REACH ENERGY BERHAD

Company no: 201301004557 (1034400-D)
(Incorporated in Malaysia)

Report
on
Unaudited
Quarterly Financial Results
for the Period
1 Oct 2020
to
31 Dec 2020

(The figures have not been audited)

REACH ENERGY BERHAD
Company no. 201301004557 (1034400-D)
(Incorporated in Malaysia)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	INDIVIDUAL QUARTER Unaudited for the quarter ended 31 Dec 20 RM'000	INDIVIDUAL QUARTER Audited for the quarter ended 31 Dec 19 RM'000	CUMULATIVE QUARTER Unaudited for the year ended 31 Dec 20 RM'000	CUMULATIVE QUARTER Audited for the year ended 31 Dec 19 RM'000
Revenue		22,440	37,760	79,542	170,812
Operating expenses					
Taxes other than income taxes		(5,433)	(12,983)	(22,233)	(55,635)
Purchase, services and other direct costs		(6,523)	(9,383)	(30,204)	(34,790)
Depreciation, depletion and amortisation		(14,259)	(49,853)	(62,386)	(91,135)
Impairment of non-financial asset		(43,737)	(79,223)	(109,890)	(79,223)
Distribution expenses		(2,656)	(4,302)	(12,806)	(18,153)
Employee compensation costs		(3,575)	(4,136)	(13,865)	(14,012)
General and administration expenses		(3,131)	(708)	(17,490)	(7,880)
Net reversal/(loss) on impairment of financial instruments		-	217	-	217
Other operating (expenses)/income – net		(1,545)	1,956	1,806	3,724
Total operating expenses		(80,859)	(158,415)	(267,068)	(296,887)
Loss from operations		**(58,419)**	**(120,655)**	**(187,526)**	**(126,075)**
Finance income		132	337	2,114	2,407
Finance cost		(28,663)	(26,163)	(61,570)	(69,434)
Finance cost – net		(28,531)	(25,826)	(59,456)	(67,027)
Loss before taxation	B13	**(86,950)**	**(146,481)**	**(246,982)**	**(193,102)**
Income tax (expense)/benefit	B14	(12,476)	12,761	50,146	12,988
Loss for the financial period/year		**(99,426)**	**(133,720)**	**(196,836)**	**(180,114)**
Loss attributable to:					
Owners of the Company		(64,475)	(92,551)	(117,715)	(128,403)
Non-controlling interests		(34,951)	(41,169)	(79,121)	(51,711)
Loss for the financial period/year		**(99,426)**	**(133,720)**	**(196,836)**	**(180,114)**
Earnings per share attributable to owners of the Company	B12				
Basic loss per ordinary share (RM):		(0.06)	(0.08)	(0.11)	(0.12)
Diluted loss per ordinary share (RM):		(0.06)	(0.08)	(0.11)	(0.12)
Loss for the financial period/year		**(99,426)**	**(133,720)**	**(196,836)**	**(180,114)**
Other comprehensive (expense)/income, net of tax					
Items that will be reclassified subsequently to profit or loss:					
- Foreign currency translation differences		2,122	(14,817)	9,500	(997)
Total comprehensive expense for the financial period/year		**(97,304)**	**(148,537)**	**(187,336)**	**(181,111)**

The unaudited condensed consolidated statement of comprehensive income should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2019 and the accompanying explanatory notes.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONT'D)

	Note	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
		Unaudited for the quarter ended 31 Dec 20 RM'000	Audited for the quarter ended 31 Dec 19 RM'000	Unaudited for the year ended 31 Dec 20 RM'000	Audited for the year ended 31 Dec 19 RM'000
Total comprehensive (expense)/income for the period attributable to:					
Owners of the Company		(63,200)	(116,794)	(112,014)	(129,001)
Non-controlling interests		(34,104)	(31,743)	(75,322)	(52,110)
Total comprehensive expense for the financial period/year		**(97,304)**	**(148,537)**	**(187,336)**	**(181,111)**

The unaudited condensed consolidated statement of comprehensive income should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2019 and the accompanying explanatory notes.

REACH ENERGY BERHAD
Company no. 201301004557 (1034400-D)
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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 31 Dec 20 RM'000	Audited As at 31 Dec 19 RM'000
Assets			
Non-current assets			
Property, plant and equipment		1,257,149	1,425,941
Intangible assets		1,490	1,705
Right use of assets		2,420	5,856
Prepayment and other receivables		3,274	7,402
Restricted cash		6,953	6,860
Total non-current assets		**1,271,286**	**1,447,764**
Current assets			
Inventories		1,835	3,553
Trade receivables		5,664	296
Prepayment and other receivables		10,559	16,743
Amount due from corporate shareholder in a subsidiary		4,007	3,237
Deposits, cash and bank balances		10,163	35,958
Total current assets		**32,228**	**59,787**
Total assets		**1,303,514**	**1,507,551**
Liabilities			
Current liabilities			
Trade payables		55,824	42,399
Accruals and other payables		30,873	18,025
Lease liabilities		352	912
Amounts due to corporate shareholder in a subsidiary	A7	331,340	8,149
Current tax liabilities		2,886	3,513
Total current liabilities		**421,275**	**72,998**
Net current liabilities		**(389,047)**	**(13,211)**
Total assets less current liabilities		**882,239**	**1,434,553**
Non-current liabilities			
Deferred tax liabilities		60,758	108,756
Amounts due to corporate shareholder in a subsidiary	A7	317,278	617,131
Trade payables		8,809	22,356
Accruals and other payables		296	864
Lease liabilities		2,079	4,859
Provisions		5,506	5,738
		394,726	**759,704**
Net assets		**487,513**	**674,849**
Equity			
Capital		488,975	488,975
Other reserves		181,809	176,108
Accumulated losses		(301,821)	(184,106)
Equity attributable to owners of the Company		368,963	480,977
Non-controlling interest		118,550	193,872
Total Equity		**487,513**	**674,849**
Net assets per share (RM)		**0.44**	**0.62**

The unaudited condensed consolidated statement of financial position should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2019 and the accompanying explanatory notes.

REACH ENERGY BERHAD
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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	← Attributable to Equity Holders of the Company					→		
	← Non-distributable			→				
	Capital RM'000	**Warrants reserve RM'000**	**Share-based payment reserves RM'000**	**Foreign exchange reserve RM'000**	**Accumulated losses RM'000**	**Total RM'000**	**Non-controlling interest RM'000**	**Total Equity RM'000**
As at 1 January 2020	488,975	198,914	821	(23,627)	(184,106)	480,977	193,872	674,849
Loss for the financial year	-	-	-	-	(117,715)	(117,715)	(79,121)	(196,836)
Other comprehensive expense, net of tax								
- Foreign currency translation	-	-	-	5,701	-	5,701	3,799	9,500
Total comprehensive income/(expense) for the financial year	-	-	-	5,701	(117,715)	(112,014)	(75,322)	(187,336)
As at 31 December 2020	**488,975**	**198,914**	**821**	**(17,926)**	**(301,821)**	**368,963**	**118,550**	**487,513**

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2019 and the accompanying explanatory notes.

REACH ENERGY BERHAD
Company no. 201301004557 (1034400-D)
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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Equity Holders of the Company								
	Non-distributable								
	Capital RM'000	Warrants reserve RM'000	Capital contribution RM'000	Share-based payment reserves RM'000	Foreign exchange reserve RM'000	Accumulated losses RM'000	Total RM'000	Non-controlling interest RM'000	Total Equity RM'000
As at 1 January 2019	488,975	198,914	81,682	821	(23,029)	(55,703)	691,660	162,480	854,140
Loss for the financial year	-	-	-	-	-	(128,403)	(128,403)	(51,711)	(180,114)
Other comprehensive income, net of tax									
- Foreign currency translation	-	-	-	-	(598)	-	(598)	(399)	(997)
- Impact of restructuring of loan from corporate shareholder of a subsidiary	-	-	(81,682)	-	-	-	(81,682)	83,502	1,820
Total comprehensive income/(expense) for the year	-	-	(81,682)	-	(598)	(128,403)	(201,683)	31,392	(179,291)
As at 31 December 2019	**488,975**	**198,914**	**-**	**821**	**(23,627)**	**(184,106)**	**480,977**	**193,872**	**674,849**

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2019 and the accompanying explanatory notes.

REACH ENERGY BERHAD
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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 12 months 31 Dec 20 RM'000	Audited 12 months 31 Dec 19 RM'000
Cash flows from operating activities		
Loss before tax	(246,982)	(193,102)
Adjustments for:-		
Depreciation of property, plant and equipment	58,642	91,135
Impairment of asset	106,145	79,223
Unrealised foreign exchange gain, net	8,539	5,463
Finance cost	51,773	63,971
Finance income	(750)	(2,407)
Change in estimate of asset retirement obligations	-	(4,608)
Loss in disposal of assets	132	472
Write off of inventory	243	357
Write off of property, plant and equipment	(33)	429
Impairment charge/(reversal) of:		
-trade receivables	(24)	15
-cash and bank balances	-	(232)
Net provision for inventory obsolescence	(1,173)	832
	(23,488)	41,548
Changes in working capital:-		
Inventories	2,549	(1,730)
Prepayment and other receivables	10,270	(8,847)
Trade receivables	(5,598)	13,726
Trade payables	1,069	9,098
Other payables and accruals	37,383	(858)
Amount due to corporate shareholder in a subsidiary	(6,671)	(1,158)
Cash flows generated from operating activities	15,514	51,779
Income tax refund	-	164
Net cash generated from operating activities	15,514	51,943
Cash flows from investing activities		
Purchases of property, plant and equipment	(15,349)	(36,814)
Finance income received	750	1,634
Movement in restricted cash	(237)	-
Net cash used in investing activities	(14,836)	(35,180)
Cash flows from financing activities		
Interest paid	-	(2,914)
Payment of amount due to corporate shareholder in a subsidiary	(13,398)	(25,866)
Payment of lease interest	(103)	(62)
Payment of lease principal	(857)	(451)
Net cash used in financing activities	(14,358)	(29,293)
Net (decrease)/increase in cash and cash equivalents	(13,680)	(12,530)
Cash and cash equivalents at the beginning of the year	35,958	49,007
Exchange difference on cash and cash equivalents	(12,115)	(519)
Cash and cash equivalents at end of the period/year	10,163	35,958

The unaudited condensed consolidated statement of cash flows should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2019 and the accompanying explanatory notes.

PART A - EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134 - INTERIM FINANCIAL REPORTING

A1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") 134, Interim Financial Reporting issued by Malaysian Accounting Standards Board ("MASB") and Paragraph 9.22 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"). The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2019 and the accompanying notes attached to the unaudited condensed consolidated financial statements.

The explanatory notes attached to unaudited condensed consolidated financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2019.

The accounting policies and methods of computation adopted by the Group in these unaudited condensed consolidated financial statements are consistent with those adopted in the audited consolidated financial statements for the financial year ended 31 December 2019 except for those standards, amendments and interpretations which are effective from the annual period beginning on or after 1 January 2020. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the financial year ending 31 December 2020.

The Group has applied the following standards and amendments for the first time for the financial year beginning on 1 January 2020:

- The Conceptual Framework for Financial Reporting (Revised 2018)
- Amendments to MFRS 101 and MFRS 108 'Definition of Material'
- Amendments to MFRS 3 'Definition of a Business'
- Amendments to MFRS 9, MFRS 139 and MFRS 7 'Interest Rate Benchmark Reform'

The amendments listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

A2. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2020. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- Amendments to MFRS 16 'COVID-19-Related Rent Concessions' (effective 1 June 2020) grant an optional exemption for lessees to account for a rent concession related to COVID-19 in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs. The amendment, however, do not make any changes to lessor accounting.

  The exemption only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

  (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
  (b) any reduction in lease payments affects only payments due on or before 30 June 2021; and
  (c) there is no substantive change to other terms and conditions of the lease.

  The amendments shall be applied retrospectively.

- Annual Improvements to MFRS 9 'Fees in the 10% test for de-recognition of financial liabilities' (effective 1 January 2022) clarifies that only fees paid or received between the borrower and the lender, including the fees paid or received on each other's behalf, are included in the cash flow of the new loan when performing the 10% test.

  An entity shall apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

A2. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONT'D)

- Amendments to MFRS 3 'Reference to Conceptual Framework' (effective 1 January 2022) replace the reference to Framework for Preparation and Presentation of Financial Statements with 2018 Conceptual Framework. The amendments did not change the current accounting for business combinations on acquisition date.

  The amendments provide an exception for the recognition of liabilities and contingent liabilities should be in accordance with the principles of MFRS 137 'Provisions, contingent liabilities and contingent assets' and IC Interpretation 21 'Levies' when falls within their scope. It also clarifies that contingent assets should not be recognised at the acquisition date.

  The amendments shall be applied prospectively.

- Amendments to MFRS 116 'Proceeds before intended use' (effective 1 January 2022) prohibit an entity from deducting from the cost of a property, plant and equipment the proceeds received from selling items produced by the property, plant and equipment before it is ready for its intended use. The sales proceeds should instead be recognised in profit or loss. The amendments also clarify that testing whether an asset is functioning properly refers to assessing the technical and physical performance of the property, plant and equipment.

  The amendments shall be applied retrospectively.

- Amendments to MFRS 137 'onerous contracts—cost of fulfilling a contract' (effective 1 January 2022) clarify that direct costs of fulfilling a contract include both the incremental cost of fulfilling the contract as well as an allocation of other costs directly related to fulfilling contracts. The amendments also clarify that before recognising a separate provision for an onerous contract, impairment loss that has occurred on assets used in fulfilling the contract should be recognised.

  The amendments shall be applied retrospectively.

- Amendments to MFRS 101 'Classification of liabilities as current or non- current' (effective 1 January 2023) clarify that a liability is classified as non-current if an entity has a substantive right at the end of the reporting period to defer settlement for at least 12 months after the reporting period.

  A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date. A loan is classified as non-current if a covenant is breached after the reporting date.

  The amendments shall be applied retrospectively

A3. AUDITORS' OPINION ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The Group's consolidated financial statements for the financial year ended 31 December 2019 were not subject to audit qualification.

A4. SEASONALITY OR CYCLICALITY OF OPERATIONS

The Group's operations are not affected by any seasonal or cyclical factors.

A5. INDIVIDUALLY SIGNIFICANT ITEMS

There are no other significant or unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group on the current financial period under review.

A6. MATERIAL CHANGES IN ESTIMATES

There were no significant changes in estimates that have material effect on the current financial period under review.

A7. BORROWING, DEBT AND EQUITY SECURITY

(I) BORROWING

	As at 31 December 2020					
	Long term		Short term		Total borrowings	
Amount due to corporate shareholder in a subsidiary	***Foreign denomination ’000**	**RM denomination ’000**	***Foreign denomination ’000**	**RM denomination ’000**	***Foreign denomination ’000**	**RM denomination ’000**
Unsecured	79,062	317,278	82,567	331,340	161,629	648,618
	As at 31 Dec 2019					
	Long term		**Short term**		**Total borrowings**	
Amount due to corporate shareholder in a subsidiary	***Foreign denomination ’000**	**RM Denomination ’000**	***Foreign denomination ’000**	**RM denomination ’000**	***Foreign denomination ’000**	**RM Denomination ’000**
Unsecured	150,796	617,131	1,991	8,149	152,787	625,280

*The unsecured borrowings are denominated in United States Dollars (“USD”) and translated at the rate of 4.013 (2019: 4.093).

There was a repayment of principal on deferred consideration and no drawdowns of borrowings made during the 12 months financial period ended 31 December 2020. The amount due to corporate shareholder in a subsidiary has the following interest exposures and repayment terms:

Amount	Interest	Repayment terms
RM’000		
155,493	Ranging from 10% to 14%	No fixed repayment period
230,324	5%	Due in 2021
92,568	Interest free	Due in 2021
58,996	4.86%	Due in 2036
34,379	Interest free	Due in 2036
8,448	Interest free	Repayable on demand
1,559	5%	Due in 2023
698	Interest free	Due in 2023
66,153	Interest free	No fixed repayment period
648,618		

(II) EQUITY

There were no movements in the issued and paid-up capital of the Company during the current period.

A8. DIVIDEND PAID

There was no dividend declared or paid during the current financial period ended 31 December 2020.

A9. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE YEAR

There were no material events after the interim period that have not been reflected in the unaudited condensed consolidated financial statements.

A10. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the current financial period ended 31 December 2020.

A11. CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no contingent liabilities or contingent assets as at 31 December 2020.

A12. COMMITMENT

(I) CAPITAL COMMITMENTS FOR THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT:

	Unaudited As at 31 Dec 20 RM'000	**Audited As at 31 Dec 19 RM'000**
Authorised but not contracted for	7,090	35,526
Contracted but not provided for	28,648	107,170
	35,738	142,696

(II) According to the production contracts for six fields in Kazakhstan, the Group is obligated to perform minimum work program during the life of the production contracts. Set out below is the commitment for the minimum work program:

	Unaudited As at 31 Dec 20 RM'000	**Audited As at 31 Dec 19 RM'000**
< 1 year	477,488	201,733
1 – 2 years	551,185	326,752
2 – 5 years	617,844	299,768
> 5 years	1,344,605	763,252
	2,991,122	1,591,505

In January 2020, we were awarded two new production contracts (North Kariman and Yessen fields) which explains the increase in cost under the work program. The minimum work program includes capital expenditure of RM 850 million (2019: RM 931 million) to be incurred over the life of the production contracts expiring in 2036. Other commitments represent mainly direct operation and maintenance costs of wells and related facilities.

PART B: ADDITIONAL NOTES TO REQUIREMENTS UNDER CHAPTER 9 OF THE BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS

B1. OPERATING SEGMENTS

Operating segments are represented in respect of the Group's business segments. The Group has activities in the following principal areas:

OIL AND GAS

The oil and gas operating segment consists of the exploration, development, production and sales of oil and other petroleum products in the Republic of Kazakhstan.

All revenue of the operating segment is contributed by external customers. The major customer, Euro Asian Oil SA ("Euro Asian"), is one the largest trading companies in Mangystau region of Western Kazakhstan.

INVESTMENT HOLDING

The investment holding segment's main activity is to hold the investment in Emir-Oil Concession Block with awarded Exploration and Production Contracts up to year 2036.

B1. OPERATING SEGMENTS (CONT'D)

(I) SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	INDIVIDUAL QUARTER		INDIVIDUAL QUARTER		CUMULATIVE QUARTER		CUMULATIVE QUARTER	
	Unaudited for the quarter ended 31 Dec 20		Audited for the quarter ended 31 Dec 19		Unaudited for the year ended 31 Dec 20		Audited for the year ended 31 Dec 19	
	Oil & Gas RM'000	Investment Holdings RM'000	Oil & Gas RM'000	Investment Holdings RM'000	Oil & Gas RM'000	Investment Holdings RM'000	Oil & Gas RM'000	Investment Holdings RM'000
Revenue	22,440	-	37,760	-	79,542	-	170,812	-
Results								
Operating expenses	(79,355)	(1,504)	(155,643)	(2,772)	(259,632)	(7,436)	(288,052)	(8,835)
Finance (cost)/ income, net	(8,199)	(20,332)	43,038	(68,864)	(28,177)	(31,279)	(25,027)	(42,000)
Loss before taxation	(65,114)	(21,836)	(74,845)	(71,636)	(208,267)	(38,715)	(142,267)	(50,835)
Income tax (expense)/benefit	(12,476)	-	12,761	-	50,146	-	12,988	-
Loss for the financial period/year	(77,590)	(21,836)	(62,084)	(71,636)	(158,121)	(38,715)	(129,279)	(50,835)

The amounts are denominated in United States Dollars ("USD") and translated at an average rate of 4.199 (2019: 4.141).

(II) SUMMARISED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 31 Dec 20		Audited as at 31 Dec 19	
	Oil & Gas RM'000	Investment Holdings RM'000	Oil & Gas RM'000	Investment Holdings RM'000
Non-current assets	1,271,179	107	1,447,407	357
Current assets	25,941	6,287	34,164	25,623
Current liabilities	(417,864)	(3,411)	(69,686)	(3,312)
Non-current liabilities	(172,965)	(221,761)	(543,492)	(216,212)
Net assets	706,291	(218,778)	868,393	(193,544)
Accumulated non-controlling interest		118,550		193,872

The amounts are denominated in United States Dollars ("USD") and translated at the closing rate of 4.013 (2019: 4.093).

B2. OVERALL REVIEW OF GROUP'S FINANCIAL PERFORMANCE

(I) COMPARING WITH PRECEDING YEAR QUARTER RESULTS

	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
	Unaudited for the quarter ended 31 Dec 20 RM'000	Audited for the quarter ended 31 Dec 19 RM'000	Unaudited for the year ended 31 Dec 20 RM'000	Audited for the year ended 31 Dec 19 RM'000
Revenue	22,440	37,760	79,542	170,812
Operating expenses	(80,859)	(158,415)	(267,068)	(296,887)
EBITDA	(44,160)	(70,802)	(125,140)	(34,940)
Loss before tax	(86,950)	(146,481)	(246,982)	(193,102)
Loss after tax	(99,426)	(133,720)	(196,836)	(180,114)

B2. OVERALL REVIEW OF GROUP'S FINANCIAL PERFORMANCE (CONT'D)

(I) COMPARING WITH PRECEDING YEAR QUARTER RESULTS (CONT'D)

Individual Quarter

The Group recorded revenue of RM 22.4 million for the current quarter under review as compared to RM 37.8 million in the preceding year corresponding quarter. The lower revenue for the current quarter was due to lower production. The average production for the fourth quarter of 2020 was 1,904 bopd as compared to 2,011 bopd for the fourth quarter of 2019.

Operating expenses for the fourth quarter showed a decrease of RM 77.6 million as compared to the corresponding fourth quarter of 2019, mainly due to decrease in recognition of impairment of non-financial asset and provision of Depreciation, Depletion and Amortization (DD&A) in the fourth quarter of 2020.

The Group recorded lower negative Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) of RM 44.2 million in the fourth quarter of 2020 as compared to negative EBITDA of RM 70.8 million in the fourth quarter of 2019 due to lower operating expenses as explained above.

The Finance Cost of RM 28.6 million in the fourth quarter of 2020 mainly consists of interest payable to corporate shareholder.

The Group has recorded Loss before Tax of RM 87.0 million in the fourth quarter of 2020, as compared to Loss before Tax of RM 146.5 million in the fourth quarter of 2019.

Currently, the Group's net asset per share stands at RM 0.44 as compared to the closing market price of RM 0.10 per share on 25 March 2021.

(II) COMPARING WITH IMMEDIATE PRECEDING QUARTER RESULTS

	CURRENT QUARTER	IMMEDIATE PRECEDING QUARTER
	Unaudited for the period ended 31 Dec 20 RM'000	Unaudited for the period ended 30 Sep 20 RM'000
Revenue	22,440	17,439
Operating expenses	(80,859)	(46,923)
EBITDA	(44,160)	(11,952)
Loss before tax	(86,950)	(50,322)
Loss after tax	(99,426)	(36,169)

The Group's revenue for the current quarter under review has an increase of RM 5.0 million to RM 22.4 million as compared to the third quarter of 2020. The higher revenue was contributed by the higher production in the fourth quarter of 2020 of 1,904 bopd, as compared to 1,768 bopd in the third quarter of 2020.

For the current quarter, the operating expenses and negative EBITDA was higher as compared to the third quarter of 2020 mainly due to the provision for impairment in the fourth quarter of 2020.

For the current quarter under review, the Group has recorded Loss before Tax of RM 87.0 million and Loss after Tax of RM 99.4 million as compared to the third quarter of 2020 Loss before Tax of RM 50.3 million and Loss after Tax of RM 36.1 million.

B3. MATERIAL CHANGE IN PROFIT BEFORE TAXATION

The Group recorded a Loss before Tax of RM 247.0 million in the current 12 months period ended 31 December 2020 while in the corresponding 12 months period ended 31 December 2019, the Group recorded a Loss before Tax of RM 193.1 million.

The higher Loss before Tax was mainly attributed by lower production and lower average brent crude oil price. The Group has recorded a lower production of 1,742 bopd in year 2020 as compared to production of 2,332 bopd in year 2019. The average brent price of year 2020 is at USD 41 as compared to average brent price of USD 61 in year 2019.

B4. PROSPECT

The oil and gas outlook for this year is expected to remain challenging, due to the volatility in the global and domestic markets. In this respect, Reach Energy Berhad ("the Group") together with its major sub-subsidiary, Emir-Oil ("EO") has developed a turnaround plan to improve its performance both near term and long term. The main target is to enhance its production, rectify violation issues, secure funding and optimise the cost.

To sustain production, we will continue with the workover program which include replacing the electrical submersible pumps, adding perforations into the new reservoirs, and rejuvenation of idle wells.

The Board of Directors of Reach Energy Berhad will continue to take measures to improve its financial positions and increase the shareholder value.

Emir-Oil has about 50 million barrels of remaining estimated 2P reserves by the end of 2020. To capture these reserves, 31 new development wells are required to be drilled. One of the strategies to increase production immediately is to drill new development wells in prolific locations first, and conduct the remaining program in stages in accordance with the Group's financial capability. The drilling program is expected to commence in 2021.

There are also two exploration commitment wells, which are now deferred until the end of its exploration period, currently in 2022. In addition, 13 new prospects remained in the exploration Block, and we will further assess the Block's potentials based on the outcome from the new exploration wells.

Another initiative to increase production is to install the gas injection facilities to maintain the reservoir pressure. This project will be conducted in two phases in the main Kariman field, with Phase 1 targeted to be completed this year. Phase 2 will follow suit after that.

As export sales is more profitable than domestic, Emir-Oil is striving to get more export quota every month from the Ministry of Energy of Kazakhstan.

Emir-Oil is committed to resolve all the violation issues by year 2022. This rectification project will be conducted in 2 phases. The Phase 1 is considering the basic enhancement of the facilities to enable it to operate within the guidelines, while Phase 2 will assess the entire facilities in a more comprehensive manner.

Emir-Oil is also progressing well in keeping the unit production cost down to a more sustainable level. We managed to keep the unit production cost at slightly above US$10/barrel in the fourth quarter of 2020.

On the corporate financing, Emir-Oil had obtained a loan from Kazakhstan Bank amounting to USD 9.3 million in January 2021 to finance its CAPEX investment. The Group and Emir-Oil plan to obtain additional loan of USD 25 million to USD 30 million in next few years to further finance its CAPEX investment and expansion plan as mentioned above.

In summary, Emir-Oil needs to drill more developments wells to increase the production. Gas injection is important for reservoir pressure maintenance in the Kariman field. Cost optimisation is the key to manage our cash netback and we need to get more export quota.

Barring any unforeseen circumstances, the Board of Directors believe with our well positioned strategies to continue developing the plans, the Group will generate an improved bottom-line.

B5. RESERVES

As part of our responsibility as a public-listed E&P Company, we provide transparency of our core assets to shareholders and the public. Our appointed Independent Reserves Auditor/Assessor, Gaffney Cline and Associates ("GCA"), had completed an independent reserves and economic evaluation of oil and gas properties in the Emir-Oil Concession Block, as at the effective date of 31 December 2020.

As at 31 December 2020, the gross reserves (100% basis) of Emir-Oil Concession Block are summarised in the table below:

(I) OIL AND LIQUEFIED PETROLEUM GAS (LPG)

FIELD	OIL RESERVES (MMSTB)		
	1P (PROVED RESERVES)	2P (PROVED + PROBABLE RESERVES)	3P (PROVED + PROBABLE + POSSIBLE RESERVES)
Kariman	11.95	48.06	81.05
Dolinnoe	1.66	3.67	6.46
Aksaz	0.25	0.42	0.68
Yessen	1.15	1.33	1.41
Emir	0.03	0.07	0.14
Total	**15.04**	**53.55**	**89.74**

(II) GAS

FIELD	GAS RESERVES (BSCF)		
	1P (PROVED RESERVES)	2P (PROVED + PROBABLE RESERVES)	3P (PROVED + PROBABLE + POSSIBLE RESERVES)
Kariman	10.68	57.25	87.28
Dolinnoe	7.47	15.87	27.25
Aksaz	1.83	3.04	4.96
Yessen	0.05	0.06	0.06
Emir	0.00	0.01	0.04
Total	**20.03**	**76.23**	**119.59**

(III) OIL, LPG AND GAS

FIELD	OIL AND GAS RESERVES (MMBOE)		
	1P (PROVED RESERVES)	2P (PROVED + PROBABLE RESERVES)	3P (PROVED + PROBABLE + POSSIBLE RESERVES)
Kariman	13.73	57.60	95.60
Dolinnoe	2.91	6.32	11.00
Aksaz	0.56	0.93	1.51
Yessen	1.16	1.34	1.42
Emir	0.03	0.07	0.15
Total	**18.39**	**66.26**	**109.68**

B6. STATUS OF UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSAL

Purpose of Utilisation	Proposed Utilisation RM'000	Actual Utilisation RM'000
Acquisition of the target company/asset	710,625	580,528
Working capital		
- Remuneration of the management team	15,459	16,466
- Pre-IPO office and corporate expenses	611	25,646
- Others	26,475	35,078
Estimated listing expenses	26,000	26,795

B7. PROFIT FORECAST AND GUARANTEE

The Group has not announced or disclosed any profit forecast and guarantee in any public documents.

B8. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

There were no purchases or disposal of quoted securities during the financial period ended 31 December 2020.

B9. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There were no sale of unquoted investment and /or properties during the financial period ended 31 December 2020.

B10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

There were no financial instruments with material off-balance sheet risk as at 31 December 2020.

B11. MATERIAL LITIGATION

(I) LITIGATION INVOLVING EMIR-OIL LLP AND MINISTRY OF ENERGY IN KAZAKHSTAN IN CONNECTION TO GAS DISPERSION VIOLATIONS FROM OPEN TANKS AT EMIR-OIL

Emir-Oil LLP ("EO"), the Company's sub-subsidiary had received a Statement of Claim from Ministry of Energy ("MOE") in Kazakhstan in connection with the inspection carried out by MOE.

During the inspection carried out by MOE for the periods from January 2018 up to September 2019, MOE observed some substance of gas dispersion violations from open tanks at Emir-Oil. In general, gas dispersion is not permitted pursuant to the Subsoil Use Codes in Kazakhstan.

The Court in Kazakhstan ("the Court") had on 13 November 2020 ruled that EO had lost the court case and shall pay for the damages amounting to RM 7,292,000 (KZT 760,000,000). The Court further indicated that EO could file its appeal before 13 December 2020.

Currently, the Company is seeking necessary legal advice to resolve and/or to defend the legal suit.

(II) LITIGATION INVOLVING EMIR-OIL LLP AND MINISTRY OF ENERGY IN KAZAKHSTAN IN CONNECTION TO GAS DISPERSION VIOLATIONS FROM EMIR-OIL'S OPERATING FACILITIES

Emir-Oil LLP ("EO"), the Company's sub-subsidiary had received a Statement of Claim from Ministry of Energy ("MOE") in Kazakhstan in connection with the inspection carried out by MOE.

During the inspection carried out by MOE for the periods from January 2018 up to September 2019, MOE observed some substance of gas dispersion violations from EO's operating facilities. In general, gas dispersion is not permitted pursuant to the Subsoil Use Codes in Kazakhstan.

The Court in Kazakhstan ("the Court") had on 19 November 2020 ruled that EO had lost the court case and shall pay for the damages amounting to RM 3,181,000 (KZT 332,271,208). The Court further indicated that EO could file its appeal before 19 December 2020.

Currently, the Company is seeking necessary legal advice to resolve and/or to defend the legal suit.

B11. MATERIAL LITIGATION (CONT'D)

(III) LITIGATION INVOLVING EMIR-OIL LLP AND MINISTRY OF ENERGY IN KAZAKHSTAN IN CONNECTION TO GAS DISPERSION VIOLATIONS AT EMIR OIL FACILITIES DURING OIL OPERATIONS

Emir-Oil LLP ("EO"), the Company's sub-subsidiary had received a Statement of Claim from Ministry of Energy ("MOE") in Kazakhstan in connection with the inspection carried out by MOE.

The Mangystau Regional Court in Kazakhstan ("the Court") had on 12 February 2021 ruled that EO had lost the appeal and was ordered to suspend its operation for two (2) months effective from the ruling date on 12 February 2021. The financial and operational impact to the Company associated with the two (2) months suspension of operations is estimated to contribute 13% to 15% reduction in the total annual revenue for the financial year ended 31 December 2021.

EO is allowed to file further appeal and currently, the Company is seeking necessary legal advice for further action.

B12. EARNINGS PER SHARE

(I) BASIC LOSS PER ORDINARY SHARE

The calculation of basic loss per ordinary share as at 31 December 2020 was based on the loss attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, as follows:-

	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
	Unaudited for the quarter ended 31 Dec 20 RM'000	Audited for the quarter ended 31 Dec 19 RM'000	Unaudited for the year ended 31 Dec 20 RM'000	Audited for the year ended 31 Dec 19 RM'000
Loss after taxation attributable to owner of the Company	(64,475)	(92,551)	(117,715)	(128,403)
Weighted average number of ordinary shares	1,096,413	1,096,413	1,096,413	1,096,413
Basic loss per ordinary share (RM)	(0.06)	(0.08)	(0.11)	(0.12)
Diluted loss per ordinary share (RM)	(0.06)	(0.08)	(0.11)	(0.12)

(II) DILUTED EARNINGS/(LOSS) PER ORDINARY SHARE

Diluted earnings/(loss) per ordinary share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effect of all dilutive potential ordinary shares, which comprise of free convertible warrants granted to the shareholders.

The assumed conversions from the exercise of warrants of the ordinary shares would be anti-dilutive.

B13. LOSS BEFORE TAXATION

	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
	Unaudited for the quarter ended 31 Dec 20 RM'000	Audited for the quarter ended 31 Dec 19 RM'000	Unaudited for the year ended 31 Dec 20 RM'000	Audited for the year ended 31 Dec 19 RM'000
Loss before taxation is arrived after charging/(crediting):				
Interest income from deposits with licensed banks	132	327	750	1,625
Other finance income/(expenses)	-	10	-	10
Foreign exchange (loss)/gain, net	(5,107)	(3,980)	1,364	772
Interest expenses on loan from corporate shareholder in a subsidiary	(6,526)	(8,081)	(26,454)	(35,328)
Interest expenses on deferred consideration	(5,601)	(6,294)	(22,816)	(25,367)
Other finance cost	(11,429)	(7,808)	(12,300)	(8,739)

B14. INCOME TAX BENEFITS/(EXPENSES)

	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
	Unaudited for the quarter ended 31 Dec 20 RM'000	Audited for the quarter ended 31 Dec 19 RM'000	Unaudited for the year ended 31 Dec 20 RM'000	Audited for the year ended 31 Dec 19 RM'000
Current income tax				
Malaysian income tax:				
- Current period/year	-	-	-	-
Foreign income tax:				
- Current year	(21)	19	1,203	975
- Under provision in prior year	-	(316)	-	611
Deferred income tax:				
- Origination and reversal of temporary difference	(12,455)	13,058	48,943	11,402
	(12,476)	12,761	50,146	12,988

In the current year, the income tax is calculated at the statutory tax rate of 24% (2019: 24%) of the estimated assessable profit for the year.

BY ORDER OF THE BOARD
CHEN BEE LING (MAICSA 7046517)
TAN LAI HONG (MAICSA 7057707)

COMPANY SECRETARIES
26 MARCH 2021