

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

It's been over two years since my last letter to you. At a macro level, many unexpected events took place over those two years such as the devaluation of major currencies such as Japan and Indonesia, deep depreciation of key commodities, MERS hitting Korea, impeachment of President Park and the list goes on. Korea experienced a particularly difficult period under President Park. However, the global economy continues to be resilient based on the strong fundamental impact of the growing middle class in the developing countries and all the infrastructure needed to support its needs. And Korea is on good footing thanks to the newly elected President Moon, another good case study on the importance of leadership, meritocracy and justice in a sovereign country and in any organization. As for Tera, our outlook has improved with oil trading over \$50 a barrel, and the Russian Ruble strengthening to 60 to 1 Dollar.

As you may know, Tera's primary business and asset is in the E&P (oil exploration and production) business in Bashkortostan, Russia through our 70% ownership in Vinka ("Vinka"). However, Tera also owns a secondary group of assets made up of loans and investments. Due to the diligent and tireless efforts by Tera's management team, I am happy to report that we've recovered over \$2.0mm from these secondary assets and majority of them have been resolved in our favor. One the last assets yet to be resolved is an investment/loan made in 2010 to Cuzco Korea Development which owned the Keeaumoku International Village ("Cuzco" or the "Keeaumoku Property") during Mr. Byun's tenure to a property 50% owned by Mr. Byun. We continue to vigorously pursue recovery of our investment in Cuzco.

Getting back to Vinka, I am pleased to report the results of favorable judgment in Tera's favor in the third court on June 29, 2017 in Yekaterinburg, Russia. As you may know, our minority partner lead by Mr. Vladimir Reitman and 3 entities he controls Keriat Oil, Oliver Petroleum, JAV International (collectively called "Minority Shareholders" or the "Reitman Group") challenged Tera's 70% ownership of Vinka and won on the 1st court against Tera despite the mountain of evidence that Tera did in fact purchase the 70% for approximately \$25.2mm between 2007 and 2009.

How any court in a civil society that respects law, transparency and justice take seriously such absurd charges baffled me. Tera clearly paid \$25.2mm to the Reitman Group, and also advanced over \$22.5mm in loans to Vinca over the past 7 years. This was a commonly known fact by the employees, shareholders, managers and the tax authorities of Russia. So, when we lost the first court, I was lost for words and was told that this is Russia, and things like this can happen. Make matters worse, the Reitman Group also manufactured a fake shareholder meeting in April/May 2016 in conjunction with a government sanctioned registration company that erased any remnant of Tera's 70% interest. Using a loophole in the law, the Minority Shareholders took over control of Vinca in May of 2016. Imagine investing over \$48mm into a company that you own 70% interest in and later being told by the Korean government authorities that a minority shareholder who received \$25.2mm in exchange for giving up 70%

interest, now owns 100%. What would happen if this were to happen in Korea and what remedies are available to cure such injustice?

Let me digress and take us back to the beginning. During our first annual meeting, I stated that our current path for Tera is somewhat akin to the life of the Greek God Sisyphus. It's a never ending push up the hill, day after day. This is at the core of turnaround investing and why so few turnarounds are successful. It's not a matter of pressing a keyboard to buy or sell a stock or sprinkling money into the project, it's a daily hand to hand combat while minimizing the use of resources and energy...the famous hedge fund manager Paul Singer of Elliott calls turnaround investing "hard manual labor."

As many of you know, when we first took control of Tera, it was on the verge of sinking like the ship Titanic. Titanic was the epitome of the marvel of engineering and human capability, Vinka has a prized asset of 400 million barrels of oil reserves. But, similar to Titanic it couldn't get over the external factors combined with human errors as the wounds of attacks by outsiders and mismanagement had punctured so many holes, it was about to sink into the ocean. Despite having verified oil reserves by Russian Government, Sinopec and a third party consulting firm Ryder Scott combined with our pledge to inject at least \$5.0mm into Tera, KRX decided to de-list Tera from the KOSDAQ listing. We later found out that none of our business plans or intentions including injecting \$5.0mm new money into Tera were presented to the evaluating board that ultimately decided to de-list Tera. Overnight, KRX wiped out approximately \$300mm of market value, and investors including myself lost millions of dollars with little explanation from KRX. This was an oil asset, rather the chairman dies have little impact an asset such as this, especially given how little Mr. Byun was involved with the operations. As evidence by our accomplishments since taking over, KRX should have opened their arms to us, the white knight to save the company, and instead of losing \$300mm in value overnight, Tera may be in a very different position.

When we took over Tera in the spring of 2014, it was in the middle of over two dozen lawsuits and litigation in Korea and in Russia. Moreover, we had to carry the weight of the past mismanagement, and had to answer to the Korean and Russian regulators at all levels. For those of you who have seen the movie Titanic, there's no time for the main purpose of a cruise ship such as ballroom dancing or sipping tea when the ship is about to sink. Likewise, our team worked vigorously to plug one by one the many holes that could undo the future of Tera. If we didn't have Mr. Park Hyung Seob leading our legal fights, it would have cost us at least 4 to 5 times the costs and our result wouldn't be so favorable. But, it wasn't just Mr. Park, it was the grinding work of all of our executives and employees working as a team and with diligent heart that allowed us to overcome these challenging times. I must mention the enormous heart and efforts of Mr. Park Byung Ok, who has been the gel that glued us together to continue to push forward in saving and growing Tera.

With God's grace and the hard work of Tera's team, by spring of 2016, we managed to resolve 90% of the lawsuits in favorable terms and we were ready to move forward with the horizontal drilling of Vinka's oil fields. Unfortunately, we were met with Reitman Group's well

planned and orchestrated raiding of Vinka in the spring of 2016. Thankfully, we've been cultivating relationships with Russian businessman over the past few years and when the raid took place, we were very fortunate to find the help of few powerful friends in Russia willing to assist us.

Our local partner has worked tirelessly to regain control of Vinka, and their smarts and execution of their plan was like watching a Gold Medal Olympic athlete in action. We still have many court cases to fight with the Reitman Group over the next 6 to 18 months so we are pushing forward. We are also exploring all our legal options against the Reitman Group and will pursue them vigorously without ceasing.

Today, I am pleased to report that Tera has regained control of the board and a prominent Russian businessman and oil investor Mr. Alexey Kalinin has been appointed the Chairman of the Board of Vinka. Further, Mr. Andre Petrov, who served in the Russian FSB over two decades and worked for a Russian E&P company has joined Vinka as the General Director. We are cleaning up and trying to undo all the damage done by the Reitman Group and in parallel are planning next steps to begin our drilling and production program.

Vinka have overcome a major hurdle in our business and is in a better trajectory of growth now than anytime in its 20 plus year history. We have a strong local Russian partner whose interests are aligned with Tera, and is experienced in developing and exiting major oil companies in the region. However, we still have issues to overcome such as meeting the drilling and production requirements of our oil license (which was delayed by the Reitman Group), stopping Reitman Group's attacks, and etc. The next 6 to 18 months are critical times for Tera and Vinka and we are treading carefully but aggressively to establish a strong base and foundation.

During this important time for Vinka, it's truly unfortunate and sad that Tera's management is spending so much time and resources on the Cuzco situation. Even Korean dramas can't make up the characters and malfeasance involved in this case. Make a long story short, Mr. Byun loaned \$5.5mm of Tera's funds to Cuzco back in 2010. Mr. Byun also stole over \$1.5mm of Tera's funds so we sued his wife Yang Soo Kyung and won the judgment. As a result, we applied a court appointment debt seizure on Mr. Byun's 50% ownership in Cuzco (now held by Ms. Yang) in 2015. Meanwhile, the board of directors and the president of Cuzco which was made up of Mr. Byun (Byun's younger brother), Kim Seun Ok and Mr. Jang (former managers of Yedang) together referred to as the "Byun Jang Group" issued bogus 48,000 new shares without any shareholder approval or notice, thereby controlling 70.6% of total outstanding shares for only \$300,000 (There were only 20,000 existing shares held by 10,000 (Yang) 7,058(Choi), 2,942(Tera). Tera along with Ms. Yang and Mr. Choi sued the Byun in Korea court and won in 1st court and 2nd court in 2015, thereby removing the bogus 48,000 shares ("Bogus Shares").

Tera later found out that Byun Jang Group also issued another 60,000 new shares without any shareholder approval or notice which were registered in September 2015 after

losing the 1st court in July 2015 but did not notice any of the shareholders. Obviously an outright criminal act, especially given that they were found guilty of issuing bogus shares in July 2015. Given the criminal act of Byun Jang Group, Yang, Choi (represented by Kim Seung Mo) and Tera file a formal complaint with the Korean prosecutor's office to prosecute Byun Jang Group. Sometime in Nov/Dec of 2015, the prosecutor in charge calls Tera to remove and drop the complaint against Byun Jang Group. Of course Tera refused and the Korean prosecutors office called the 2nd time to request the removal, Tera declined the 2nd time. Tera was puzzled as to why they want us to remove the charges as we were told by the prosecutor that the case will be strongly pursued.

Fast forward to February 2017, while I was in Russia, I get a call from someone that says that the Cuzco property is about to be sold in bankruptcy to Lee Dong Woo for \$30mm when the value is at least \$45mm, a \$15mm discount. When I found this out, we started researching and assembling evidence to present to the Hawaii bankruptcy court to stop this process as we were never noticed or aware of this situation. As it turns out, Yang enlists a broker named Lee Dong Woo (a Korean citizen residing in Los Angeles) sometime in 2015, probably after Tera got the debt seizure order against her 50% interest. Fortunately, after 5 months of fighting in Hawaii Bankruptcy court, the judge finally canceled the illegal transfer of the property to Lee Dong Woo for \$30mm.

Selling the Cuzco property for \$30mm (which would leave Tera with over \$7.0mm of cash loss from this investment) was just the tip of the iceberg. As it turns out, Lee Dong Woo acquired the 60,000 bogus shares from Byun Jang Group back in December 2015 in a confidential settlement agreement. We later found this document while we were fighting Lee Dong Woo in Hawaii bankruptcy court in 2017. Lee Dong Woo purchased the 60,000 bogus shares for \$30,000. I am not kidding, this is the actual number based on their confidential settlement agreement. The original partners of Cuzco paid \$10mm each for 50%. Under Mr. Byun's tenure, Tera paid \$5.5mm for 14.7%. However, Lee Dong Woo pays \$30,000 for over 75% of the company. Then, Lee Dong Woo holds a contested shareholder meeting and issues another 60,000 shares which Yang and Choi (represented by Kim Seung Mo) votes in favor. Imagine what would happen if the executives of Samsung issues new shares while vice chairman Lee is in jail for 75% of the company without any shareholder approval for 99% less than the current share price.

I thought what we experienced in Russia were bad, incredulous and unbelievable. I could not believe what was happening in the Republic of Korea. I thought Korea was a democratic state with basic respect for common law and justice. We later learned that Yang and Choi (represented by Kim Seung Mo) dropped their charges against Byun Jang Group after the December 23, 2015 confidential settlement where broker Lee Dong Woo bought the 60,000 illegally issued bogus shares from the Byun Jang Group for \$30,000. This is probably why the prosecutor called us to drop the charges. According to deposition and declarations of made at the Bankruptcy court in Hawaii, Lee Dong Woo had enlisted Lee & Ko, a large law firm to advise and transact these on behalf of himself and Cuzco.

What's really embarrassing as an ethnic Korean is that even in an autocratic nation like Russia, justice still prevailed. In Hawaii, the judge actually went against his original ruling and stopped the illegal sale of the Property to broker Lee Dong Woo when he found out that he never got shareholder approval and never noticed Tera about the transaction. For a judge to reverse his original judgment is not easy, but is the right thing to do.

However, in Korea, justice is taking a backseat, I am truly embarrassed to report that Tera lost in first court to Lee Dong Woo's illegal 60,000 bogus shares. Further, criminal complaints filed with the police against broker Lee Dong Woo have been silenced without explanation from the police. Everything I have stated are public record in the courts of Hawaii and the Republic of Korea so I am not disclosing any information that's private. Any reporter or persons can obtain the records and see for themselves.

Recently, I learned of the nexus of power and the source of funds of Lee Dong Woo, Yang and Choi (Kim Seung Mo). The reason why we have been blind sided by the police, prosecutors office and possibly the courts is because there is someone powerful behind broker Lee Dong Woo, who appears to be influencing the situation. It's very sad that with the recent impeachment of President Park, and the appointment of President Moon, that Korea continues to stunt its growth of human rights and justice at the expense of normal everyday citizens. Even Russia gave us justice and a U.S. federal judge reversed his decision when he found out about the malfeasance of Lee Dong Woo but Korea is the one country that is trying to put this issue under the rug. The case is ongoing so I am hopeful that this case goes all the way to President Moon and that justice will prevail.

We will continue to fight and push through to protect and grow our assets at Tera. Thank you for your continued partnership with Tera.

July 31, 2017

Rick Cho
Chairman of the Board