

## **To the Shareholders of Tera Resource Co., Ltd.,**

Blessings in the New Year!

We meet the turn of the year with caution and cautious optimism. Our Company stands to face substantial headwind due to risks related to the 50% decline in oil prices and dramatic fall of the ruble. However with our operations based and running in Russia, we are fortunate to have a natural hedge with the roughly 45-50% drop in currency offsetting the decline in crude oil (as oil is sold on a dollar basis). In other words, we are selling our oil at about the same price (in rubles) as we did prior to crude oil's decline.

Warrant Buffet once said: "Be fearful when others are greedy and greedy only when others are fearful." Without a doubt, it is a scary time to be in the oil exploration and production business, especially in Russia. As a company, executives and employees alike are preparing for the worst and undergoing a cost rationalization process as we continue streamlining expenses. This is the time to practice frugality and increase efficiency. We are encouraged by the positive results from our TIP, possibly stemming from our changes in drilling technique. With this momentum, we must move forward in our development activities. Given our large reserves, we can still hit a single or triple (in baseball terms) if our drilling proves fruitful.

Our Company has arrived at the "do or die" stage: we must expand all resources to overcome our challenges. A professor in my business school used to say "Even turkeys fly in a windstorm." This is the time when real men and companies rise up and the impersonators crumble. Furthermore, given the lower oil prices and scattering of negative sentiment within our industry, it could be a most opportune time for us to acquire or partner on certain oil properties at very attractive terms. In some ways, we are very fortunate to have an entry point into this vast market in Russia during what amounts to one of the most risky and dangerous yet opportunistic times in the industry. I am hopeful we can use Vinca as a platform company in Russia to do add on acquisitions and build a growing business. In that regard, I am cautiously optimistic and will focus on treading very carefully over the next 12 to 24 months.

### **Background**

Following the death of Mr. Byun, the chairman of Yedang Entertainment and Tera Resource, approximately \$500 million in market value disappeared; equating to a 99% decline in value.

To this day, I am baffled by how a publicly traded company (which should be guided by standardized accounting rules, performance guidelines and disclosures) can collapse overnight like a house of cards with the passing of its Chairman. Like the innumerable shareholders who bore significant loss, I was hopeful that market forces combined with government oversight would help resuscitate the two companies. I know many

shareholders, bond and warrant holders were very supportive of Mr. Byun over the life of Yedang and Tera, some even investing/lending their life savings. Realizing approximately \$500 million in loss over the passing of the Chairman is extraordinarily unusual.

Negative news continued to leak about Yedang and Tera, getting messier by the day. It became increasingly evident that the Company was in dire need of a leader to rescue it from falling into bankruptcy and/or losing all its value. Investing in this type of situation is not an ideal investment setting: there was not one single credible investor with the resources to restructure the companies. Notwithstanding, in August 2013, I and a few ambitious supporters stepped in to act as a White Knight to save Tera.

Acting in good faith and without any major conditions, we deposited \$2 million dollars into Tera, fully prepared to move forward with \$5 to \$10 million in additional funding to stave off de-listing and restructure the Company. We had only one condition: we will not move forward with this complex process if there is to be an auction or bidding for the Company. Our logic was twofold: (1) We were acting as the White Knight because there were no other credible bidders. Initially, we had welcomed all other potential bidders as leading the restructuring was the least palatable option. (2) Having negotiated many restructurings and bankruptcies and being one of the initiators to bid for NPL's in Korea with Morgan Stanley in the late 1990s, we determined that we were running out of time. Time is of the essence, and it was impossible to justify spending more resources to pursue restructuring, in addition to squandered time spent in a bidding war with unqualified bidders. Despite the \$2 million deposit and commitment to invest \$5 to \$10 million, Tera's board and management were not in favor of working with us- on this, I have yet to hear a sound rationale worth recounting (and I do have my suspicions).

At Tera's request, we met with another bidder who, at the meeting, requested to join our bid. He went on to inform us that if we didn't agree to this, he would bid against us. This was in direct violation of our #1 condition, so I cordially told him he is more than welcome to take over the deal, ending the meeting by respectfully withdrawing our bid and walking out of the meeting. Consequently, we removed ourselves from the bid, withdrew our \$2 million deposit and I left Korea. Later I was advised that Tera's board and management were supportive of the new bidder over our bid.

To make a long story short, Tera again approached us in October/November when their deal with the other bidder fell through. Submitting a revised offer to Tera, I traveled to Korea to finalize the deal; but when I arrived, I was told that the majority of Tera's board was now against the deal. Thus the deal failed again. Even so, several members of the Bond and Warrants group, approached me to figure out a way to restructure and save Tera. I would best describe this period as a surgeon trying to save the patient from dying while having enemies shooting arrows and bullets at you at the same time. A few of the Bondholders took considerable risk and courageously loaned money to Tera during this difficult time, thus allowing Tera to survive and continue operations.

When KRX notified Tera on December 20, 2013 to de-list, the CEO of Tera, Mr. Suh, approached me again about trying to save Tera for the last time. Until this time, we had all been hopeful that Tera would not be delisted; our hope was that Tera would trade as a public company once new funds were injected. Unfortunately, KRX decided to delist and we had a quiet period of about one month to petition for listing of shares. We made extraordinary efforts to provide a clear concise view of Tera's actual standing: all logic and prudent judgment indicated that all requirements were met in order to continue listing. But, on January 23, 2014, KRX voted to de-list Tera permanently. A few months after de-listing, an inspection of the KRX report, as obtained by our attorney, found the information submitted by KRX staff towards the decision on Tera's de-listing to be grossly inaccurate, materially incorrect, and downright false.

I suggest you take a look at the actual legal case for the specifics. I question the motivations behind all these actions, as many strange and unanswered questions remain: What was the KRX staff's motivation to write such a negligently misleading report? Why did the external auditor (accounting firm) suddenly ask Tera to write off the full amount of loans to Vinca (They have never taken count of this issue for the last few years. Even if it was a material and necessary action, they should take the same audit process at least a year before)?

#### **White Knight**

"Talk is cheap, actions speaks louder than words." From the beginning, our main motivation was to stave off de-listing and give Tera a chance to reposition itself. We shared the common goal of saving Tera. We did very little talking and delivered with our actions, doing things that no rational investor would do in a similar circumstance:

- Depositing \$2.0 mm (without any conditions) to stave off de-listing and committing to funding \$5-10 mm
- Loaning Tera- a company not creditworthy- over \$1.7 mm
- Petitioning KRX to stop de-listing
- Purchasing the insolvent company's shares on the open market
- Uprooting and stationing executives to Bashkortostan to restructure Vinca
- Completing the \$6.0mm rights offering, our group having purchased all outstanding shares not subscribed by existing investors.

Despite these herculean efforts, we faced significant resistance from a number of individuals including but not limited to members of the board who refused to cooperate with us and certain shareholders, bond and warrant holders. 81% of the bond and warrant holders agreed to back our restructuring, but the remaining 19% refused to cooperate with us. As a result, we had to petition for a two-year period from the court to ensure that the remaining 19% would not force a bankruptcy, a period which will hopefully provide Tera with some breathing room to restructure. To this day, our staff spends an inordinate amount of time and resources over unusual inquiries from various government agencies regarding past activities of Tera and Yedang Energy dating back to 2007 and 2008. I wonder how and why a government worker would be compelled to solicit a de-listed company for activities that date back seven-plus years. I think you would agree that this

is highly unusual; there may be ulterior motivation by certain people who would prefer that Tera does not succeed, but fails and disappears.

#### **Status as of April 3, 2014**

The following is the status of Tera and Vinca at the time we obtained the controlling interest:

- Company was insolvent with insufficient cash and assets against liabilities
- Certain main assets, including the license to explore and produce oil and gas reserves, had expired or was about to expire
- Our main office was seized and locked to prevent access by Vinca's 30% partner Vladimir Reitman
- Vinca's 30% partner utilized strong arm tactics to force closure of Vinca office and threats to employees and management
- Vinca's 30% partner received a judgment from the court to pay approximately \$350,000 in back debt or face imminent bankruptcy
- Vinca had been locked in over 10 lawsuits from the 30% owner
- General Director of Vinca was uncooperative, demanding payments for his cooperation. He did not even show up to the Shareholder meeting
- Vinca had to satisfy over \$500,000 in past due payments to free itself from potential liens and encumbrances against the Company
- We found no existing corporate controls and processes. Essentially, the Company was operating without proper rules and guidelines

#### **Our Accomplishments in 8 Months**

- Prevented bankruptcy filing by paying off debt to the 30% partner
- Paid off all the encumbrances and debt to third parties, resulting in Tera being the sole/main creditor to Vinca
- Appointed Mr. Suh as General Director of Vinca, including a minimum of two on-site representatives to manage operations at Vinca at all times
- Appointed a new accountant for Vinca
- Appointed new CEO of Tera
- Reinstated all of Vinca's exploration and production licenses
- Satisfactorily completed TIP
- Reorganized management and corporate controls and processes

## **CHALLENGES**

### **Macro Challenges**

The oil and gas business is not for the faint of heart. It is a challenging business where only the strongest-willed survive. Given oil's manifold importance (economical and political), Tera and Vinca must carefully- respectfully- weave through a labyrinth of

obstacles in an oil-centric country like Russia. Russia's current geopolitical environment and the ruble depreciating more than 45% this year compounds another layer of risk and challenge.

Moreover, oil prices have fallen approximately 50% over the past few months. A continued decline in oil price is of potential risk to Tera, as a further downward spiral could jeopardize our selling price and the investment merit of oil production.

However, it should be noted that Vinca, a Russian oil company with resources within Russia, has a natural hedge on oil as oil is priced off of the dollar. As a result, despite the 50% plunge in oil price, our selling price in Russia remains the same on a ruble-adjusted basis. So at least temporarily, our ruble-based unit economics of oil remains the same as if the oil is trading at \$100 a barrel. However we do recognize that if the ruble to dollar continues its depressed valuation and oil continues to trade below \$50, the economics of self-equilibrium will adjust itself to ultimately counter the positive benefits brought by the depreciation of the ruble in the short term. We continue to monitor the macroeconomic and political situation. For now, we are enjoying the strength of the Korean won against the ruble.

#### **Continued Losses**

Given the nature of the E & P (exploration and production) business, at this stage in the growth cycle, Vinca will continue to experience negative cash flow for the foreseeable future. In order to better manage its portfolio of businesses, Tera has been exploring opportunities to acquire other businesses with attractive and complimentary cash flow characteristics.

After careful study, we came upon a unique opportunity to partner with one of the largest and most advanced aquaculture farms, specializing in raising certain species of eel. This business has a relatively large market, approximately \$700mm in sales a year in Korea. We expect to generate few million a year in revenues from this business over 2015, raising profits to aid in covering the negative losses incurred by Tera.

We structured the partnership to give principal protection guarantee on Tera's investment and also to enable our participation on the upside when the business fares well. Further, we are able to exit or unwind the investment within a few months with the good liquidity of this market. We look forward to continue learning about this business over the next year and to spur its growth.

#### **Aqua Soosan**

Investors and businessmen often look for opportunities with large market size, growing market, favorable supply demand characteristics, a barrier to entry and strong core competence to gain competitive advantage in the marketplace. It is too early to say, but I am hopeful that the eel farming business will grow to be one of the core businesses of Aqua Soosan. If history is any lesson, waterborne species will eventually experience the

same shortage in supply as land-based species (such as pig, chicken, cow, lamb and etc.). It's common knowledge in most parts of the industrial world that farming is the only economically viable method of growing, processing and distributing land based animals for human consumption. Given the unprecedented growth of human population and the middle class, the demand for seafood outweighs the availability of wild stock of seafood. As a result, aquaculture industry will continue to gain market share in overall seafood production. We believe that Korea has the potential to be a leader in the aquaculture industry given its long history and technology in breeding high quality waterborne species for human consumption.

Some of the smartest investors in the world, including Temasek, KKR, Citic and the owner of IKEA, are aggressively investing and exploring opportunities in aquaculture. We have a very favorable risk reward structure in place with Aqua Soosan and its partner and we are hopeful that we can work this business to be the leading proprietor and aggregator of aquaculture in the region.

#### **14mm Debt**

Tera has \$14mm of outstanding debt. Tera is very fortunate to get 81% of the bondholders to agree to this restructuring and waiving the interest payments due to them without asking for any concessions. This gesture of good faith is quite significant as it allowed Tera to avoid bankruptcy as well as avoid large debt payments.

I believe in alignment of interest, and alignment of interest is one of the key foundations to the building of a great company. Just as I entered into an informal partnership with the shareholders of Tera when I bought the controlling interest in Tera, it is requisite that I have a similar partnership with the bondholders of Tera. Therefore I have an agreement with the 81% of the bondholders to maximize the value of Tera over the next few years.

However, it still is debt against the Company and I would sleep more soundly at night if this liability were to be reduced, or retired completely.

#### **Vinca's 30% Minority Shareholder**

Tera and Vinca continue to fight with Vinca's 30% shareholder. This is a major issue as without the remaining 30% vote, we cannot legally issue new shares, thereby causing more debt to continue piling on Vinca. Tera has approximately \$26 mm in outstanding debt against Vinca: if we ultimately cannot get their consent, we may have no choice but to activate a special plan as a final resort (I have an ace in the hole!).

The 30% minority shareholder continues to burden us with frivolous lawsuits, make burdensome requests to Vinca's staff, and compound on attorney costs and losses stemming from business interruptions.

### **Tera's Past Ghosts**

The followings are examples of Tera's pasts costing us money and time.

- Unforeseen foreclosures of bank accounts for the liabilities mostly caused by the past management and BOD
- Some of the above were executed compulsorily
- Sanction by the FSS(Financial Supervisory Service) for the violations of the 'Foreign Exchange Control Law' (related to the purchase of Vinca)
- The written investigations by the NTA(National Tax Administration) for the loan investment to Vinca
- The former managements filed law suits in the court and 'Ministry of Employment and Labor' for their severance pay
- Many civil and criminal actions for the past affairs

### **Tera's Nemesis**

There are individuals who want nothing more than to see Tera go down and disappear. I imagine when a company has depleted \$300 million in value overnight and \$14 million of bond and warrant offerings has evaporated in 3 months, one could have all sorts of reasons for wanting to see Tera fall. There are people who are furious with Tera, others who want to cover up what Tera may reveal, and still others who want to takeover what Tera has. The reasons are countless.

Over the past year since Mr. Byun's death, the biggest opposition and impediments to the Tera's success have been those who are afraid of what we will uncover (and subsequently prosecute) and those who are trying to take advantage of Tera's weakness. Until these threats subside, we must be vigilant in keeping key information private, holding our strategies and tactics in the strictest confidence. Hence there is certain information that we will not and cannot share until such a time that we deem safe.

I am in the business of "expanding the pie" via innovation, operational excellence and hard work, not through lawsuits and litigation. I have yet to see a great company expand with litigation and lawsuits as their business model. However, this is the necessary evil that we have to work with for now, given Tera's past history. As we get attacked by opponents, we have no option but to attack with stronger, greater force. I have been a fighter my entire life and this company will not go down because of some rumors or a few naysayers with opposite goals from that of Tera's Shareholders.

### **Vinca's Asset Explained**

One of my core investment philosophies is being able to distinguish and price the difference in reality and perception. Some investment practitioners compare it to market value versus intrinsic value. However, as I can describe it, the key point is to be able to distinguish reality from perception. Amidst all the false rumors going around about Tera, I would like to set the record straight here. Perhaps you can distinguish between what's reality and what's mere perception.

There is a saying: "To better understand the son, you must understand the parents." To understand Vinca, you must understand Russia and its proud history of oil. Russia is one of the largest oil and gas producers in the world, with one of the longest histories of continuous oil production. If Korea sets such strict standards and laws around ginseng, a crop not even 1% of the value of Russian oil, one would expect the Russian government to apply as strict, if not much stricter, controls and guidelines around oil and gas.

The Russian government has already stamped and recognized Vinca's oil reserves at approximately 400 million barrels, with approximately 100 million barrels in recoverable oil. Sinopec's estimate of Vinca's oil reserves was 18% less than that of the Russian government. In addition to actual drill tests, these figures were derived from over 100 coring samples provided by other oil companies exploring in this area, but at much a deeper depth. So, by virtue of the drilling and coring samples, there is no shadow of a doubt that oil exists in the areas licensed by Vinca.

Nonetheless, the mere existence of oil in the region is not sufficient to give a company like Vinca exponential value. The key is the economic feasibility of oil recovery. Vinca is at a crossroads of moving past the exploratory stage to production stage over the next few years. If Tera's development team figures out a cost-effective way to recover oil profitably, Tera's outlook as a company is bright. However, if Tera fails to figure this out quickly with the available funds, Tera may have to give up its license or sell its license to another company.

To summarize, there is ample scientific evidence that Vinca's licensed area has oil and gas. Second, Vinca has sold approximately 6,000 tons of oil from its own production. The amount of oil sold to date is modest as the Vinca field never went into full production; but for the record, Vinca has both evidence of oil and production and sales of its oil. However, I want to make it absolutely clear that having evidence of oil and producing oil does not mean the game is over and we can all retire. Quite the contrary, it is just the first inning of a long nine inning game. It is not at all sufficient to predict the outcome of the game. Of course, had Vinca's first ten wells delivered outstanding results, much like scoring 10 points in the first inning, a prediction might be made. But Vinca's initial drilling results were nothing spectacular.

In order for a company to realize the full value of its licenses, a company should have a development plan with relevant real world data (drilling and production results) so that an economic forecast can be reliably extrapolated.

Vinca knows that there is oil: the next one to two years will be spent to determine the best method for drilling to maximize oil recovery. As we noticed in the most recent TIP tests, changes in drilling technology can have a material impact on the recovery scenarios.

### **Conclusion**

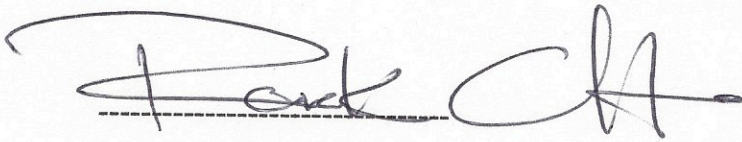
It has been a rough journey for all the Tera shareholders and bondholders. Miraculously, with all your help and support, we have managed to resuscitate a cold, pulseless company



on the verge of death. Although no longer on the deathbed, we do need another twelve to twenty four months of rebuilding before we can hope for any reasonable visibility on the future of our Company. Our team members continue to work diligently and creatively to navigate the maze ahead of us, but we are greatly encouraged by the improvement in our trajectory from eight months ago.

Thank you for your continued support of Tera!

February 03, 2015

A handwritten signature in black ink, appearing to read "Rick Cho". The signature is written in a cursive style with a large, sweeping initial "R" and a distinct "C". A horizontal dashed line is drawn beneath the signature.

Rick Cho