MALKA OIL

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Malka Oil proposes financial restructuring

- **PROPOSAL TO CONVERTIBLE BONDHOLDERS TO CONVERT TO NEW SHARES IN CONNECTION WITH SUBSEQUENT RIGHTS ISSUE**
- **RIGHTS ISSUE OF MSEK 140 (APPROX MUSD 16.7)**

Malka Oil has identified a financing need of approx MUSD 15 (or approx MSEK 125) to pay off Russian supplier's debt and to finance underlying operations during 2009 (not including interest payments on convertible bond loans). Due to prevailing market conditions in combination with Malka Oil's current capital structure, the Board of Directors has come to the conclusion that it is not possible to attract new share capital unless the two outstanding convertible bond loans with a total par value of MUSD 80 are restructured.

Background and reasons

A rapidly changing business environment in Russia and globally has adversely impacted Malka Oil, specifically during the last six months. Foremost are the drop in oil prices and the collapse of the Russian stock markets with its resulting credit crunch. Historically the Russian domestic oil price has been on a level of 55-60% of the Ural Blend price. In January the Russian domestic oil price was below 30% of Ural Blend price which severely impacted Malka Oil's revenues. This resulted in a negative net back per barrel in January.
In addition Malka Oil has not met production expectations and the increase of the reserves at a satisfactorily pace.

Consequently the Board of Directors and management of Malka Oil have addressed these challenges. An extensive cost cutting program is currently being implemented as well as a debt restructuring program in Russia resulting in a debt repayment plan agreed with major creditors.

In spite of these measures the board of Malka Oil has identified a capital requirement of MUSD 15 (or approx 125 MSEK) to pay off Russian supplier's debt and to fund operations throughout 2009, given that all interest payments resulting from convertible bond loans are excluded. So called "Reserve based lending" is not a viable alternative in today's business climate and it is extremely challenging to attract new equity capital currently given the existing capital structure of Malka Oil.

Although the Board of Directors views the situation as critical, they also note that the company is well positioned to crystallise underlying values after a potential debt restructuring and capital raise. Necessary infrastructure and permits are in place, drilling rigs are readily available and the company has gained valuable knowledge of reservoir characteristics. Malka Oil is currently producing 3,000 bpd and targeting 4,000 bpd once all existing wells are on-stream. Furthermore, Malka Oil is well positioned to further increase production and reserves, when overall market conditions improve.

Malka's board and management have been working intensively the last months with several parallel solutions aiming at a financing model that suits Malka Oil under the current marketing conditions. The deemed most suitable and at the same time realistic alternative for Malka Oil, its shareholders and convertible bondholders can be summarised as:

- offer convertible bondholders an early possibility to convert into shares
- satisfy Malka Oil's need of working capital through a rights issue towards Malka's current shareholders being conditional upon that the convertible bondholders accept the offer proposed to them

"The Board of Directors and management have worked intensively to find a long-term solution for Malka Oil and its financial structure which has resulted in the proposal below. The Board of Directors assesses the restructuring proposal to be well balanced between the current shareholders and the convertible bondholders. The convertible bondholders have the possibility to become shareholders in Malka Oil and existing shareholders can maintain ownership in the company by participating in the rights issue." says Mats Gabrielsson, Chairman of the Board of Malka Oil AB and continues;
"The company is in a difficult financial situation and the alternatives available are limited."

Through the proposal from the board and an acceptance from the convertible bondholders as well as a fully subscribed rights issue Malka's interest bearing debt will disappear and the operational capital liquidity will be strengthened to a degree as deemed necessary, given prevailing market conditions and the present extent of operations, for the coming twelve months.

With the proposal the convertible bondholders will get 42% of outstanding shares and existing shareholders will through their full participation get 58% of outstanding shares.

<u>The offer in short to convertible bondholders:</u>

- Early conversion to newly issued shares in Malka Oil
- Rate of conversion USD 0.0477 (approx. SEK 0.40)
- 1,678,000,000 additional shares in Malka Oil
- Newly issued shares within the frame of the offer are not entitled to subscription in the proposed share issue

<u>Proposed conditions for the rights issue:</u> [1]

- Subscription price SEK 0.07
- 1 (one) existing share in Malka Oil warrants subscription to 6 (six) newly issued shares in Malka Oil
- 2,013,077,040 additional shares
- Total proceeds from issue approximately MSEK 140 [2]
- Execution and completion of rights issue conditional upon that convertible bondholders accept the offer in full

[1] The execution and completion of the rights issue supposes that the offer as described above is accepted by in full. In the interest of time the board will summon to a shareholder's meeting around February 17, 2009 (see separate notice)
[2] Before issue costs, upon full participation

Action plan - indicative time table
A bondholder's meeting will be held around week 9 to decide upon the proposal to the convertible bondholders. The notice will be sent to bondholders in accordance with the loan agreements.

An extraordinary shareholders' meeting will be held around March 17, 2009 to (1) decide upon appropriate changes of the articles of association, (2) approval of proposal to convertible bondholders and thereto related decisions, (3) decide upon a rights issue and thereto related decisions. The notice for the extraordinary shareholders' meeting will be published around February 17, 2009.

A new company presentation is available on the company website www.malkaoil.se

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For further information on Malka Oil AB, see the website www.malkaoil.se

Malka Oil AB (publ) is an independent oil and gas production company operating in the Tomsk region in western Siberia. Its current position consists of oil and gas assets for licence block number 87 in the said region. The block has a surface of 1,800 square kilometres. There are currently three oil fields at the licence block, namely Zapadno-Luginetskoye ("ZL"), Lower Luginetskoye ("LL") and the Schinginskoye oil field, and a large quantity of other not yet drilled oil structures.
The ZL and LL oil fields are in production and these two oil fields have during 2007 went through reserve classification by the Russian State Committee of Reserves (GKZ) and during spring 2008 a Western reserve study made by DeGolyer and MacNaughton. The GKZ registered extractable oil and condensate reserves in the categories C1 and C2 amounted to 97 million barrels at the end of 2007. The company's own estimate of its extractable oil and condensate reserves, C1+ C2, in the three existing oil fields on licence block number 87 is currently 140-190 million barrels. The Western reserve study estimation as of April 30, 2008 amounted to 43.5 million barrels 2P and 90.6 million barrels 3P oil reserves.
Malka Oil's licence block is surrounded by a large number of producing oil and gas fields.