub-Total	28,656,008	1,730,895	451,601	0	30,838,503	1,318,176	129,818	33,870	29,356,638
Remainder	20,827,574	1,231,268	455,709	0	22,514,551	958,068	92,344	34,178	21,429,960
Total Future	49,483,582	2,962,163	907,309	0	53,353,054	2,276,245	222,162	68,048	50,786,598

Year	DEDUCTIONS - \$					FUTURE NET INCOME BEFORE TAXES - \$		
	Operating Costs	Ad Valorem Taxes	Development Costs	Other	Total	Undiscounted		Discounted @ 10.00 %
						Annual	Cumulative	
2016	0	3,759	0	16,118	19,877	130,482	130,482	129,964
2017	0	37,291	0	138,242	175,533	1,316,102	1,446,584	1,247,828
2018	0	59,425	0	172,762	232,187	2,144,810	3,591,393	1,835,542
2019	0	118,761	0	305,148	423,909	4,326,525	7,917,918	3,369,114
2020	0	115,993	0	266,567	382,560	4,257,162	12,175,080	3,039,411
2021	0	75,290	0	181,288	256,578	2,755,019	14,930,100	1,784,928
2022	0	57,248	0	142,538	199,786	2,090,140	17,020,240	1,230,231
2023	0	47,741	0	119,476	167,217	1,742,404	18,762,644	931,982
2024	0	39,853	0	103,978	143,831	1,450,280	20,212,924	705,044
2025	0	34,580	0	92,785	127,365	1,255,839	21,468,763	554,924
2026	0	31,497	0	84,302	115,799	1,144,078	22,612,840	459,525
2027	0	30,195	0	77,646	107,841	1,099,966	23,712,806	401,606
2028	0	28,386	0	72,285	100,671	1,034,754	24,747,560	343,425
2029	0	27,105	0	67,878	94,983	989,219	25,736,779	298,448
2030	0	26,793	0	64,194	90,988	980,736	26,717,515	268,976
Sub-Total	0	733,916	0	1,905,209	2,639,125	26,717,515		16,600,948
Remainder	2,459,537	535,749	0	1,147,161	4,142,447	17,287,513	44,005,028	1,894,418
Total Future	2,459,537	1,269,665	0	3,052,370	6,781,571	44,005,028		18,495,366

Life of summary is: 50.00 years.



IDG ENERGY INVESTMENT GROUP LIMITED
 ESCALATED PARAMETERS
 ESTIMATED FUTURE RESERVES AND INCOME
 ATTRIBUTABLE TO CERTAIN LEASEHOLD INTERESTS
 AS OF NOVEMBER 30, 2016

TABLE 5

GRAND SUMMARY

INITIAL FINAL REMARKS	REVENUE INTEREST			PRODUCT PRICES			PROBABLE PRODUCING		
	Expense Interest	Oil/Condensate	Plant Products	Gas	Oil/Cond (\$/bbl)	Plt. Prod. (\$/bbl)	Gas (\$/Mcf)	DISCOUNTED FUTURE NET INCOME - \$ COMPOUNDED MONTHLY	
								5.00 %	5,809,663
								7.50 %	4,935,060
								10.00 %	4,336,969
								12.00 %	3,979,111
								15.00 %	3,569,332

Year	Number of Wells	ESTIMATED 8/8THS PRODUCTION			COMPANY NET PRODUCTION			AVERAGE PRICES		
		Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	Oil/Cond. (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	Oil/Cond. (\$/bbl)	Plt Prod. (\$/bbl)	Gas (\$/Mcf)
2016	0	11,994	1,934	21	3,616	583	5	40.73	13.68	0.54
2017	0	83,371	13,445	143	25,140	4,054	35	47.43	15.59	0.70
2018	0	44,540	7,183	76	13,433	2,166	18	61.79	19.70	0.62
2019	0	31,090	5,014	53	9,377	1,512	13	70.56	22.21	0.59
2020	0	24,077	3,883	41	7,262	1,171	10	80.19	24.97	0.64
2021	0	19,733	3,182	34	5,952	960	8	78.09	24.36	0.70
2022	0	16,764	2,704	29	5,056	815	7	76.99	24.05	0.76
2023	0	14,601	2,355	25	4,404	710	6	78.10	24.37	0.82
2024	0	12,951	2,089	22	3,906	630	5	76.30	23.85	0.89
2025	0	11,649	1,879	20	3,514	567	5	75.59	23.65	0.95
2026	0	10,595	1,709	18	3,196	515	4	77.24	24.12	1.02
2027	0	9,722	1,568	17	2,932	473	4	82.02	25.49	1.09
2028	0	8,988	1,450	15	2,711	437	4	84.44	26.18	1.16
2029	0	8,361	1,348	14	2,522	407	3	87.56	27.07	1.23
2030	0	7,820	1,261	13	2,359	380	3	93.39	28.74	1.30
Sub-Total		316,255	51,003	541	95,379	15,382	131	66.39	21.02	0.76
Remainder		125,315	20,210	215	37,796	6,095	52	110.48	33.63	1.52
Total Future		441,571	71,212	756	133,175	21,477	183	78.91	24.60	0.97
Cumulative		38,264	0	66						
Ultimate		479,835	71,212	821						

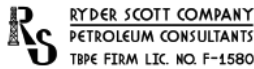
Year	COMPANY FUTURE GROSS REVENUE (FGR) - \$				Total	PRODUCTION TAXES - \$			FGR AFTER PRODUCTION TAXES - \$
	From Oil/Condensate	From Plant Products	From Gas	Other		Oil/Condensate	Plant Prod./Other	Gas	
2016	147,271	7,974	2,688	0	157,933	6,774	598	202	150,358
2017	1,192,398	63,217	24,051	0	1,279,666	54,850	4,741	1,804	1,218,271
2018	830,034	42,679	11,447	0	884,160	38,182	3,201	858	841,918
2019	661,648	33,587	7,621	0	702,856	30,436	2,520	572	669,329
2020	582,327	29,237	6,397	0	617,961	26,787	2,193	480	588,502
2021	464,766	23,386	5,735	0	493,886	21,379	1,754	430	470,323
2022	389,286	19,611	5,289	0	414,187	17,907	1,471	397	394,412
2023	343,939	17,306	4,971	0	366,216	15,821	1,298	373	348,724
2024	298,044	15,026	4,785	0	317,855	13,710	1,127	359	302,659
2025	265,592	13,400	4,594	0	283,587	12,217	1,005	345	270,020
2026	246,824	12,431	4,486	0	263,742	11,354	932	336	251,119
2027	240,520	12,054	4,400	0	256,974	11,064	904	330	244,676
2028	228,920	11,447	4,329	0	244,695	10,530	859	325	232,982
2029	220,826	11,011	4,270	0	236,108	10,158	826	320	224,804
2030	220,274	10,933	4,221	0	235,427	10,133	820	317	224,158
Sub-Total	6,332,669	323,299	99,283	0	6,755,251	291,303	24,248	7,446	6,432,254
Remainder	4,175,638	204,991	78,879	0	4,459,508	192,079	15,374	5,916	4,246,139
Total Future	10,508,307	528,290	178,161	0	11,214,758	483,382	39,622	13,362	10,678,392

Year	DEDUCTIONS - \$					FUTURE NET INCOME BEFORE TAXES - \$		
	Operating Costs	Ad Valorem Taxes	Development Costs		Other	Undiscounted		Discounted @ 10.00 %
			Costs	Other		Annual	Cumulative	
2016	0	3,759	0	16,118	19,877	130,482	130,482	129,964
2017	0	30,457	0	113,187	143,644	1,074,627	1,205,109	1,023,887
2018	0	21,048	0	61,689	82,737	759,181	1,964,290	655,362
2019	0	16,733	0	43,924	60,657	608,672	2,572,962	477,126
2020	0	14,713	0	34,696	49,408	539,093	3,112,055	383,938
2021	0	11,758	0	29,005	40,763	429,560	3,541,615	278,023
2022	0	9,860	0	25,134	34,995	359,418	3,901,033	211,428
2023	0	8,718	0	22,329	31,047	317,677	4,218,710	169,858
2024	0	7,566	0	20,202	27,768	274,891	4,493,601	133,602
2025	0	6,751	0	18,534	25,285	244,735	4,738,336	108,122
2026	0	6,278	0	17,194	23,472	227,647	4,965,983	91,423
2027	0	6,117	0	16,094	22,211	222,465	5,188,448	81,214
2028	0	5,825	0	15,176	21,001	211,981	5,400,429	70,348
2029	0	5,620	0	14,400	20,021	204,783	5,605,212	61,778
2030	0	5,604	0	13,737	19,341	204,817	5,810,028	56,169
Sub-Total	0	160,806	0	461,418	622,225	5,810,028		3,932,243
Remainder	110,972	106,153	0	232,818	449,943	3,796,195	9,606,224	404,725
Total Future	110,972	266,960	0	694,236	1,072,168	9,606,224		4,336,968

Life of summary is: 50.00 years.

APPENDIX VI

VALUATION REPORT



IDG ENERGY INVESTMENT GROUP LIMITED
 ESCALATED PARAMETERS
 ESTIMATED FUTURE RESERVES AND INCOME
 ATTRIBUTABLE TO CERTAIN LEASEHOLD INTERESTS
 AS OF NOVEMBER 30, 2016

TABLE 6

GRAND SUMMARY		REVENUE INTEREST						PRODUCT PRICES			PROBABLE UNDEVELOPED	
INITIAL FINAL REMARKS	Expense Interest	REVENUE INTEREST			PRODUCT PRICES			DISCOUNTED FUTURE NET INCOME - \$ COMPOUNDED MONTHLY				
		Oil/Condensate	Plant Products	Gas	Oil/Cond (\$/bbl)	Plt. Prod. (\$/bbl)	Gas (\$/Mcf)	5.00%	20,098,419			
								7.50%	16,606,990			
								10.00%	14,158,399			
								12.00%	12,666,299			
								15.00%	10,931,352			

Year	Number of Wells	ESTIMATED 8/8THS PRODUCTION			COMPANY NET PRODUCTION			AVERAGE PRICES		
		Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	Oil/Cond. (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	Oil/Cond. (\$/bbl)	Plt. Prod. (\$/bbl)	Gas (\$/Mcf)
2016	0	0	0	0	0	0	0	0.00	0.00	0.00
2017	0	18,627	3,642	39	5,573	1,089	9	47.43	15.59	0.64
2018	0	106,804	20,385	216	24,176	4,842	41	61.79	19.70	0.57
2019	0	302,725	63,798	677	56,604	11,429	98	70.54	21.90	0.45
2020	0	232,802	49,136	522	49,370	10,076	86	80.17	24.73	0.56
2021	0	152,381	32,120	341	31,754	6,476	55	78.07	24.13	0.62
2022	0	115,771	24,401	259	23,987	4,895	42	76.97	23.82	0.68
2023	0	94,152	19,851	211	19,453	3,973	34	78.08	24.13	0.74
2024	0	79,719	16,815	179	16,442	3,360	29	76.28	23.62	0.81
2025	0	69,339	14,632	155	14,284	2,921	25	75.57	23.42	0.87
2026	0	61,485	12,981	138	12,655	2,590	22	77.22	23.89	0.94
2027	0	55,321	11,685	124	11,378	2,330	20	82.00	25.25	1.01
2028	0	50,344	10,639	113	10,349	2,120	18	84.42	25.93	1.08
2029	0	46,237	9,775	104	9,500	1,947	17	87.54	26.82	1.15
2030	0	42,785	9,049	96	8,787	1,802	15	93.37	28.47	1.22
Sub-Total		1,428,491	298,910	3,173	294,313	59,851	511	75.85	23.52	0.69
Remainder		723,940	153,349	1,628	150,584	30,788	263	110.58	33.33	1.43
Total Future		2,152,431	452,259	4,801	444,897	90,638	774	87.61	26.85	0.94
Cumulative Ultimate		0	0	0						

Year	COMPANY FUTURE GROSS REVENUE (FGR) - \$					PRODUCTION TAXES - \$			FGR AFTER PRODUCTION TAXES - \$
	From Oil/Condensate	From Plant Products	From Gas	Other	Total	Oil/Condensate	Plant Prod./Other	Gas	
2016	0	0	0	0	0	0	0	0	0
2017	264,320	16,985	5,937	0	287,242	12,159	1,274	445	273,364
2018	1,493,815	95,382	23,513	0	1,612,710	68,716	7,152	1,763	1,535,079
2019	3,992,627	250,260	43,946	0	4,286,833	183,661	18,771	3,296	4,081,105
2020	3,958,191	249,196	48,217	0	4,255,604	182,077	18,691	3,616	4,051,220
2021	2,479,149	156,275	34,175	0	2,669,598	114,041	11,720	2,563	2,541,274
2022	1,846,385	116,594	28,337	0	1,991,317	84,934	8,745	2,125	1,895,513
2023	1,518,919	95,875	25,042	0	1,639,836	69,870	7,191	1,878	1,560,897
2024	1,254,257	79,385	23,199	0	1,356,842	57,696	5,954	1,740	1,291,452
2025	1,079,498	68,428	21,673	0	1,169,598	49,657	5,131	1,625	1,113,184
2026	977,268	61,875	20,767	0	1,059,911	44,954	4,641	1,558	1,008,757
2027	933,067	58,823	20,080	0	1,011,971	42,921	4,412	1,506	963,132
2028	873,692	54,986	19,544	0	948,222	40,190	4,123	1,466	902,443
2029	831,664	52,224	19,117	0	903,005	38,257	3,916	1,434	859,399
2030	820,486	51,307	18,771	0	890,564	37,742	3,848	1,408	847,566
Sub-Total	22,323,339	1,407,596	352,318	0	24,083,252	1,026,874	105,570	26,424	22,924,385
Remainder	16,651,936	1,026,277	376,830	0	18,055,043	765,989	76,970	28,262	17,183,821
Total Future	38,975,275	2,433,872	729,148	0	42,138,295	1,792,863	182,540	54,686	40,108,206

Year	DEDUCTIONS - \$					FUTURE NET INCOME BEFORE TAXES - \$		
	Operating Costs	Ad Valorem Taxes	Development Costs	Other	Total	Undiscounted		Discounted @ 10.00%
						Annual	Cumulative	
2016	0	0	0	0	0	0	0	0
2017	0	6,834	0	25,055	31,889	241,475	241,475	223,941
2018	0	38,377	0	111,073	149,450	1,385,628	1,627,103	1,180,180
2019	0	102,028	0	261,224	363,252	3,717,853	5,344,956	2,891,988
2020	0	101,281	0	231,871	333,152	3,718,069	9,063,025	2,655,474
2021	0	63,532	0	152,284	215,816	2,325,459	11,388,484	1,506,906
2022	0	47,388	0	117,404	164,792	1,730,723	13,119,207	1,018,802
2023	0	39,022	0	97,148	136,170	1,424,726	14,543,933	762,125
2024	0	32,286	0	83,776	116,063	1,175,389	15,719,323	571,442
2025	0	27,830	0	74,251	102,080	1,011,104	16,730,427	446,802
2026	0	25,219	0	67,108	92,327	916,431	17,646,857	368,103
2027	0	24,078	0	61,552	85,631	877,501	18,524,358	320,391
2028	0	22,561	0	57,109	79,670	822,773	19,347,131	273,077
2029	0	21,485	0	53,477	74,962	784,436	20,131,567	236,669
2030	0	21,189	0	50,457	71,647	775,920	20,907,487	212,806
Sub-Total	0	573,110	0	1,443,790	2,016,900	20,907,487		12,668,705
Remainder	2,348,565	429,596	0	914,344	3,692,504	13,491,317	34,398,804	1,489,693
Total Future	2,348,564	1,002,705	0	2,358,134	5,709,404	34,398,804		14,158,398

Life of summary is: 50.00 years.

Fair Market Value Determination

To determine FMV, Ryder Scott applied the General Reserve Adjustment Factor (RAFTs) published by Society of Petroleum Evaluation Engineers SPEE 2016 survey to the various reserve classes and categories in this report. For the SPEE survey, eighty-eight (88) respondents provided RAFTs for general areas to estimate a representative discounted basis to capture the recent merger and acquisition of oilfield assets.

	Producing	Shut-in	Behind-Pipe	Undeveloped
Proved	0.956	0.820	0.747	0.586
Probable	0.472	0.394	0.361	0.321

The application of the RAFTs to the proved-plus-probable cashflow yielded the following valuations at various discount rates:

Discount Rate, %	Cashflow FNI w/RAFT, M\$
5	438,043
7.5	361,070
10	305,996
12	272,267
15	233,226
18	203,690
20	187,726
22	174,026
25	156,790
30	134,506

Given the relatively low risk of assets within the United States and the high proportion of value derived from producing reserves, Ryder Scott elected to use a 10% discount rate for the RAFT-adjusted cashflow. We estimate the FMV of the subject properties' reserves, well and lease equipment, and leasehold rights in the subject properties to be \$306 million. This value represents our best estimate of the price a willing buyer would pay for the properties based upon our analysis of the reserves and future net income, before income taxes, attributable to the properties as set forth in our report entitled "IDG Energy Investment Group Limited, Estimated Future Reserves and Income Attributable to Certain Leasehold Interests" Dated November 30, 2016.

Future Variances from Estimated FMV

The FMV represents a value that is reasonable for the assets as defined in this evaluation. However, future variations in value may arise from changes in:

- Hydrocarbon prices

- Development plans
- Reserves estimates based on performance
- Operating and capital costs
- Government regulations

Risks

Hydrocarbon reserves assessment and valuation has inherent associated risks due to indirect measurement of the quantities and qualities of the reserves and resources. Among the primary uncertainties in a determination of value are:

Geological uncertainty. Typically, wellbore measurements are made to help quantify the various reservoir rock properties. In a shale play such as the Eagle Ford there is reasonable certainty of the continuity of the formation based on significant production in and around the asset area.

Long-term production behavior. Generally, the more historic production data available the better the understanding of the long-term production decline trends. In the case of this asset some wells have been on production since 2010.

Processing of hydrocarbon products. Processing in the United States in an established play such as the Eagle Ford does not have a great deal of uncertainty.

Marketing. Hydrocarbons are in high demand in the United States for the foreseeable future.

Country risk. The United States is generally considered low risk and thus no additional country risk was considered in this valuation.

Operator Capability. IDG Energy has confirmed that the project of the subject properties in the Eagle Ford region is expected to continue to be run by members of the team of experienced professionals with significant experience in oil field development and production projects inherited from Stonegate Production Company LLC, who has been responsible for developing this property. Their direct experience in the area and their knowledge of best operational practices and technologies has been important to the project's successful development to date.

Oil in place and recovery. All available methods of geological and petrophysical analysis as well as performance analysis have been incorporated in the interpretation prepared by Ryder Scott. These performance methods include, but may not be limited to, decline curve analysis which utilized extrapolations of historical production and pressure data available through July 2016, in those cases where such data were considered to be definitive.

Social and Environment Liabilities. Ryder Scott is unaware of any material social or environmental issues with respect to IDG Energy's interests. The estimates of reserves presented herein were based upon a detailed study of the properties in which IDG Energy

derives an interest. We have not identified any major hazards during field examination of the properties. No consideration was given in this report to potential environmental liabilities that may exist nor were any costs included for potential liability to restore and clean up damages, if any, caused by past operating practices.

This report has been prepared for the exclusive use of IDG Energy and no part of this report shall be reproduced distributed or made available to any other person, company, regulatory body or organization without the knowledge and consent of the author. Ryder Scott consents to the reproduction of its report in the Company's circular and allowing public inspection of the report.

Standards of Independence and Professional Qualification

This report relied on and incorporated data supplied by IDG Energy as described in the Executive Summary. We consider the data used in this report appropriate and sufficient for the preparation of the estimates of reserves and future net reserves here in. The reserves are supported by detailed Geologic and Engineering analysis and incorporate such data presented by IDG Energy.

Ryder Scott is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world since 1937. Ryder Scott is employee-owned and maintains offices in Houston, Texas; Denver, Colorado; and Calgary, Alberta, Canada. We have over eighty engineers and geoscientists on our permanent staff. By virtue of the size of our firm and the large number of clients for which we provide services, no single client or job represents a material portion of our annual revenue. We do not serve as officers or directors of any privately-owned or publicly-traded oil and gas company and are separate and independent from the operating and investment decision-making process of our clients. This allows us to bring the highest level of independence and objectivity to each engagement for our services.

Ryder Scott actively participates in industry related professional societies and organizes an annual public forum focused on the subject of reserves evaluations and Securities and Exchange Commission (SEC) regulations. Many of our staff have authored or co-authored technical papers on the subject of reserves related topics. We encourage our staff to maintain and enhance their professional skills by actively participating in ongoing continuing education.

Prior to becoming an officer of Ryder Scott, Ryder Scott requires that staff engineers and geoscientists have received professional accreditation in the form of a registered or certified professional engineer's license or a registered or certified professional geoscientist's license, or the equivalent thereof, from an appropriate governmental authority or a recognized self-regulating professional organization.

We are independent petroleum engineers with respect to IDG Energy, its directors and its advisors in respect of the proposed acquisition of the subject properties. Neither we nor any of our employees have any financial interest in the subject properties and neither the employment to do this work nor the compensation is contingent on our estimates of reserves and resources for the properties which were reviewed.

IDG Energy has informed us that they have furnished us with all of the material accounts, records, geological and engineering data, and reports and other data required for this investigation. In preparing our forecasts of future production and income, we have relied upon data furnished by IDG Energy with respect to property interests owned, production and well tests from examined wells, normal direct costs of operating the wells or leases, other costs such as transportation and/or processing fees, ad valorem and production taxes, recompletion and development costs, development plans, abandonment costs after salvage, product prices, geological structural and isochore maps, well logs, core analyses, and pressure measurements. Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data supplied by IDG Energy.

In summary, we consider the assumptions, data, methods and analytical procedures used in this report appropriate for the purpose hereof, and we have used all such methods and procedures that we consider necessary and appropriate to prepare the estimates of reserves herein.

IDG Energy has entered into an indemnification agreement with Ryder Scott. The indemnification is typical for the industry, and does not include indemnification for fraud or gross negligence.

The effective date of the estimates provided within this report is November 30, 2016. These estimates were based upon data available through July 31, 2016.

The professional qualifications of the undersigned, the technical persons primarily responsible for reviewing and approving the reserves information discussed in this report, are included below.

The results of this study, presented herein, are based on technical analysis conducted by teams of geoscientists and engineers from Ryder Scott. The professional qualifications of the undersigned, the technical persons primarily responsible for overseeing, reviewing and approving the evaluation of the reserves information discussed in this report, are included below.

Professional Qualifications of Primary Technical Person — Mr. Don P. Roesle

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Don P. Roesle was the primary technical person responsible for overseeing the estimate of the reserves, future production and income presented herein.

Mr. Roesle, an employee of Ryder Scott Company, L.P. (Ryder Scott) since 1975, is Chairman of the Board and Chief Executive Officer responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Roesle served in a number of engineering positions with Tenneco Oil Company. For more information regarding Mr. Roesle's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com/Company/Employees.

Mr. Roesle graduated from the University of Texas at Austin with a Bachelor of Science and Master of Science degrees in Petroleum Engineering in 1972 and is a licensed Professional Engineer in the State of Texas. He is also a member of the Society of Petroleum Engineers, the Society of Petroleum Evaluation Engineers and the Engineering Advisory Board for the College of Engineering at the University of Texas at Austin.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Roesle fulfills. As part of his continuing education hours, Mr. Roesle attends both internal Ryder Scott formalized training and professional society presentations related to the definitions and disclosure guidelines contained in the United States Securities and Exchange Commission Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register and training on the application of the SPE/WPC/AAPG/SPEE Petroleum Resources Management System. This formalized training includes the annual Ryder Scott Company Reserves Conference which covers such topics as reservoir engineering, geoscience and petroleum economics evaluation methods, procedures and software and ethics for consultants. In addition to his attendance at industry training events, Mr. Roesle has served as a public speaker at these events discussing issues related to reserve definitions and reserve certifications.

Based on his educational background, professional training and 40 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Roesle has attained the professional qualifications as a Reserves Estimator and Reserves Auditor as set forth in Article III of the “Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information” promulgated by the Society of Petroleum Engineers as of February 19, 2007.

Professional Qualifications of Primary Technical Person — Mr. Eric T. Nelson

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Mr. Eric T. Nelson is the primary technical person responsible for the estimate of the reserves, future production and income.

Mr. Nelson, an employee of Ryder Scott Company, L.P. (Ryder Scott) since 2005, is a Managing Senior Vice President responsible for ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Nelson served in a number of engineering positions with Exxon Mobil Corporation. For more information regarding Mr. Nelson’s geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com/Company/Employees.

Mr. Nelson earned a Bachelor of Science degree in Chemical Engineering from the University of Tulsa in 2002 (summa cum laude) and a Master of Business Administration from the University of Texas in 2007 (Dean’s Award). He is a licensed Professional Engineer in the State of Texas. Mr. Nelson is also a member of the Society of Petroleum Engineers.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of 15 hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Nelson fulfills. As part of his 2015 continuing education hours, Mr. Nelson attended over 20 hours of training during 2015 covering such topics as updates concerning the implementation of the latest SEC oil and gas reporting requirements, evaluations of resource play reserves, evaluation of simulation models, procedures and software, and ethics training.

Based on his educational background, professional training and more than 10 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Nelson has attained the professional qualifications as a Reserves Estimator set forth in Article III of the “Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information” promulgated by the Society of Petroleum Engineers as of February 19, 2007.

Professional Qualifications of Primary Technical Person — Dr. He Zhang

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Dr. He Zhang is one of the primary technical persons responsible for the estimate of the reserves, future production and income.

Dr. Zhang, an employee of Ryder Scott Company, L.P. (Ryder Scott) since 2012, is a Senior Petroleum Engineer responsible for ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Dr. Zhang served in a number of engineering positions with Schlumberger Limited since 2007. For more information regarding Dr. Zhang’s geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com/Company/Employees.

Dr. Zhang earned dual Bachelor degrees in Computer Application and Polymer Chemistry from the University of Science and Technology of China in 2002 and 2003, respectively, and a doctorate degree in petroleum engineering from Texas A&M University in 2010. He is a licensed Professional Engineer in the State of Texas. He is also a member of the Society of Petroleum Evaluation Engineers (SPEE) and a Certified Petroleum Engineer of the Society of Petroleum Engineers (SPE). Dr. Zhang is currently also an adjunct in teaching petroleum engineering courses at Univ. of Houston — Victoria, and has co-authored over 40 technical papers on various petroleum engineering subjects.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of 15 hours of continuing education annually, including at least one hour in the area of professional ethics, which Dr. Zhang fulfills. As part of his 2016 continuing education hours, Dr. Zhang attended over 20 hours of training during 2016 covering such topics as updates concerning the implementation of the latest SEC oil and gas reporting requirements, evaluations of resource play reserves, evaluation of simulation models, procedures and software, and ethics training.

Based on his educational background, professional training and 5 years of practical experience in the estimation and evaluation of petroleum reserves, Dr. Zhang has attained the professional qualifications as a Reserves Estimator set forth in Article III of the “Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information” promulgated by the Society of Petroleum Engineers as of February 19, 2007.

According to 25.3.i, this report includes the abbreviated definition of the categories of Reserves and Resources used in this Competent Person’s Report below. A comprehensive petroleum reserves and resources classification and definitions of 2007 Petroleum Resources Management System (SPE-PRMS) is included at the end of this report.

Very truly yours,

RYDER SCOTT COMPANY, L.P.

TBPE Firm Registration No. F-1580

Don P. Roesle

Don P. Roesle, P.E.

TBPE License No. 56406

Chairman and CEO

Eric T. Nelson

Eric T. Nelson, P.E.

TBPE License No. 102286

Managing Senior Vice President

He Zhang

He Zhang, P.E.

TBPE License No. 118807

Senior Petroleum Engineer

DPR-ETN-HZ/pl

PETROLEUM RESERVES AND RESOURCES CLASSIFICATION AND DEFINITIONS

As Adapted From:
2007 PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)¹
Sponsored by:
SOCIETY OF PETROLEUM ENGINEERS (SPE),
WORLD PETROLEUM CONGRESS (WPC)
AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)
AND
SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)

Reserve and resource classification systems are intended to allow the evaluator to follow the progression of changes in the exploration and production life cycle of a reservoir, field, or project that arise as a result of obtaining more technical information or as a result of a change in the economic status. Most systems incorporate terminology to describe the progression of a project from the delineation of an initial prospect, to the confirmation of the prospect through exploration drilling, onto the appraisal and development phase, and finally from initial production through depletion. These reserve and resource definitions thus provide the decision making framework to manage risk and uncertainty through the classification and categorization of the recoverable hydrocarbon volumes.

The term “resources” is generally applied to “all quantities of petroleum (recoverable and unrecoverable) naturally occurring on or within the Earth’s crust, discovered and undiscovered, plus those quantities already produced”.

The term “reserves” is a subset of resources generally applied to the discovered “quantities of petroleum anticipated to be commercially recoverable from known accumulations from a given date forward under defined conditions”.

All reserve and resource estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. Estimates will generally be revised as additional geologic or engineering data becomes available or as economic conditions change.

Estimation of reserves and resources is done under conditions of uncertainty. The method of estimation is called deterministic if a single best estimate of reserves and resources is made based on known geological, engineering, and economic data. The method of estimation is called probabilistic when the known geological, engineering, and economic data are used to generate a range of estimates and their associated probabilities. Because of the differences in uncertainty, caution should be exercised when aggregating quantities of petroleum from different reserves and/or resource classifications.

Reserves and resources may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

Reserves and resources may be attributed to either conventional or unconventional petroleum accumulations under the SPE-PRMS. Petroleum accumulations are considered as either conventional or unconventional based on the nature of their in-place characteristics, extraction method applied, or degree of processing prior to sale. Examples of unconventional petroleum accumulations include coalbed or coalseam methane (CBM/CSM), basin-centered gas, shale gas, gas hydrates, natural bitumen and oil shale deposits. These unconventional accumulations may require specialized extraction technology and/or significant processing prior to sale. The SPE-PRMS acknowledges unconventional petroleum accumulations as reserves and resources regardless of their in-place characteristics, the extraction method applied, or the degree of processing required.

Reserves and resources do not include quantities of petroleum being held in inventory and may be reduced for usage, processing losses and/or non-hydrocarbons that must be removed prior to sale.

SPE-PRMS

In March 2007, the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) jointly approved the “Petroleum Resources Management System” (SPE-PRMS). The SPE-PRMS consolidates, builds on, and replaces guidance previously contained in the 2000 “Petroleum Resources Classification and Definitions” and the 2001 “Guidelines for the Evaluation of Petroleum Reserves and Resources” publications.

Reference should be made to the full SPE-PRMS for the complete definitions and guidelines as the following definitions, descriptions and explanations rely wholly or in part on excerpts from the SPE-PRMS document (passages excerpted in their entirety from the SPE-PRMS document are denoted in italics herein). For convenience, Table 1: “Recoverable Resources Classes and Sub-Classes” from the SPE-PRMS has been reproduced in full and included as an attachment to this document.

The SPE-PRMS incorporates the petroleum initially-in-place as well as the recoverable and unrecoverable petroleum quantities into a common resource classification framework. *Petroleum is defined as a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid, or solid phase.*

The SPE-PRMS defines the major resources classes: Production, Reserves, Contingent Resources, and Prospective Resources, as well as Unrecoverable petroleum. The basic classification scheme requires establishment of criteria for a petroleum discovery and thereafter the distinction between commercial (Reserves) and sub-commercial projects (Contingent Resources) in known accumulations. Under this classification scheme, estimated recoverable quantities from accumulations that have yet to be discovered are termed Prospective Resources. Further, the SPE-PRMS includes all types of petroleum whether currently considered “conventional” or “unconventional”.

Figure 1 shown at the end of this document is a graphical representation of the SPE, WPC, AAPG and SPEE resources classification system. The SPE-PRMS “classifies” reserves and resources according to project maturity and increasing chance of commerciality (vertical

axis) and “categorizes” reserves and resources according to the *range of uncertainty* (horizontal axis) *of the estimated quantities potentially recoverable from an accumulation by a project*. The following definitions apply to the major subdivisions within the resources classification:

Resources Classification (SPE-PRMS)

Recoverable petroleum resources as described herein may be classified into one of three principal resource classifications: Prospective Resources, Contingent Resources, or Reserves. The distinction between Prospective and Contingent Resources depends on whether or not there exists one or more wells and other data indicating the potential for moveable hydrocarbons (e.g. the discovery status). Discovered petroleum resources may be classified as either Contingent Resources or as Reserves depending on the chance that if a project is implemented it will reach commercial producing status (e.g. chance of commerciality). The distinction between various “classifications” of Resources and Reserves relates to their discovery status and increasing chance of commerciality as described herein.

The SPE-PRMS Section 1.1 and Appendix A define the following terms:

Total Petroleum-initially-in-place

Total Petroleum-Initially-in-Place is that quantity of petroleum which is estimated to exist originally in naturally occurring accumulations. Total Petroleum-Initially-in-Place is, therefore, that quantity of petroleum which is estimated, as of a given date, to be contained in known accumulations, plus those quantities already produced therefrom, plus those estimated quantities in accumulations yet to be discovered.

Total Petroleum-Initially-in-Place may be subdivided into Discovered Petroleum-Initially-in-Place and Undiscovered Petroleum-Initially-in-Place, with Discovered Petroleum-Initially-in-Place being limited to known accumulations.

It is recognized that not all of the Petroleum-Initially-in-Place quantities may constitute potentially recoverable resources since the estimation of the proportion which may be recoverable can be subject to significant uncertainty and will change with variations in commercial circumstances, technological developments and data availability.

Given the aforementioned constraints, a portion of the Petroleum-Initially-in-Place may need to be classified as Unrecoverable.

Discovered Petroleum-initially-in-place

Discovered Petroleum-Initially-in-Place is that quantity of petroleum which is estimated, as of a given date, to be contained in known accumulations prior to production.

Discovered Petroleum-Initially-in-Place may be subdivided into Commercial and Sub-commercial categories, with the estimated potentially recoverable portion being classified as Reserves and Contingent Resources respectively, as defined below.

Known Accumulation

The SPE-PRMS defines an accumulation as *an individual body of petroleum-in-place*. For an accumulation to be considered as “known”, it must have been discovered. A discovery is defined as *one petroleum accumulation or several petroleum accumulations collectively, which have been penetrated by one or several exploratory wells which have established through testing, sampling, and/or logging the existence of a significant quantity of potentially moveable hydrocarbons*. The SPE-PRMS states in this context, “significant” implies that there is evidence of a sufficient quantity of petroleum to justify estimating the in-place volume demonstrated by the well(s) and for evaluating the potential for economic recovery. Known accumulations may contain Reserves and/or Contingent Resources.

Reserves

Reserves are defined as those quantities of petroleum which are anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy the following criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied.

Reserves are categorized in accordance with the level of certainty associated with the estimates (horizontal axis shown in Figure 1) and may be further sub-classified based on project maturity and/or characterized by development and production status (Refer to Figure 2 at the end of this document). Reference should be made to the full SPE-PRMS for the complete definitions and guidelines.

Additional Terms used In Reserves Evaluations (SPE-PRMS Definitions)

The SPE-PRMS Sections 2.3, 2.3.4, 2.4 and Appendix A define the following terms as follows:

Improved recovery. *Improved Recovery is the extraction of additional petroleum, beyond Primary Recovery, from naturally occurring reservoirs by supplementing the natural forces in the reservoir. It includes waterflooding and gas injection for pressure maintenance, secondary processes, tertiary processes and any other means of supplementing natural reservoir recovery processes. Improved recovery also includes thermal and chemical processes to improve the in-situ mobility of viscous forms of petroleum. (Also called Enhanced Recovery.)*

Improved recovery projects must meet the same Reserves commerciality criteria as primary recovery projects. There should be an expectation that the project will be economic and that the entity has committed to implement the project in a reasonable time frame (generally within 5 years; further delays should be clearly justified). If there is significant project risk, forecast incremental recoveries may be similarly categorized but should be classified as Contingent Resources.

The judgment on commerciality is based on pilot testing within the subject reservoir or by comparison to a reservoir with analogous rock and fluid properties and where a similar established improved recovery project has been successfully applied.

Incremental recoveries through improved recovery methods that have yet to be established through routine, commercially successful applications are included as Reserves only after a favorable production response from the subject reservoir from either (a) a representative pilot or (b) an installed program, where the response provides support for the analysis on which the project is based.

Similar to improved recovery projects applied to conventional reservoirs, successful pilots or operating projects in the subject reservoir or successful projects in analogous reservoirs may be required to establish a distribution of recovery efficiencies for non-conventional accumulations. Such pilot projects may evaluate both the extraction efficiency and the efficiency of unconventional processing facilities to derive sales products prior to custody transfer.

These incremental recoveries in commercial projects are categorized into Proved, Probable, and Possible Reserves based on certainty derived from engineering analysis and analogous applications in similar reservoirs.

Commercial. *When a project is commercial, this implies that the essential social, environmental and economic conditions are met, including political, legal, regulatory and contractual conditions. In addition, a project is commercial if the degree of commitment is such that the accumulation is expected to be developed and placed on production within a reasonable time frame. While 5 years is recommended as a benchmark, a longer time frame could be applied where for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.*

Proved Reserves (SPE-PRMS Definitions)

The SPE-PRMS Section 2.2.2 and Table 3 define proved oil and gas reserves as follows:

Proved oil and gas reserves. *Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.*

The area of the reservoir considered as Proved includes:

- (1) the area delineated by drilling and defined by fluid contacts, if any, and*
- (2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.*

In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see “2001 Supplemental Guidelines”, Chapter 8).

Reserves in undeveloped locations may be classified as Proved provided that:

- *The locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive.*
- *Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with the drilled Proved locations.*

For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.

Unproved Reserves (SPE-PRMS Definitions)

The SPE-PRMS Section 2.2.2 and Appendix A define unproved oil and gas reserves as follows:

***Unproved oil and gas reserves.** Unproved Reserves are based on geoscience and/or engineering data similar to that used in estimates of Proved Reserves, but technical or other uncertainties preclude such reserves being classified as Proved. Unproved Reserves may be further categorized as Probable Reserves or Possible Reserves. Based on additional data and updated interpretations that indicate increased certainty, portions of Possible and Probable Reserves may be re-categorized as Probable and Proved Reserves.*

Probable Reserves (SPE-PRMS Definitions)

The SPE-PRMS Section 2.2.2 and Table 3 define probable oil and gas reserves as follows:

***Probable oil and gas reserves.** Probable Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.*

Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.

Possible Reserves (SPE-PRMS Definitions)

The SPE-PRMS Section 2.2.2 and Table 3 define possible oil and gas reserves as follows:

***Possible oil and gas reserves.** Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.*

Possible Reserves may be assigned to areas of a reservoir adjacent to Probable Reserves where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.

Contingent Resources

Contingent Resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there is currently no viable market, or where commercial recovery is dependent on the development of new technology, or where evaluation of the accumulation is insufficient to assess commerciality.

Contingent Resources are categorized according to the range of technical uncertainty associated with the estimates (horizontal axis shown in Figure 1) may be further sub-classified based on project maturity and/or characterized by their economic status (Refer to Figure 2 at the end of this document). Reference should be made to the full SPE-PRMS for the complete definitions and guidelines.

Undiscovered Petroleum-initially-in-place

Undiscovered Petroleum-Initially-in-Place is that quantity of petroleum which is estimated, as of a given date, to be contained in accumulations yet to be discovered.

The estimated potentially recoverable portion of Undiscovered Petroleum-Initially-in-Place is classified as Prospective Resources, as defined below.

Prospective Resources

Prospective Resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future projects. Prospective Resources have both an associated chance of discovery and a chance of development.

Prospective Resources are categorized in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be further sub-classified based on project maturity (Refer to Figure 2 at the end of this document). Reference should be made to the full SPE-PRMS for the complete definitions and guidelines.

Unrecoverable

Unrecoverable is a term that refers to that portion of Discovered or Undiscovered Petroleum Initially-in-Place quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

Additional Terms used in Resources Classification (SPE-PRMS)

Chance of Commerciality

The SPE-PRMS Section 2.1, Table 1 and Appendix A define the following terms relating to commerciality:

The “Chance of Commerciality”, as denoted in the SPE-PRMS and as shown in Figure 1, *is the chance that the project will be developed and reach commercial producing status.*

The chance of commerciality is determined by the probability of a discrete event occurring. In the context of the SPE-PRMS, the discrete event is comprised of one of several conditions, as noted below, which impact the project’s commercial viability.

The commercial viability of a development project is dependent on a forecast of the conditions that will exist during the time period encompassed by the project’s activities. Commerciality is not solely determined based on the economic status of a project which refers to the situation where the income from an operation exceeds the expenses involved in, or attributable to, that operation. Conditions as noted in the SPE-PRMS include technological, economic, legal, environmental, social, and governmental factors. While economic factors can be summarized as forecast costs and product prices, the underlying influences include, but are not limited to, market conditions, transportation and processing infrastructure, fiscal terms and taxes.

A development project may include one or many wells and associated production and processing facilities. One project may develop many reservoirs, or many projects may be applied to one reservoir. An accumulation or potential accumulation may be subject to several separate and distinct projects that are at different stages of exploration or development. Thus, an accumulation may have recoverable quantities in several resource classes simultaneously.

Commerciality Applied to Reserves

Commerciality as applied to Reserves must be based upon all of the following criteria:

- *Evidence to support a reasonable timetable for development.*
- *A reasonable assessment of the future economics of such development projects meeting defined investment and operating criteria.*
- *A reasonable expectation that there will be a market for all or at least the expected sales quantities of production required to justify development.*
- *Evidence that the necessary production and transportation facilities are available or can be made available.*
- *Evidence that legal, contractual, environmental and other social and economic concerns will allow for the actual implementation of the recovery project being evaluated.*
- *High confidence in the commercial producibility of the reservoir.*

To be included in a Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming.

In general, quantities should not be classified as Reserves unless there is *evidence of firm intention that the accumulation will be developed and placed on production within a reasonable time frame.* In certain circumstances, reserves may be assigned even though development may not occur for some time. *A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project.* The SPE-PRMS recommends five years as a benchmark, but notes that a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives.

For a project to be included in a Reserves class *there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests.* In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

Commerciality Applied to Contingent Resources

Estimated recoverable quantities from known accumulations that are not yet considered mature enough for commercial development as denoted by meeting all of the aforementioned conditions should be classified as Contingent Resources.

Based on assumptions regarding future conditions and their impact on economic viability, projects currently classified as Contingent Resources may be broadly divided into two groups:

- ***Marginal Contingent Resources** are those quantities associated with technically feasible projects that are either currently economic or projected to be economic under reasonably forecasted improvements in commercial conditions but are not committed for development because of one or more contingencies.*
- ***Sub-Marginal Contingent Resources** are those quantities associated with discoveries for which analysis indicates that technically feasible development projects would not be economic and/or other contingencies would not be satisfied under current or reasonable forecasted improvements in commercial conditions. These projects nonetheless should be retained in the inventory of discovered resources pending unforeseen major changes in commercial conditions.*

Those discovered in-place volumes for which a feasible development project cannot be defined using current or reasonably forecast improvements in technology are classified as Unrecoverable.

Resources Categorization (SPE-PRMS)

All estimates of the quantities of petroleum potentially recoverable from an accumulation classified as having Prospective or Contingent Resources or Reserves involve uncertainty. The relative degree of uncertainty may be conveyed by placing the estimated quantities into one of several “categories” as described herein.

The SPE-PRMS Section 2.2 and Appendix A define the following terms:

Range of Uncertainty

The Range of Uncertainty, as denoted in the SPE-PRMS and as shown in Figure 1, reflects a range of estimated quantities potentially recoverable from an accumulation by a project. *Evaluators may assess recoverable quantities and categorize results by uncertainty using the deterministic incremental (risk-based) approach, the deterministic scenario (cumulative) approach, or probabilistic methods.*

Deterministic Methods (SPE-PRMS)

Reserves

For reserves, the range of uncertainty can be reflected as discrete incremental quantities termed Proved, Probable and Possible or expressed in cumulative terms as 1P (Proved), 2P (Proved plus Probable), and 3P (Proved plus Probable plus Possible), respectively.

Contingent Resources

For Contingent Resources, the range of uncertainty is generally expressed in deterministic scenario (cumulative) terms as 1C, 2C, 3C, respectively or in terms of probability using probabilistic methods. While the SPE-PRMS categorization scheme does not specifically prohibit the use of discrete incremental quantities for Contingent Resources, the SPE-PRMS does not denote the terms to be applied to these discrete incremental quantities.

Prospective Resources

For Prospective Resources, the range of uncertainty is generally expressed in deterministic scenario (cumulative) terms as low, best and high estimates or in terms of probability using probabilistic methods. As in the case of Contingent Resources, the SPE-PRMS categorization scheme does not specifically denote terms to be applied to discrete incremental quantities for Prospective Resources.

Incremental Terms for Contingent and Prospective Resources (RYDER SCOTT)

Should evaluators choose to characterize the range of uncertainty for Contingent Resources or Prospective Resources in discrete incremental quantities, they should denote such quantities as such and provide sufficient detail in their report to allow an independent evaluator or auditor to clearly understand the basis for estimation and categorization of the recoverable quantities. For reports prepared by Ryder Scott Company (Ryder Scott), the range of uncertainty for discrete incremental quantities of Contingent Resources shall be termed 1C Incremental (1Ci), 2C Incremental (2Ci) and 3C Incremental (3Ci) and in the case of Prospective Resources shall be termed Low Estimate Incremental (LEi), Best Estimate Incremental (BEi) and High Estimate Incremental (HEi) where (i) denotes a specific incremental quantity.

Best Estimate

Uncertainty in resource estimates is best communicated by reporting a range of potential results. However, if it is required to report a single representative result, the “best estimate” is considered the most realistic assessment of recoverable quantities. The term “best estimate” is used here as a generic expression for the estimate considered being closest to the quantity that will actually be recovered from the accumulation between the date of the estimate and the time of abandonment. In the case of reserves, the best estimate is generally considered to represent *the sum of Proved and Probable estimates (2P)*. It should be noted that under the *incremental (risk-based) approach for Reserves, discrete estimates are made for the quantities in each category for Proved and Probable, and they should not be aggregated without due consideration of their associated risk.* In the case of Contingent Resources and Prospective Resources, the best estimate would be represented by the 2C and Best Estimate, respectively. If probabilistic methods are used, this term would generally be a measure of central tendency of the uncertainty distribution (most likely/mode, median/P50 or mean). The terms “Low Estimate” and “High Estimate” should provide a reasonable assessment of the range of uncertainty in the Best Estimate.

Probabilistic Methods (SPE-PRMS)

If probabilistic methods are used, these estimated quantities should be based on methodologies analogous to those applicable to the definitions of Reserves, Contingent Resources and Prospective Resources; therefore, in general, the resulting probabilities should correspond to the deterministic terms as follows:

- There should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the 1P, 1C or Low Estimate.
- There should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the 2P, 2C or Best Estimate.
- There should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the 3P, 3C or High Estimate.

Comparability of Similar Reserves and Resource Categories

As indicated in Figure 1, the 1C, 2C and 3C Contingent Resource estimates and the Low, Best and High Prospective Resource estimates of potentially recoverable volumes should reflect some comparability with the reserves categories of Proved (1P), Proved plus Probable (2P) and Proved plus Probable plus Possible (3P), respectively. *While there may be a significant risk that sub-commercial or undiscovered accumulations will not achieve commercial production, it is useful to consider the range of potentially recoverable volumes independently of such a risk.*

Without new technical information, there should be no change in the distribution of technically recoverable volumes and their categorization boundaries when conditions are satisfied sufficiently to reclassify a project from Contingent Resources to Reserves.

Aggregation

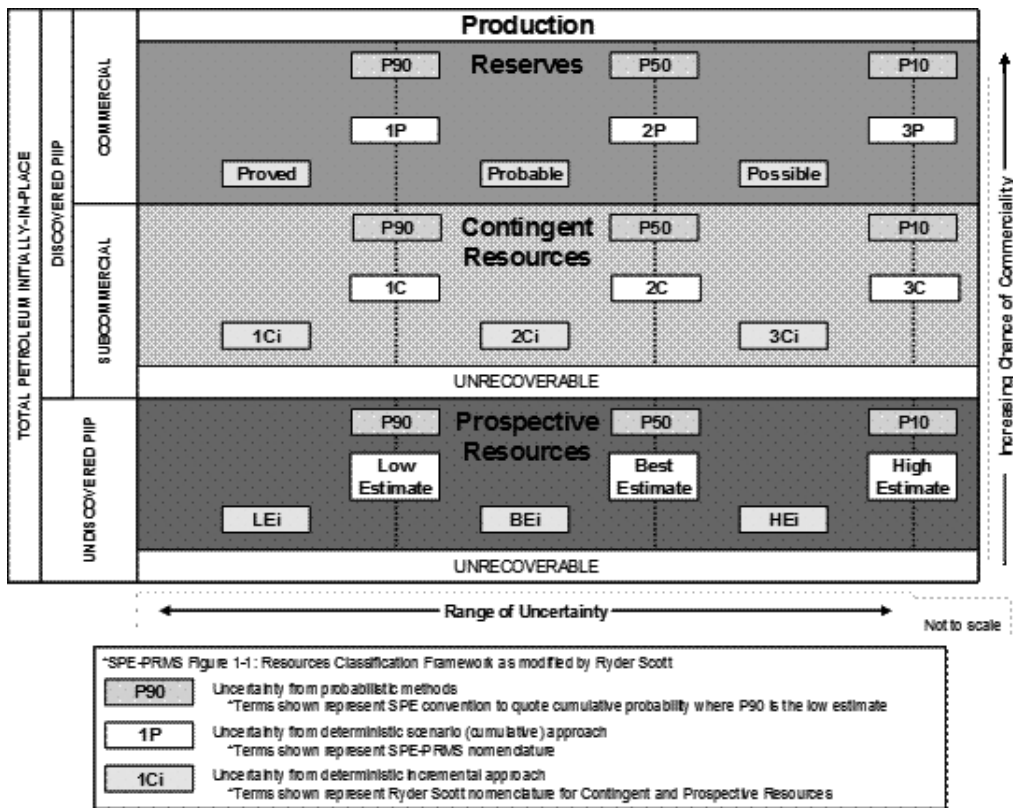
Petroleum quantities classified as Reserves, Contingent Resources or Prospective Resources should not be aggregated with each other without due consideration of the significant differences in the criteria associated with their classification. In particular, there may be a significant risk that accumulations containing Contingent Resources or Prospective Resources will not achieve commercial production. Similarly, reserves and resources of different categories should not be aggregated with each other without due consideration of the significant differences in the criteria associated with their categorization.

Resources Classification System (SPE-PRMS)

Graphical Representation

Figure 1 is a graphical representation of the SPE, WPC, AAPG, SPEE resources classification system. The horizontal axis represents the “Range of Uncertainty” in the estimated potentially recoverable volume for an accumulation by a project, whereas the vertical axis represents the “Chance of Commerciality”, that is, the chance that the project will be developed and reach commercial producing status.

Figure 1
SPE, WPC, AAPG, SPEE
RESOURCES CLASSIFICATION SYSTEM*



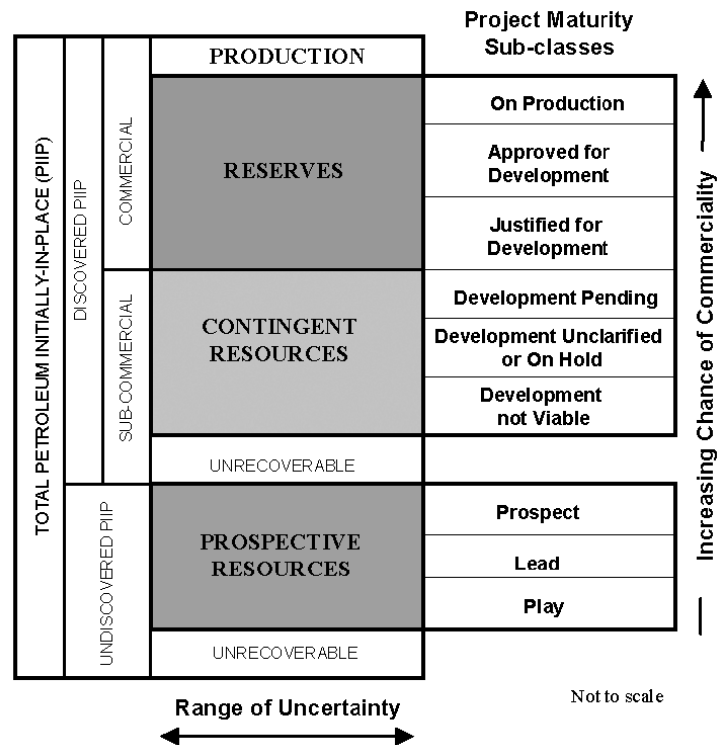
Incremental Terms for Contingent and Prospective Resources as defined by RYDER SCOTT

Should evaluators choose to characterize the range of uncertainty for Contingent Resources or Prospective Resources in discrete incremental quantities, they should denote such quantities as such and provide sufficient detail in their report to allow an independent evaluator or auditor to clearly understand the basis for estimation and categorization of the recoverable quantities. For reports prepared by Ryder Scott Company (Ryder Scott), the range of uncertainty for discrete incremental quantities of Contingent Resources shall be termed 1C Incremental (1Ci), 2C Incremental (2Ci) and 3C Incremental (3Ci) and in the case of Prospective Resources shall be termed Low Estimate Incremental (LEi), Best Estimate Incremental (BEi) and High Estimate Incremental (HEi) where (i) denotes a specific incremental quantity.

Resources Classification System (SPE-PRMS)

Graphical Representation

**Figure 2
SPE, WPC, AAPG, SPEE
PROJECT MATURITY SUB-CLASSES**



¹ Petroleum Resources Management System prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE); reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE), March 2007.

Table 1: Recoverable Resources Classes and Sub-Classes

Class/Sub-Class	Definition	Guidelines
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.	<p>Reserves must satisfy four criteria: they must be discovered, recoverable, commercial and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status.</p> <p>To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame.</p> <p>A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.</p> <p>To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.</p>
On Production	The development project is currently producing and selling petroleum to market.	<p>The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project “chance of commerciality” can be said to be 100%.</p> <p>The project “decision gate” is the decision to initiate commercial production from the project.</p>
Approved for Development	All necessary approvals have been obtained, capital funds have been committed, and implementation of the development project is under way.	<p>At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies, such as outstanding regulatory approvals or sales contracts.</p> <p>Forecast capital expenditures should be included in the reporting entity’s current or following year’s approved budget.</p> <p>The project “decision gate” is the decision to start investing capital in the construction of production facilities and/or drilling development wells.</p>

Class/Sub-Class	Definition	Guidelines
Justified for Development	Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.	<p>In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. (“forecast case”) and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class).</p> <p>The project “decision gate” is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.</p>
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.	Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.
Development Pending	A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.	<p>The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to “On Hold” or “Not Viable” status.</p> <p>The project “decision gate” is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.</p>

Class/Sub-Class	Definition	Guidelines
Development Unclarified or on Hold	A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.	The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a re-classification of the project to “Not Viable” status. The project “decision gate” is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.
Development Not Viable	A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.	The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions. The project “decision gate” is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.	Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.
Prospect	A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.	Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.
Lead	A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.
Play	A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

- ¹ Petroleum Resources Management System, prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE); reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE), March 2007.

PETROLEUM RESERVES and RESOURCES STATUS DEFINITIONS and GUIDELINES

As Adapted From:
PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)
Sponsored and Approved by:
SOCIETY OF PETROLEUM ENGINEERS (SPE),
WORLD PETROLEUM COUNCIL (WPC)
AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)
SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)

RESERVES

Reserves status categories define the development and producing status of wells and reservoirs. The SPE-PRMS Table 2 defines the reserves status categories as follows:

Developed Reserves (SPE-PRMS Definitions)

Developed Reserves are expected quantities to be recovered from existing wells and facilities.

Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.

Developed Producing

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing

Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.

Shut-In

Shut-in Reserves are expected to be recovered from:

- (1) completion intervals which are open at the time of the estimate but which have not yet started producing;*
- (2) wells which were shut-in for market conditions or pipeline connections; or*
- (3) wells not capable of production for mechanical reasons.*

Behind-Pipe

Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production.

In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

UNDEVELOPED RESERVES (SPE-PRMS DEFINITIONS)

Undeveloped Reserves are quantities expected to be recovered through future investments.

Undeveloped Reserves are expected to be recovered from:

- (1) new wells on undrilled acreage in known accumulations;*
- (2) deepening existing wells to a different (but known) reservoir;*
- (3) infill wells that will increase recovery; or*
- (4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to*
 - (a) recomplete an existing well; or*
 - (b) install production or transportation facilities for primary or improved recovery projects.*

CONTINGENT RESOURCES

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent resource status categories may address the development and producing status of wells and reservoirs or may reflect the project maturity and/or be characterized by their economic status as noted in the SPE-PRMS Table 1 and Figure 2.

PROSPECTIVE RESOURCES

Prospective resources are by definition undeveloped as they are potentially recoverable from undiscovered accumulations. Prospective resource status categories reflect project maturity as noted in the SPE-PRMS Table 1 and Figure 2.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes the particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS

(1) Interests in the shares, underlying shares and debentures of the Company or any associated corporation

As at the Latest Practicable Date, the interests and/or short positions (as applicable) of the Directors in the shares, underlying shares and debentures of the Company or any of the Company's associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which they are taken or deemed to have under such provisions of the SFO); or (ii) required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") to be notified to the Company and the Stock Exchange, are as follows:

(A) Long positions in the Ordinary Shares of the Company

Name of Director	Nature of interest	Number of Ordinary Shares	Percentage of the Company's issued shares
Wang Jingbo	Corporate	829,641,578 (Note 1)	51.32%
Shong Hugo	Corporate	829,641,578 (Notes 1 and 2)	51.32%
Lin Dongliang	Corporate Beneficial	829,641,578 12,910,000 (Notes 1 and 3)	51.32% 0.80%

Notes:

- These shares are held by Titan Gas Technology Investment Limited ("**Titan Gas**"), a company which is controlled as to 100% by Titan Gas Technology Holdings Limited ("**Titan Gas Holdings**"), which is in turn owned as to 35.13% by Standard Gas Capital Limited ("**Standard Gas**"), 49.14% by IDG-Accel China Capital II L.P. ("**IDG-Accel Capital II L.P.**") and IDG-Accel China Capital II Investors L.P. ("**IDG-Accel Investors II**")

L.P.” (“**IDG Funds**”), 8.05% by Mr. Wang Jingbo (“**Mr. Wang**”) and 6.87% by 金世旗國際控股股份有限公司 (Kingsbury International Holdings Co., Ltd.*) (“**Kingsbury**”). Under the SFO, Titan Gas Holdings, Standard Gas and IDG Funds are deemed to have interest in the shares in which Titan Gas has beneficial interest.

Standard Gas, Mr. Wang and Kingsbury have entered into an acting in concert arrangement for the purpose of facilitating a more efficient decision-making process in connection with the exercise of their shareholders’ rights in Titan Gas Holdings pursuant to which, Standard Gas, Kingsbury and Mr. Wang agree to align with each other in respect of the voting of major actions in respect of Titan Gas Holdings’ business and each of Standard Gas, Mr. Wang and Kingsbury will consult with each other and reach agreement on material matters of Titan Gas Holdings before it/he exercises its/his respective voting rights in Titan Gas Holdings, provided that Mr. Wang will have a casting vote and will have the final decision making power in the event that a consensus cannot be reached among Standard Gas, Mr. Wang and Kingsbury. Under the SFO, Mr. Wang is deemed to have interests in the shares in which Titan Gas has interest.

2. All the issued voting shares in Standard Gas are held by Blazing Success Limited (“**Blazing Success**”) which in turn is wholly owned by Lee Khay Kok. Blazing Success has granted a power of attorney to the board of directors of Standard Gas which comprise Mr. Wang, Lin Dongliang and Shong Hugo. Under the SFO, Shong Hugo is deemed to have interest in the shares in which Standard Gas has interest.
3. All the issued voting shares in Standard Gas are held by Blazing Success which in turn is wholly owned by Lee Khay Kok. Blazing Success has granted a power of attorney to the board of directors of Standard Gas which comprise Mr. Wang, Lin Dongliang and Shong Hugo. Under the SFO, Lin Dongliang is deemed to have interest in the shares in which Standard Gas has interest.

The 12,910,000 Ordinary Shares are held by Lin Dongliang beneficially.

(B) Long positions in the underlying shares of the Company

Name of Director	Nature of interest	Number of underlying Shares
Wang Jingbo	Corporate	1,440,960,208
		1,854,874,798 (Note 1)
Shong Hugo	Corporate	1,440,960,208
		1,411,505,622 (Notes 1 and 2)
Lin Dongliang	Corporate	1,440,960,208
		1,411,505,622 (Notes 1 and 3)

Notes:

1. The 1,440,960,208 underlying shares represented the new Ordinary Shares to be issued upon full conversion of convertible bonds with an aggregate principal amount of HK\$96,832,526 (“**Convertible Bonds**”) held by Titan Gas at a conversion price of HK\$0.0672 per Ordinary Shares issued by the Company. As explained in Note 1 of Section (A) above, under the SFO, Mr. Wang is deemed to have interests in the convertible bond in which Titan Gas has interest.

The 1,854,874,798 underlying shares consist of (i) the 1,411,505,622 underlying shares representing the new Ordinary Shares to be issued upon full conversion of 1,411,505,622 Preferred Shares held by Titan Gas, and (ii) the 443,369,176 underlying shares representing the new Ordinary Shares to be issued upon full conversion of 443,369,176 Preferred Shares held by Aquarius Growth Investment Limited (“**Aquarius Investment**”), upon full payment and subject to their terms. Aquarius Investment is accustomed to act in accordance with the instructions of, among others, Mr. Wang. Under the SFO, Mr. Wang is deemed to have interests in the shares in which Aquarius Investment has interest.

2. The 1,440,960,208 underlying shares represented the new Ordinary Shares to be issued upon full conversion of the Convertible Bonds held by Titan Gas at a conversion price of HK\$0.0672 per share issued by the Company.

The 1,411,505,622 underlying shares represented the new Ordinary Shares to be issued upon full conversion of 1,411,505,622 Preferred Shares held by Titan Gas upon full payment and subject to their terms.

As explained in Notes 1 and 2 of Section (A) above, under the SFO, Shong Hugo is deemed to have interest in the shares in which Standard Gas has interest.

3. The 1,440,960,208 underlying shares represented the new Ordinary Shares to be issued upon full conversion of the Convertible Bonds held by Titan Gas at a conversion price of HK\$0.0672 per share issued by the Company.

The 1,411,505,622 underlying shares represented the new Ordinary Shares to be issued upon full conversion of 1,411,505,622 Preferred Shares held by Titan Gas upon full payment and subject to their terms.

As explained in Notes 1 and 3 of Section (A) above, under the SFO, Lin Dongliang is deemed to have interest in the shares in which Standard Gas has interest.

(C) Interest in associated corporations of the Company**(i) Titan Gas Technology Holdings Limited**

Name of Director	Long/short position	Capacity	Number of Shares	Percentage of the associated corporation's issued voting shares
Ordinary Shares: Other than pursuant to equity derivatives				
Wang Jingbo	Long position	Corporate	13,000,000 <i>(Note 1)</i>	65.00%
		Beneficial	6,418,675	32.09%
Shong Hugo	Long position	Corporate	13,000,000 <i>(Notes 1 and 2)</i>	65.00%
Lin Dongliang	Long position	Corporate	13,000,000 <i>(Notes 1 and 3)</i>	65.00%
Series A-1 Preferred Shares: Unlisted derivatives — Physically settled options				
Wang Jingbo	Long position	Corporate	15,000,000 <i>(Note 1)</i>	75.00%
		Beneficial		
Shong Hugo	Long position	Corporate	15,000,000 <i>(Notes 1 and 2)</i>	75.00%
Lin Dongliang	Long position	Corporate	15,000,000 <i>(Notes 1 and 3)</i>	75.00%

Notes:

1. These shares are held by Standard Gas. All the issued voting shares in Standard Gas are held by Blazing Success which in turn is wholly owned by Lee Khay Kok. Blazing Success has granted a power of attorney to the board of directors of Standard Gas which comprise Mr. Wang, Lin Dongliang and Shong Hugo. Under the SFO, Mr. Wang is deemed to have interest in the shares in which Standard Gas has interest. Mr. Wang, Lin Dongliang and Shong Hugo are also directors of Titan Gas Holdings.
2. Please see Note 2 of Section (A) above.
3. Please see Note 3 of Section (A) above.

(ii) Titan Gas Technology Investment Limited

Name of Director	Long/short position	Capacity	Number of Shares	Percentage of the associated corporation's issued voting shares
Ordinary Shares				
Wang Jingbo	Long position	Corporate	100,000 (Note 1)	100.00%
Shong Hugo	Long position	Corporate	100,000 (Notes 1 and 2)	100.00%
Lin Dongliang	Long position	Corporate	100,000 (Notes 1 and 3)	100.00%

Notes:

1. These shares are held by Titan Gas Holdings, which is in turn controlled as to 35.13% by Standard Gas. Under the SFO, Standard Gas is deemed to have interest in the shares in which Titan Gas Holdings has beneficial interest.

Standard Gas, Mr. Wang and Kingsbury have entered into an acting in concert arrangement for the purpose of facilitating a more efficient decision-making process in connection with the exercise of their shareholders' rights in Titan Gas Holdings pursuant to which, Standard Gas, Kingsbury and Mr. Wang agree to align with each other in respect of the voting of major actions in respect of Titan Gas Holdings' business and each of Standard Gas, Mr. Wang and Kingsbury will consult with each other and reach agreement on material matters of Titan Gas Holdings before it/he exercises its/his respective voting rights in Titan Gas Holdings, provided that Mr. Wang will have a casting vote and will have the final decision making power in the event that a consensus cannot be reached among Standard Gas, Mr. Wang and Kingsbury. Under the SFO, Mr. Wang is deemed to have interests in the shares in which Titan Gas Holdings has interest.

2. Please see Note 2 of Section (A) above.
3. Please see Note 3 of Section (A) above.

(2) Directors' service contracts

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service agreement with the Company or any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(3) Competing interest of Directors

As disclosed in the RTO Circular, in order to protect the interest of the Company, the Offeror, Mr. Wang Jingbo (an executive Director), Mr. Lin Dongliang (a non-executive Director) and certain other parties (collectively, the “**Covenantors**”) has entered into a non-competition deed in favour of the Company (for itself and for the benefit of its subsidiaries) (the “**Non-Competition Deed**”). With reference to the RTO Circular, the Company organised a working meeting with the Covenantors in which the Company reviewed their business portfolios and considered that there was no opportunity to operate a Restricted Business (as defined in the RTO Circular).

As disclosed in the interim report of the Company for the six months ended 30 September 2016, the Company has received confirmations from each of the Covenantors on full compliance with the Non-Competition Deed for the six months ended 30 September 2016. The independent non-executive Directors have reviewed the confirmations provided by the Covenantors, and concluded that each of the Covenantors complied with the relevant terms of the Non-Competition Deed for the six months ended 30 September 2016.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective associates (as defined in the Listing Rules) had an interest in a business which competes or may compete with the business of the Group (which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company).

(4) Other interests

As at the Latest Practicable Date, saved as disclosed in this circular,

- (a) none of the Directors is aware of any other Director who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporation (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, under section 352 of the SFO, to be entered in the register referred to in that section, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at the Latest Practicable Date;
- (b) none of the Directors had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2016, the date to which the latest published audited financial statement of the Group was made up;

- (c) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was significant in relation to the business of the Group; and
- (d) none of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group or had any other conflict of interest with the Company.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as it is known to the Directors, as at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity/ nature of interest	Number of Ordinary Shares or underlying Ordinary Shares <i>(Note 1)</i>	Percentage of the Company's issued share capital
Tanisca Investments Limited <i>(Note 3)</i>	Beneficial owner	344,754,077 (L) <i>(Note 2)</i>	21.32%
Aquarius Growth Investment Limited <i>(Note 5)</i>	Beneficial owner	443,369,176 (L) <i>(Note 4)</i>	27.42%
ZHAO Ming <i>(Note 5)</i>	Interest of a controlled corporation	443,369,176 (L) <i>(Note 4)</i>	27.42%
Grand Empire Global Limited <i>(Note 6)</i>	Beneficial owner	166,766,230 (L) <i>(Note 6)</i>	10.31%
Rexwell Holdings Limited <i>(Note 6)</i>	Interest of a controlled corporation	166,766,230 (L) <i>(Note 6)</i>	10.31%
ZHANG Lu <i>(Note 6)</i>	Interest of controlled corporations	166,766,230 (L) <i>(Note 6)</i>	10.31%
League Way Ltd. <i>(Note 7)</i>	Beneficial owner	373,357,228 (L) <i>(Note 7)</i>	23.09%
SHI Jianji <i>(Note 7)</i>	Interest of a controlled corporation	373,357,228 (L) <i>(Note 7)</i>	23.09%
New Fast Investments Limited <i>(Note 8)</i>	Beneficial owner	241,437,675 (L) <i>(Note 8)</i>	14.93%

Name	Capacity/ nature of interest	Number of Ordinary Shares or underlying Ordinary Shares (Note 1)	Percentage of the Company's issued share capital
Gate Success Investments Limited (Note 8)	Interest of a controlled corporation	241,437,675 (L) (Note 8)	14.93%
YU Nan (Note 8)	Interest of controlled corporations	241,437,675 (L) (Note 8)	14.93%
Real Smart Holdings Limited (Note 9)	Beneficial owner	166,766,230 (L) (Note 9)	10.31%
True Vision Global Limited (Note 9)	Interest of a controlled corporation	166,766,230 (L) (Note 9)	10.31%
XU Sa (Note 9)	Interest of controlled corporations	166,766,230 (L) (Note 9)	10.31%
Sonic Gain Limited (Note 10)	Beneficial owner	319,820,786 (L) (Note 10)	19.78%
KO Chun Shun, Johnson (Note 10)	Interest of a controlled corporation	319,820,786 (L) (Note 10)	19.78%
True Success Global Limited (Note 11)	Beneficial owner	250,149,340 (L) (Note 11)	15.47%
KO Wing Yan, Samantha (Note 11)	Interest of a controlled corporation	250,149,340 (L) (Note 11)	15.47%
上海宏流投資管理有限公司 (Shanghai Trend Capital Co., Ltd.)* (Note 12)	Investment manager	140,382,318 (L)	8.68%
華寶•境外市場投資2號系列20-6期QDII單一資金信託 (Hwabao.Overseas Investment Series 2 No 20-6 QDII Single Money Trust*) (Note 12)	Beneficiary of a trust	93,588,212 (L)	5.79%
華寶信託有限責任公司 (Hwabao Trust Co., Ltd.) (Note 12)	Trustee of a trust	140,382,318 (L)	8.68%
寶鋼集團有限公司 (Baosteel Group Corporation*) (Note 12)	Interest of a controlled corporation	140,382,318 (L)	8.68%

Name	Capacity/ nature of interest	Number of Ordinary Shares or underlying Ordinary Shares (Note 1)	Percentage of the Company's issued share capital
WANG Ruyuan (Note 12)	Interest of a controlled corporation	140,382,318 (L)	8.68%
Titan Gas Technology Investment Limited (Note 13)	Beneficial owner	3,682,107,408 (L)	227.75%
Titan Gas Technology Holdings Limited (Note 13)	Interest of a controlled corporation	3,682,107,408 (L)	227.75%
Standard Gas Capital Limited (Note 13)	Interest of controlled corporations	3,682,107,408 (L)	227.75%
金世旗國際控股股份有限 公司 (Kingsbury International Holdings Co., Ltd.) (Note 13)	Interest of controlled corporations	3,682,107,408 (L)	227.75%
IDG-Accel China Capital GP II Associates Ltd. (Note 17)	Interest of controlled corporations	3,682,107,408 (L) (Notes 13, 15)	227.75%
IDG-Accel China Capital II Associates L.P. (Note 18)	Interest of controlled corporations	3,682,107,408 (L) (Notes 13, 17)	227.75%
IDG-Accel China Capital II L.P. (Note 18)	Interest of controlled corporations	3,682,107,408 (L) (Notes 13, 17)	227.75%
Ho Chi Sing (Note 17)	Interest of controlled corporations	3,693,607,408 (L) (Notes 13, 15, 17)	228.46%
ZHOU Quan (Note 17)	Interest of a controlled corporation	3,693,607,408 (L) (Notes 13, 15, 17)	228.46%
LUO Yuping	Interest of controlled corporations	3,682,107,408 (L) (Notes 13, 14, 18)	227.75%
ZHANG Chunhua	Interest of controlled corporations	127,681,952 (L) (Note 19)	7.90%
Rich Harvest Worldwide Ltd.	Beneficial owner	127,681,952 (L) (Note 19)	7.90%

Notes:

1. The letter "L" represents the individual's long position in the shares and the letter "S" represents the individual's short position in the shares.
2. These interests in the underlying Ordinary Shares represent the derivative interests under the Convertible Bonds.

3. Mr. Mo Tianquan (“**Mr. Mo**”) has control over 100% interests of Tanisca Investments Limited and Upsky Enterprises Limited. Under the SFO, Mr. Mo is deemed to have interest in the shares in which Tanisca Investments Limited and Upsky Enterprises Limited have interest.
4. Aquarius Investment has interests in respect of 443,369,176 underlying Ordinary Shares through the derivative interests under 443,369,176 Preferred Shares.
5. Aquarius Investment is controlled as to 91% by Zhao Ming and as to 9% by Mr. Wang. Under the SFO, Zhao Ming is deemed to have interest in the shares in which Aquarius Investment has interest.
6. Grand Empire Global Limited is controlled as to 100% by Rexwell Holdings Limited and Rexwell Holdings Limited is controlled as to 100% by Zhang Lu. Under the SFO, Zhang Lu and Rexwell Holdings Limited are deemed to have interest in the shares in which Grand Empire Global Limited has interest. It has interest in 116,736,360 underlying Ordinary Shares through derivative interests in 116,736,360 Preferred Shares.
7. League Way Ltd. is controlled as to 70% by Shi Jianji. Under the SFO, Shi Jianji is deemed to have interest in the shares in which League Way Ltd. has interest. It has interest in 373,357,228 underlying Ordinary Shares through derivative interests in the Convertible Note (as defined in the RTO Circular).
8. New Fast Investments Limited is controlled as to 100% by Gate Success Investments Limited. Gate Success Investments Limited is controlled as to 100% by Yu Nan. Under the SFO, Yu Nan and Gate Success Investments Limited are deemed to have interest in the shares in which New Fast Investments Limited has interest. It has interest in 116,736,360 underlying Ordinary Shares through derivative interests in 116,736,360 Preferred Shares.
9. Real Smart Holdings Limited is controlled as to 100% by True Vision Global Limited. True Vision Global Limited is controlled as to 100% by Xu Sa. Under the SFO, Xu Sa and True Vision Global Limited are deemed to have interest in the shares in which Real Smart Holdings Limited has interest. It has interest in 116,736,360 underlying Ordinary Shares through derivative interests in 116,736,360 Preferred Shares.
10. Sonic Gain Limited is owned as to 100% by Ko Chun Shun, Johnson. Under the SFO, Ko Chun Shun, Johnson is deemed to have interest in the shares in which Sonic Gain Limited has interest. It has interest in 175,104,540 underlying Ordinary Shares through derivative interests in 175,104,540 Preferred Shares.
11. True Success Global Limited is owned as to 100% by Ko Wing Yan, Samantha. Under the SFO, Ko Wing Yan, Samantha is deemed to have interest in the shares in which True Success Global Limited has interest. It has interest in 175,104,540 underlying Ordinary Shares through derivative interests in 175,104,540 Preferred Shares.
12. 上海宏流投資管理有限公司 (Shanghai Trend Capital Co., Ltd.*) has beneficial interest in an aggregate of 140,382,318 Ordinary Shares through 華寶•境外市場投資2號系列20-6期QDII單一資金信託 (Hwabao.Overseas Investment Series 2 No 20-6 QDII Single Money Trust*) and 華寶•境外市場投資2號系列20-7期QDII單一資金信託 (Hwabao.Overseas Investment Series 2 No 20-7 QDII Single Money Trust*). Under the SFO, 華寶信託有限責任公司 (Hwabao Trust Co.,Ltd.), as the trustee of the aforesaid trusts, is deemed to have interest in an aggregate of 140,382,318 Ordinary Shares in which the aforesaid trusts have interest; Wang Ruyuan, who has control of 66% of the interests of 上海宏流投資管理有限公司 (Shanghai Trend Capital Co., Ltd.*), is deemed to have interest in 140,382,318 Ordinary Shares in which 上海宏流投資管理有限公司 (Shanghai Trend Capital Co., Ltd.*) has beneficial interest; 寶鋼集團有限公司 (Baosteel Group Corporation*), which has control over 98% of the interests of 華寶信託有限責任公司 (Hwabao Trust Co., Ltd.), is deemed to have interest in 140,382,318 Ordinary Shares in which 華寶信託有限責任公司 (Hwabao Trust Co., Ltd.) has interest in the capacity of a trustee. 華寶•境外市場投資2號系列20-7期QDII單一資金信託 (Hwabao.Overseas Investment Series 2 No 20-7 QDII Single Money Trust*) does not in itself have an interest or short position in the Company which was required to be disclosed to the Company or the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

13. Titan Gas is controlled as to 100% by Titan Gas Holdings, which is in turn controlled as to 35.13% by Standard Gas, 49.14% by the IDG Funds, 8.05% by Mr. Wang and 6.87% by Kingsbury. Under the SFO, Titan Gas Holdings, Standard Gas, IDG Funds are deemed to have interest in 3,682,107,408 Ordinary Shares in which Titan Gas has beneficial interest. Interest in such Ordinary Shares include interest in 2,852,405,830 underlying Ordinary Shares through derivative interests in the Convertible Bonds in the principal amount of HK\$96,832,526 and the Preferred Shares that Titan Gas has agreed to subscribe for under the Subscription Agreement (as defined in the RTO Circular).
14. Standard Gas, Mr. Wang and Kingsbury have entered into an acting in concert arrangement for the purpose of facilitating a more efficient decision making process in connection with the exercise of their shareholders' rights in Titan Gas Holdings pursuant to which, Standard Gas, Kingsbury and Mr. Wang agree to align with each other in respect of the voting of major actions in respect of Titan Gas Holdings' business and each of Standard Gas, Mr. Wang and Kingsbury will consult with each other and reach agreement on material matters of Titan Gas Holdings before it/he exercises its/his respective voting rights in Titan Gas Holdings, provided that Mr. Wang will have a casting vote and will have the final decision making power in the event that a consensus cannot be reached among Standard Gas, Mr. Wang and Kingsbury. Aquarius Investment is accustomed to act in accordance with the instructions of, among others, Mr. Wang. Under the SFO, Mr. Wang is deemed to have interests in the shares in which Titan Gas or Aquarius Investment has interest on the basis set out above. The Ordinary Shares and underlying Ordinary Shares in which Mr. Wang has interest comprise 3,682,107,408 Ordinary Shares in which Titan Gas has beneficial interest (including derivative interest in 2,852,465,830 underlying Ordinary Shares) and 443,369,176 underlying Ordinary shares in which Aquarius Investment has beneficial interest.
15. The IDG Funds is under the control of its ultimate general partner, IDG-Accel Ultimate GP. Under the SFO, IDG-Accel Ultimate GP is deemed to have interest in the shares in which the IDG Funds have interest.
16. IDG-Accel China Capital II Associates L.P. has control over IDG-Accel Capital II. Under the SFO, IDG-Accel China Capital II Associates L.P. is deemed to have interest in the shares in which IDG-Accel Capital II has beneficial interest.
17. Ho Chi Shing and Zhou Quan are directors of IDG-Accel Ultimate GP and are responsible for decision-making matters relating to the IDG Funds and their investments, and hence controls the exercise of voting rights to the shares that the IDG Funds hold in Titan Gas Holdings. Therefore they are deemed to have interest in the shares in which IDG-Accel Ultimate GP has interest.
18. Kingsbury is controlled as to 74.8% by Luo Yuping. By virtue of the acting in concert arrangement referred to in Note 14, Luo Yuping is deemed to have interest in the shares in which Titan Gas Holdings has interest.
19. Rich Harvest Worldwide Ltd. is controlled as to 100% by Zhang Chunhua. Under the SFO, Zhang Chunhua is deemed to have interests in the shares in which Rich Harvest Worldwide Ltd. has interest. Interest in such Ordinary Shares include interest in 127,681,952 underlying Ordinary Shares has interest through derivative interests in 127,681,952 Preferred Shares.

4. MATERIAL CONTRACTS

Save as the APA (details of which have been disclosed in the Letter from the Board to this circular) and those disclosed in the section headed "Summary of Material Contracts" under Appendix XII to the RTO Circular, there are no other contracts (not being contracts entered into in the ordinary course of business) entered into by the Company or any member of the Group (including the PRC Target) within the two years preceding the date of this circular which are or may be material.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save for the Previous Reverse Takeover as disclosed in the RTO Circular and save for the financial results as disclosed in the Company's results announcement and the interim report for the six months ended 30 September 2016, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2016, being the date to which the latest published audited financial statements of the Group were made up.

6. LITIGATION

The PRC Target has been involved in a legal dispute with Beijing Jiongxianyu Technology Development Co. Ltd.* (北京炅湘钰技术開發有限公司) (the “**Claimant**”). The dispute between the PRC Target and the Claimant is currently pending a rehearing by the Supreme People's Court of the PRC. Please refer to the section headed “History and Business of the PRC Target — Litigation” and note 31 of Section B to “Appendix III — Accountants' Report on the PRC Target” in the RTO Circular for further details.

As at the Latest Practicable Date, save as disclosed above, no litigation or claims of material importance (including any litigation or claims that may have any material influence on rights to explore or mine) was known to the Directors to be pending or threatened against any member of the Group.

7. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Expert	Qualification
KPMG	Certified public accountants
Ryder Scott	Competent Person and Competent Evaluator

Each of the experts referred to above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report, letter, certificate, opinion and/or the references to its name in the form and context in which they are respectively included.

As at the Latest Practicable Date, all the experts above were not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the experts referred to above, directly or indirectly, has had any interest in any assets which had since 31 March 2016 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MISCELLANEOUS

- (1) As at the Latest Practicable Date, the registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda; the head office and principal place of business of the Company is at Suite 2302, Wing On Centre, 111 Connaught Road Central, Hong Kong; the principal share registrar and transfer office of the Company is MUFG Fund Services (Bermuda) Limited at the Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, Bermuda; and the Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (2) Mr. Tan Jue and Mr. Ku Sau Shan Lawrence James are the joint company secretaries of the Company as at the Latest Practicable Date. Mr. Tan Jue also serves as Chief Financial Officer of the Company. Mr. Tan Jue is a graduate of Renmin University of China and has been a member and a fellow of the Association of Chartered Certified Accountants (ACCA) since 2011 and 2016 respectively. Mr. Ku Sau Shan Lawrence James is a graduate of the University of Toronto with a bachelor degree of science; and the York University with a bachelor of administrative studies. Mr. Ku Sau Shan Lawrence James also obtained a master degree of corporate finance and corporate governance from Hong Kong Polytechnic University and he is a member of both The Institute of Chartered Secretaries & Administrators (ICSA) in the United Kingdom and The Hong Kong Institute of Chartered Secretaries (HKICS).
- (3) Unless the context otherwise requires, all references to times in this circular refer to Hong Kong times.
- (4) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of the Company at Suite 2302, Wing On Centre, 111 Connaught Road Central, Hong Kong during normal business hours on any weekday (Saturdays and public holidays excluded) from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the letter from the Board, the text of which is set out in the section headed “Letter from the Board” in this circular;
- (c) the annual reports of the Company for each of the three years ended 31 March 2016 and the interim report of the Company for the six months ended 30 September 2016;
- (d) the unaudited profit and loss statements on the identifiable net income stream in relation to the Target Assets, the text of which is set out in Appendix II to this circular;

- (e) the report from KPMG relating to the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;
- (f) the Competent Person's Report, the text of which is set out in Appendix V to this circular;
- (g) the Valuation Report, the text of which is set out in Appendix VI to this circular;
- (h) the material contracts referred to in the sub-section headed "Material Contracts" in Appendix VII to this circular;
- (i) the written consent referred to in the sub-section headed "Qualifications of Experts" in Appendix VII to this circular;
- (j) the RTO Circular; and
- (k) this circular.

IDG Energy
IDG ENERGY INVESTMENT GROUP LIMITED
IDG 能源投資集團有限公司*
(formerly known as “Shun Cheong Holdings Limited 順昌集團有限公司”)
(Incorporated in Bermuda with limited liability)
(Stock Code: 650)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of the Company will be held at United Conference Centre Limited — Room 1, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong at 10 a.m. on Friday, 31 March 2017 to consider and, if thought fit, pass the following resolution:

Unless otherwise indicated, capitalised terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated 9 March 2017 (the “**Circular**”).

ORDINARY RESOLUTION

“THAT:

- (a) the entering into of the APA and the transactions contemplated thereunder, details of which are more particularly described in the Circular, be and is hereby approved, ratified and confirmed; and
- (b) the Board be and is hereby authorised to implement the transactions under the APA.”

By Order of the Board
IDG Energy Investment Group Limited
Wang Jingbo
Chairman and Chief Executive Officer

Hong Kong, 9 March 2017

Notes:

- a. A member entitled to attend and vote at the Meeting is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the Bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.
- b. A form of proxy for use for the aforesaid purpose will be delivered forthwith together with a copy of this original notice to the registered address of the members entitled to vote at the Meeting. In order to be valid, the said form of proxy, together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, must be lodged with the Company’s share

* For identification purpose only

NOTICE OF SGM

registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the Meeting or any adjourned Meeting at which the person named in such instrument proposes to vote.

- c. Whether or not you propose to attend the Meeting in person, you are strongly urged to complete and return the said form of proxy in accordance with the instructions printed thereon. Completion and return of such form of proxy will not preclude you from attending the Meeting and voting in person if you so wish (in which case any appointment of proxy for the purpose of the Meeting will be deemed to be revoked).
- d. For joint registered holders of any share attending the Meeting on the same occasion, the vote of the holder whose name stands first on the register who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.
- e. As at the date hereof, the board of the directors of the Company comprises seven directors, of whom two are executive Directors, namely Mr. Wang Jingbo (Chairman and Chief Executive Officer) and Mr. Lee Khay Kok, two are non-executive Directors, namely Mr. Lin Dongliang and Mr. Shong Hugo, and three are independent non-executive Directors, namely Prof. Chen Zhiwu, Mr. Shi Cen and Mr. Chau Shing Yim David.