Company No.

1034400	D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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Company No.

1034400	D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

CONTENTS

Company No.

1034400	D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

The Directors hereby submit their report and the audited financial statements of the Group and Company for the financial year ended 31 December 2016.

DIRECTORS

The Directors who have held office during the year since the date of the last report are as follows:

Tan Sri Dr. Azmil Khalili Bin Dato' Khalid	(appointed on 23 January 2017)
Shahul Hamid Bin Mohd Ismail	
Tan Siew Chaing	(appointed on 23 January 2017)
Izlan Bin Izhab	
Nik Din Bin Nik Sulaiman	
Aonghus Joseph O'Carroll	

In accordance with Article 70 of the Constitution of the Company, Shahul Hamid Bin Mohd Ismail retires at the forthcoming Fourth Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 75 of the Constitution of the Company, Tan Sri Dr. Azmil Khalili Bin Dato' Khalid and Tan Siew Chaing retire at the forthcoming Fourth Annual General Meeting and, being eligible, offer themselves for re-election.

PRINCIPAL ACTIVITIES

The principal activity of Company is that of investment holding. The Group is principally engaged in the exploration, development and sale of crude oil and other petroleum products.

The principal activities of the subsidiaries are set out in Note 17. There have been no significant change in the nature of these activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit/(Loss) for the financial year attributable to:		
- Owners of the Company	125,526	(4,225)
- Non-controlling interest	(5,282)	-
Profit/(Loss) for the financial year	120,244	(4,225)

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are disclosed in the financial statements.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than the benefits shown under Directors' Remuneration) by reason of a contract made by the Company or by a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither during nor at the end of the financial year was the Company or any of its subsidiaries a party to any arrangements whose object was to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, none of the Directors who held office at the end of the financial year held any shares in the Company or its subsidiaries during the financial year except as follows:

	Number of ordinary shares/warrants			
Interest in the Company	At 1.1.2016	Bought	Sold	At 31.12.2016
Shahul Hamid Bin Mohd Ismail				
- ordinary shares	741,000	25,000	-	766,000
- warrants	1,000,000	-	-	1,000,000
Nik Din Bin Nik Sulaiman	-	400,000	-	400,000
Deemed interest/ Indirect interest in the Company				
Shahul Hamid Bin Mohd Ismail				
- ordinary shares	255,600,200*	-	-	255,600,200*
- warrants	255,600,000*	-	-	255,600,000*
Nik Din Bin Nik Sulaiman	-	350,000**	-	350,000**

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

* Deemed interested by virtue of his interests in Reach Energy Holdings Sdn. Bhd. pursuant to Section 6A of the Companies Act, 1965.

** Indirect interest by virtue of the interest of his spouse, Nik Aminah Binti Nik Abdullah pursuant to Section 134 of the Companies Act, 1965.

Other than as disclosed above, according to the Register of Directors' Shareholdings, the Directors in office at the end of the financial year did not hold any interest in the shares and/or options over shares in the Company or in its related corporations during the financial year.

DIVIDENDS

No dividend has been paid, declared or proposed since the end of the previous financial period. The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2016.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 13 to the financial statements.

OTHER STATUTORY INFORMATION

(a) Before the financial statements of the Group and of the Company were prepared, the Directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

(ii) to ensure that any current assets, which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Group and of the Company had been written down to an amount which the current assets might be expected so to realise.

OTHER STATUTORY INFORMATION (CONTINUED)

(b) At the date of this report, the Directors are not aware of any circumstances:

(i) which would render the amounts written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; or

(ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or

(iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(c) At the date of this report:

(i) there are no charges on the assets of the Group and of the Company which have arisen since the end of the financial year which secures the liabilities of any other person; and

(ii) there are no contingent liabilities in the Group and in the Company which have arisen since the end of the financial year.

(d) No contingent or other liability of any company in the Group has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Company and its subsidiaries to meet their obligations when they fall due.

(e) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the respective financial statements misleading.

(f) In the opinion of the Directors:

(i) the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

Company No.

1034400	D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

SUBSIDIARIES

Details of subsidiaries are set out in Note 17 to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 12 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 17 April 2017.

SHAHUL HAMID BIN MOHD ISMAIL
DIRECTOR

IZLAN BIN IZHAB
DIRECTOR

Company No.

1034400	D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Group 1.1.2016 to 31.12.2016 RM'000	Company 1.1.2016 to 31.12.2016 RM'000	Company 1.8.2014 to 31.12.2015 RM'000
Revenue	7	14,994	-	-
Negative goodwill	16	156,873	-	-
Operating expenses				
Taxes other than income taxes	8	(4,743)	-	-
Purchases, services and other direct costs		(3,555)	-	-
Depreciation, depletion and amortisation	18	(3,361)	(227)	(452)
Distribution expense		(3,006)	-	-
Employee compensation costs	9	(6,895)	(5,873)	(7,513)
General and administrative expenses		(5,287)	(2,417)	(1,710)
Other operating expenses – net	10	(28,211)	(48)	(3,637)
Total operating expenses		(55,058)	(8,565)	(13,312)
Profit/ (Loss) from operations		116,809	(8,565)	(13,312)
Finance income	11	33,384	28,216	41,070
Finance cost	11	(23,924)	(21,040)	(49,659)
Finance income/(cost) – net	11	9,460	7,176	(8,589)
Profit/ (Loss) before income tax	12	126,269	(1,389)	(21,901)
Income tax expense	14	(6,025)	(2,836)	(10,252)
Profit/ (Loss) for the financial year/ period		120,244	(4,225)	(32,153)
Profit/ (Loss) attributable to:				
Owners of the Company		125,526	(4,225)	(32,153)
Non-controlling interests		(5,282)	-	-
Profit/(Loss) for the financial year/period		120,244	(4,225)	(32,153)
Basic earnings per ordinary share (RM)	15	0.10		
Diluted earnings per ordinary share (RM)	15	0.10		

The notes set out on pages 15 to 75 form an integral part of these financial statements.

Company No.

1034400	D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

	Group	Company	
	1.1.2016 to 31.12.2016	1.1.2016 to 31.12.2016	1.8.2014 to 31.12.2015
	RM'000	RM'000	RM'000
Profit/(Loss) for the financial year/ period	120,244	(4,225)	(32,153)
Other comprehensive income, net of tax			
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation differences	213	-	-
Total comprehensive income/(expense) for the financial year/ period	120,457	(4,225)	(32,153)
Total comprehensive income/(expense) attributable to:			
Owners of the Company	125,654	(4,225)	(32,153)
Non-controlling interests	(5,197)	-	-
Total comprehensive income/(expense) for the financial year/period	120,457	(4,225)	(32,153)

The notes set out on pages 15 to 75 form an integral part of these financial statements.

Company No.

1034400	D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	Group 31.12.2016 RM'000	Company 31.12.2016 RM'000	Company 31.12.2015 RM'000
ASSETS				
NON-CURRENT ASSETS				
Investment in subsidiary	17	-	610,007	-
Property, plant and equipment	18	1,806,504	94	305
Intangible assets		713	-	-
Prepayments and other receivables	19	4,864	-	-
Restricted cash	21	6,915	-	-
		1,818,996	610,101	305
CURRENT ASSETS				
Inventories		7,398	-	-
Trade receivables	20	9,076	-	-
Prepayments and other receivables	19	30,539	282	14,811
Amount due from subsidiary		-	4	-
Amount due from corporate shareholder		43	43	-
Deposits, cash and bank balances	21	105,725	42,572	763,736
		152,781	42,901	778,547
CURRENT LIABILITIES				
Trade payables	27	46,698	-	-
Accruals and other payables	30	98,143	5,243	1,996
Amounts due to corporate shareholder in a subsidiary	22	273,312	-	-
Current tax liability		4,573	2,508	10,267
		422,726	7,751	12,263
NET CURRENT (LIABILITIES)/ASSETS		(269,945)	35,150	766,284
TOTAL ASSETS LESS CURRENT LIABILITIES		1,549,051	645,251	766,589

The notes set out on pages 15 to 75 form an integral part of these financial statements.

Company No.

1034400	D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 (CONTINUED)

		Group	Company	
	Note	31.12.2016	31.12.2016	31.12.2015
		RM'000	RM'000	RM'000
NON CURRENT LIABILITIES				
Deferred tax liabilities	26	96,158	-	-
Amounts due to corporate shareholder in a subsidiary	22	361,856	-	-
Accruals and other payables	30	41,103	-	-
Provisions	28	14,949	-	-
Financial liability component of the Public Issue Shares	29	-	-	738,051
		514,066	-	738,051
NET ASSETS		1,034,985	645,251	28,538
EQUITY				
Capital	24	488,651	488,651	22,035
Other reserves	25	200,187	200,059	45,737
Retained earnings/(Accumulated losses)		86,292	(43,459)	(39,234)
Equity attributable to owners of the company		775,130	645,251	28,538
Non-controlling interests		259,855	-	-
TOTAL EQUITY		1,034,985	645,251	28,538

The notes set out on pages 15 to 75 form an integral part of these financial statements.

Company No.

1034400	D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Attributable to owners of the Company								
		Non-distributable								
Group	Note	Capital RM'000	Capital redemption reserves RM'000	Warrant reserve RM'000	Share based payment reserves RM'000	Foreign exchange reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interest RM'000	Total equity RM'000
As at 1 January 2016		22,035	-	45,278	459	-	(39,234)	28,538	-	28,538
Reclassification of financial liability component of the Public Issue Shares		466,940	-	153,636	-	-	-	620,576	-	620,576
Cancellation of shares on 18.14% dissenting shareholders		(324)	324	-	-	-	-	-	-	-
Share-based payment transactions	25	-	-	-	362	-	-	362	-	362
Non-controlling interests on acquisition of subsidiary		-	-	-	-	-	-	-	265,052	265,052
Profit for the financial year		-	-	-	-	-	125,526	125,526	(5,282)	120,244
Other comprehensive income-net of tax -Foreign currency translation		-	-	-	-	128	-	128	85	213
Total comprehensive income for the financial year		-	-	-	-	128	125,526	125,654	(5,197)	120,457
As at 31 December 2016		488,651	324	198,914	821	128	86,292	775,130	259,855	1,034,985

The notes set out on pages 15 to 75 form an integral part of these financial statements.

REACH ENERGY BERHAD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

		Attributable to owners of the Company								
			Non-distributable							
	Note	Capital RM'000	Capital redemption reserves RM'000	Warrant reserve RM'000	Share based payment reserves RM'000	Foreign exchange reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interest RM'000	Total equity RM'000
Company										
As at 1 January 2016		22,035	-	45,278	459	-	(39,234)	28,538	-	28,538
Reclassification of financial liability component of the Public Issue Shares		466,940	-	153,636	-	-	-	620,576	-	620,576
Cancellation of shares on of dissenting shareholders		(324)	324	-	-	-	-	-	-	-
Share-based payment transactions	25	-	-	-	362	-	-	362	-	362
Total comprehensive expense/ loss for the financial year		-	-	-	-	-	(4,225)	(4,225)	-	(4,225)
As at 31 December 2016		488,651	324	198,914	821	-	(43,459)	645,251	-	645,251

The notes set out on pages 15 to 75 form an integral part of these financial statements.

Company No.

1034400	D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

		Attributable to owners of the Company								
		Non-distributable								
Company	Note	Capital RM'000	Capital redemption reserves RM'000	Warrant reserve RM'000	Share based payment reserves RM'000	Foreign exchange reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interest RM'000	Total equity RM'000
As at 1 August 2014		20,249		8,921	151	-	(7,081)	22,240	-	22,240
Issuance of ordinary shares and warrants		1,786	-	36,357	-	-	-	38,143	-	38,143
Share-based payment transactions	25	-	-	-	308	-	-	308	-	308
Total comprehensive expense/ loss for the financial period		-	-	-	-	-	(32,153)	(32,153)	-	(32,153)
As at 31 December 2015		22,035	-	45,278	459	-	(39,234)	28,538	-	28,538

The notes set out on pages 15 to 75 form an integral part of these financial statements.

Company No.

1034400	D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Group 1.1.2016 to 31.12.2016 RM'000	Company 1.1.2016 to 31.12.2016 RM'000	Company 1.8.2014 to 31.12.2015 RM'000
Profit/ (Loss) before income tax		126,269	(1,389)	(21,901)
Adjustments for:				
Gain on disposal of plant and equipment		-	-	(6)
Depreciation, depletion and amortisation		3,361	227	452
Unrealised foreign exchange gain		(4,205)	(119)	-
Finance cost		23,924	21,040	49,659
Finance income		(28,847)	(28,050)	(41,070)
Share based payment transactions	25	362	362	308
Negative goodwill	16	(156,873)	-	-
		(36,009)	(7,929)	(12,558)
Changes in working capital:				
Inventories		1,958	-	-
Prepayment and other receivables		(1,906)	66	(70)
Trade receivables		(2,044)	-	-
Trade payables		4,375	-	-
Other payables and accruals		62,041	3,200	888
Cash flows generated from/ (used in) operating activities		28,415	(4,663)	(11,740)
Income tax paid		(10,595)	(10,595)	(66)
Net cash generated from/ (used in) operating activities		17,820	(15,258)	(11,806)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property, plant and equipment		(16)	(16)	(668)
Proceeds from sale of plant and equipment		-	-	50
Finance income received		43,469	42,672	26,448
Placement of deposits with licensed bank restricted to use		-	-	(735,309)
Acquisition of a subsidiary	16	(573,351)	-	-
Investment in a subsidiary		-	(25,616)	-
Advances to a subsidiary		-	(584,395)	-
Advances to corporate shareholder		(43)	(43)	-
Movement in restricted cash		728,426	735,309	-
Net cash generated from/ (used in) investing activities		198,485	167,911	(709,479)

The notes set out on pages 15 to 75 form an integral part of these financial statements.

Company No.

1034400	D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

	Note	Group 1.1.2016 to 31.12.2016 RM'000	Company 1.1.2016 to 31.12.2016 RM'000	Company 1.8.2014 to 31.12.2015 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES				
Finance cost paid		(2,910)	-	-
Proceeds from issuance of ordinary shares and warrants		-	-	750,000
Payment of share listing expenses		-	-	(23,465)
Advance from corporate shareholder in a subsidiary		262	-	-
Loans received from corporate shareholder in a subsidiary		2,494	-	-
Payment to dissenting shareholders		(138,508)	(138,508)	-
Net cash (used in)/ generated from financing activities		(138,662)	(138,508)	726,535
NET INCREASE IN CASH AND CASH EQUIVALENTS		77,643	14,145	5,250
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		28,427	28,427	23,177
EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS		(345)	-	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	21	105,725	42,572	28,427

The notes set out on pages 15 to 75 form an integral part of these financial statements.

Company No.

1034400	D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

1 GENERAL INFORMATION

The Company is incorporated and domiciled in Malaysia. The addresses of the principal place of business and registered office of the Company are as follows:

Principal place of business
D3-5-8, Block D3
Solaris Dutamas
No.1, Jalan Dutamas 1
50480 Kuala Lumpur

Registered office
Level 8, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
Petaling Jaya
Selangor

The Company listed its shares and warrants as a Special Purpose Acquisition Company ("SPAC") on the Main Market of Bursa Malaysia Securities Berhad on 15 August 2014. It intends to acquire qualifying assets related to the exploration and production of oil and gas and development and production activities in the petroleum industry ("Qualifying Acquisition").

On 16 December 2016, the Company was reclassified from a SPAC to Industrial Products sector.

The principal activity of Company is that of investment holding. The Group is principally engaged in the explorations, development, production and sale of crude oil and other petroleum products.

The principal activities of the subsidiaries are set out in Note 17. There have been no significant change in the nature of these activities during the financial year.

2 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 17 April 2017.

3 COMPARATIVES

The current reporting year is for 12 months with the comparative period of 17 months. The change in the comparative period year end was to facilitate the annual Work Program & Budget (WP&B) cycle, staffs and business performance assessment, any revision of staffs' remuneration and other expenses to be aligned with the calendar year. As such, the financial results presented in the Company's financial statements for both financial periods are not comparable. The consolidated financial statements are prepared for the first time in the current financial year.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been used consistently in dealing with items that are considered material in relation to the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Basis of preparation

The consolidated financial statements of the Group and Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965, in Malaysia.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in this significant accounting policies.

The preparation of consolidated financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Group and Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

4.1.1 Amendments to published standards that are effective and applicable for the Group and Company's financial year beginning on 1 January 2016

No	Malaysian Financial Reporting Standards
1	Amendments to MFRS 5, 7, 119 and 134 'Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRSs 2012 – 2014 Cycle" '
2	Amendments to MFRS 101 'Disclosure Initiative'
3	Amendments to MFRS 116 and 138 'Clarification of Acceptable Methods of Depreciation and Amortisation'
4	Amendments to MFRS 10, MFRS 12 and MFRS 128 'Investment Entities: Applying the Consolidation Exception'
5	Amendments to MFRS 127 'Equity method in Separate Financial Statements'

The adoption of the above applicable amendments to published standards has not given rise to any material impact on the financial statements of the Group and Company.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Basis of preparation (continued)

4.1.2 New standards, Interpretation Committee (IC) Interpretation and amendments to published standards that are applicable to the Group and Company but not yet effective

The Group and the Company will apply the new standards and amendments in the following financial year:

(i) Financial year beginning on or after 1 January 2017:

- Amendments to MFRS 107 'Statement of Cash Flows' ('MFRS 107') (effective from 1 January 2017) on Disclosure Initiative introduce an additional disclosure on changes in liabilities arising from financing activities.

- Amendments to MFRS 112 'Income Taxes' ('MFRS 112') (effective from 1 January 2017) on Recognition of Deferred Tax Assets for Unrealised Losses clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

  In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively

(ii) Financial year beginning on or after 1 January 2018:

- Amendment to MFRS 2 'Share-based Payment' ('MFRS 2') (effective from 1 January 2018) on Classification and Measurement of Share-based Payment Transactions clarify the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in MFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Basis of preparation (continued)

4.1.2 New standards, Interpretation Committee (IC) Interpretation and amendments to published standards that are applicable to the Group and Company but not yet effective (continued)

The Group and the Company will apply the new standards and amendments in the following financial year: (continued)

(ii) Financial year beginning on or after 1 January 2018 (continued):

- MFRS 9 'Financial Instruments' ('MFRS 9') (effective from 1 January 2018) will replace MFRS 139 'Financial Instruments: Recognition and Measurement' ('MFRS 139').

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through Other Comprehensive Income ('OCI'). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in OCI rather than the profit or loss, unless this creates an accounting mismatch. MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Basis of preparation (continued)

4.1.2 New standards, Interpretation Committee (IC) Interpretation and amendments to published standards that are applicable to the Group and Company but not yet effective (continued)

The Group and the Company will apply the new standards and amendments in the following financial year: (continued)

(ii) Financial year beginning on or after 1 January 2018: (continued)

- MFRS 15 'Revenue from Contracts with Customers' ('MFRS 15') (effective from 1 January 2018) will replace MFRS 118 'Revenue' ('MFRS 118') and MFRS 111 'Construction Contracts' ('MFRS 111') and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

  A new five-step process is applied before revenue can be recognised:

  (a) Identify contracts with customers;
  (b) Identify the separate performance obligations;
  (c) Determine the transaction price of the contract;
  (d) Allocate the transaction price to each of the separate performance obligations; and
  (e) Recognise the revenue as each performance obligation is satisfied.

  Key provisions of the new standard are as follows:

  (a) Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
  (b) If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Basis of preparation (continued)

4.1.2 New standards, Interpretation Committee (IC) Interpretation and amendments to published standards that are applicable to the Group and Company but not yet effective (continued)

The Group and the Company will apply the new standards and amendments in the following financial year: (continued)

(ii) Financial year beginning on or after 1 January 2018: (continued)

Key provisions of the new standard are as follows: (continued)

(c) The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
(d) There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
(e) As with any new standard, there are also increased disclosures.

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

  IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

  The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

  If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

  An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Basis of preparation (continued)

4.1.2 New standards, Interpretation Committee (IC) Interpretation and amendments to published standards that are applicable to the Group and Company but not yet effective (continued)

The Group and the Company will apply the new standards and amendments in the following financial year: (continued)

(iii) Financial year beginning on or after 1 January 2019:

- MFRS 16 'Leases' ('MFRS 16') (effective from 1 January 2019) supersedes MFRS 117 'Leases' ('MFRS 117') and the related interpretations.

  Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

  The right-of-use asset is depreciated in accordance with the principle in MFRS 116 and the lease liability is accreted over time with interest expense recognised in the income statement.

  For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The impact of the new accounting standards, amendments and improvements to published standards on the financial statements of the Group and Company are currently being assessed by management.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Basis of preparation (continued)

4.1.3 New standards and amendments to published standards that are not relevant and not yet effective for the Group's and Company's operations

No	**Malaysian Financial Reporting Standards**	**Effective dates for financial year beginning**
1	Amendments to MFRS 12 'Disclosure of Interests in Other Entities'	1 January 2017
2	Amendments to MFRS 128 'Investment in Associates and Joint Ventures'	1 January 2018
3	Amendments to MFRS 140 'Transfers of Investment Property'	1 January 2018
4	Amendments to MFRS 10 and 128 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	To be announced by MASB

4.2 Consolidation and subsidiaries

(a) Consolidation

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(b) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Consolidation and subsidiaries (continued)

(b) Business combination (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 "Financial Instruments" either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Inter-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Group.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Consolidation and subsidiaries (continued)

(d) Disposal of subsidiaries

When the Group ceases to consolidate because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Gains or losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the subsidiaries sold.

4.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors and certain senior management (including chief accountant), (collectively referred to as the "Executive Management") that makes strategic decisions.

4.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income. Foreign exchange gains and losses that related to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income or costs'.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

4.5 Property, plant and equipment

Property, plant and equipment, including oil and gas properties, is stated at historical cost less accumulated depreciation, depletion and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and Company and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

The cost of oil and gas properties is amortised at the field level based on the unit of production method. Unit of production rates are based on oil and gas proved and probable developed (producing and non-producing) reserves estimated to be recoverable from existing facilities based on the current terms of the respective production agreements. The Group's reserves estimates represent crude oil and gas which management believes can be reasonably produced within the current terms of their production agreements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5 Property, plant and equipment (continued)

Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Office furniture and equipment	3 to 15 years
Leasehold improvement	2 years
IT Network equipment	2 years
Motor vehicles	5 to 7 years
Production equipment	up to 10 years
Buildings	up to 12 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other operating expenses - net' in profit or loss.

4.6 Exploration and evaluation expenditure

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, geological and geophysical costs are expensed when incurred. Costs of exploratory wells (including certain geophysical costs which are directly attributable to the drilling of these wells) are capitalised as exploration and evaluation assets pending determination of whether the wells find proved oil and gas reserves. Should the efforts be determined to be successful, all costs for development wells, supporting equipment and facilities, and proved mineral interests in oil and gas properties are capitalised. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalised in exploration and evaluation assets only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any costs of unproved properties capitalised in oil and gas properties.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Exploration and evaluation expenditure (continued)

Identifiable exploration assets acquired are recognised as assets at their fair value, as determined by the requirements of business combinations. Exploration and evaluation expenditure incurred subsequent to the acquisition of an exploration asset in a business combination is accounted for in accordance with the policy outlined above.

4.7 Intangible assets

Intangible assets represent computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years.

4.8 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready to use , are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus reserve.

4.9 Financial assets

(a) Classification

The Group and Company classify their financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group and Company's loans and receivables comprise 'trade receivables', 'other receivables', 'restricted cash', 'cash and cash equivalents', 'amount due from subsidiary' and 'amount due from corporate shareholder' in the consolidated statement of financial position.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Financial assets (continued)

(b) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the Group and Company commit to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(c) Subsequent measurement - Impairment of financial assets

Assets carried at amortised cost

The Group and Company assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If 'loans and receivables' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group and Company may measure impairment on the basis of an instrument's fair value using an observable market price.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Financial assets (continued)

(c) Subsequent measurement - Impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

(d) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group and Company have transferred substantially all risks and rewards of ownership.

4.10 Financial liabilities

The Group and Company classify their financial liabilities as other financial liabilities measured at amortised cost using the effective interest method. Management determines the classification of its financial liabilities at initial recognition.

Other financial liabilities are initially recognised at fair value plus transaction cost and subsequently carried at amortised cost using the effective interest method. Changes in the carrying value of these liabilities are recognised in the profit or loss.

The Group and Company's other financial liabilities comprise 'trade payables', 'other payables', and 'amounts due to corporate shareholder in a subsidiary' in the consolidated statements of financial position. Financial liabilities are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Otherwise, they are presented as non-current liabilities.

Financial liabilities are derecognised when the liability is either discharged, cancelled, has expired or has been restructured with substantially different terms.

4.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Inventories

Inventories are crude oil and materials and supplies which are stated at the lower of cost and net realisable value. Materials and supplies costs are determined using the first-in first-out method. Crude oil costs are determined using the weighted average cost method. The cost of crude oil comprises direct labour, depreciation, other direct costs and related production overhead.

4.13 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash in hand, deposits held at call with financial institutions or other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

4.14 Share capital

(i) Ordinary shares

Ordinary shares and non-redeemable preference shares with discretionary dividends are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

(ii) Issue expenses

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(iii) Warrants reserve

The warrants reserve arose from the proceeds from issuance of warrants and is non distributable by way of dividends. Warrants reserve is transferred to share premium upon exercise of warrants and the warrants reserve in relation to the unexercised warrants at the expiry date of the warrants period will be transferred to retained earnings.

(iv) Share-based payment reserve

The fair value of the warrants granted to a shareholder is recognised as operating expenses with a corresponding increase in the share-based payment reserve over the vesting period.

The fair value of the warrants is measured using Bloomberg Trinomial Lattice Model. Measurement inputs include subscription price on grant date, exercise price of the warrants, tenure of the warrants, risk-free interest rate, expected dividend yield and the expected volatility based on the historical volatility of a similar listed entity.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Current and deferred income tax

Tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

Deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the parent and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the deductible temporary difference can be utilised.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16 Provisions

Provisions are recognised when the Group and Company have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Where the Group and Company expect a provision to be reimbursed by another party, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

Provision for asset retirement obligations

Asset retirement obligations (including future decommissioning and restoration) which meet the criteria of provisions are recognised as provisions and the amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements, while a corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depleted as part of the costs of the oil and gas properties.

Changes in the obligation due to revised estimates of the amount or timing of cash flows required to settle the future liability is recognised by increasing or decreasing the carrying amount of the asset retirement obligation ("ARO") liability and the ARO asset. The adjustments to the asset are restricted, that is to say the asset cannot decrease below zero and cannot increase above its recoverable amount. The amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss.

Changes due solely to the passage of time (i.e: accretion of the discounted liability) is recognised as an increase in the carrying amount of the liability and is recognized as accretion expense in the profit or loss under finance cost. This accretion expense is recognized based on the effective interest method during the useful life of the related oil and gas properties.

The effects of foreign exchange differences resulted from the re-measurement of ARO in foreign currencies is recognized by increasing or decreasing the carrying amount of the ARO liability and ARO asset.

If the conditions for the recognition of the provisions are not met, the expenditure for the decommissioning, removal and site cleaning will be expensed in profit or loss when incurred.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.17 Employee benefits

(i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Defined contribution plans

The Company's contributions to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of MFRS 137 'Provisions, contingent liabilities and contingent assets' and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(iv) Share-based payments

The fair value of the warrants granted to shareholder is recognised as operating expenses with a corresponding increase in the share-based payment reserve over the vesting period.

The fair value of the warrants is measured using Trinomial Lattice Model. Measurement inputs include subscription price on grant date, exercise price of the warrants, tenure of the warrants, risk-free interest rate, expected dividend yield and the expected volatility based on the historical volatility of a similar listed entity.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from sales of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, and retains neither continuing managerial involvement nor effective control over the goods sold, and it is probable that the economic benefits associated with the transaction will flow to the Group and related revenue and cost can be measured reliably.

Revenue is recognised upon delivery of crude oil and gas under the relevant contracts and other conditions discussed above are met.

4.19 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group and Company reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

4.20 Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.21 Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

4.22 Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group and Company's activities expose it to a variety of financial risks: market risk (including interest risk, foreign exchange risk and price risk), credit risk and liquidity risk. The Group and Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group and Company's financial performance.

The Group and Company have established risk management policies, guidelines and procedures in order to manage its exposure to these financial risks. The following sections provide details regarding the Company's exposure to the above mentioned financial risks and the objectives, policies and processes for the management of these risks.

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices that will affect the Group's and the Company's financial position or cash flows.

(i) Foreign exchange risk

The Group and the Company are exposed to foreign currency risks on trade and other receivables, trade and other payables, cash and cash equivalents and amount due to corporate shareholder in a subsidiary that are denominated in currency that is different from the functional currency. The currency giving rise to this risk is primarily United States Dollars ("USD") and Kazakhstan Tenge ("KZT").

The Group and Company do not hedge their foreign currency denominated obligations.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The KZT is not a freely convertible currency. Limitation in foreign exchange transactions could cause future exchange rates to vary significantly from current or historical exchange rates. Management is not in a position to anticipate changes in the foreign exchange regulations and as such is unable to reasonably anticipate the impacts on the Group's results of operations or financial position arising from future changes in exchange rates.

The Group's and Company's currency exposure profile is as follows:

	Denominated in KZT	Denominated in USD	
	Group	Group	
	31.12.2016	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000
Financial assets			
Restricted cash	6,915	-	-
Other receivables	2,826	-	-
Trade receivables	1,480	-	-
Cash and cash equivalents	816	-	-
	12,037	-	-
Financial liabilities			
Trade payables	38,735	-	-
Accruals and other payables	1,661	197,588	-
	40,396	197,588	-

	Denominated in KZT	Denominated in USD	
	Company	Company	
	31.12.2016	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000
Financial asset			
Cash and cash equivalents	-	421	-

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The table below summarises the change in foreign currency rate to the Group and the Company's loss before taxation. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

	Effect on profit/ (loss) after taxation and equity	
	Company	
	1.1.2016 to 31.12.2016	1.8.2014 to 31.12.2015
	RM'000	RM'000
Increase/Decrease in foreign exchange rate		
USD strengthened/weakened by:		
+ 10%	42	-
- 10%	(42)	-

	Effect on profit/ (loss) after taxation and equity
	Group
	1.1.2016 to 31.12.2016
	RM'000
Increase/Decrease in foreign exchange rate	
USD strengthened/weakened by:	
+ 10%	(19,759)
- 10%	19,759
KZT strengthened/weakened by:	
+ 10%	(2,836)
- 10%	2,836

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Interest rate risk

The Group and Company have no significant interest bearing cash assets. The Group and Company's income and operating cash flows are substantially independent of the changes in market rates as all interest rates arising from intra-group loans are fixed. A detailed analysis of the Group's loan, together with their respective effective interest rates and maturity dates, are included in Note 22. The Group and Company's deposits that are placed in financial institution are not exposed to significant interest rate risk.

(iii) Price risk

The Group and Company is not subject to significant price risk.

(b) Credit risk

Financial assets that are primarily exposed to credit risks are trade and other receivables, amount due from subsidiary, amount due from corporate shareholder and and cash and bank balances. Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Company. At the reporting date, the Group and Company's maximum exposure to credit risk is represented by carrying amounts of each class of financial assets recognised in the statement of financial position.

(i) Trade and other receivables

The Group has one customer which in aggregate accounts for more than 80% of the Group's revenue and as such, has concentration of credit risk for its trade and other receivables. However, the Group regards it as low risk as the customer is Euro-Asian Oil SA ("Euro-Asian Oil"), one of the largest trading companies in Mangistau region of Western Kazakhstan.

The credit quality of trade receivables that are neither past due nor impaired are disclosed in Note 20.

(ii) Amount due from subsidiary

The Company enters into non-trade transactions with its subsidiary. As at 31 December 2016, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position. The Directors believe that there is no credit exposure arising from the intercompany balances.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Deposits, cash and bank balances

The Group and Company place its restricted cash and deposits, cash and bank balances with various creditworthy financial institutions. As at the end of the reporting period, the maximum exposure to credit risk arising from restricted cash and cash and cash equivalents are represented by the carrying amounts in the consolidated statement of financial position. The credit quality of the financial institutions in respect of restricted cash and cash and cash equivalents are disclosed in Note 21. In view of the sound credit rating of counterparties, management does not expect any counterparties to fail to meet their obligations.

(c) Liquidity risk

The Group and Company's liquidity risk management involve maintaining sufficient cash and cash equivalents and availability of funding through an adequate amount of committed credit facilities, and the implementation of the proposed placements as disclosed in Note 34.

The Group has taken a number of positive actions to ensure they will continue to have sufficient funds to meet all its operational and financial obligations as and when they fall due in the coming financial year. This includes the assessment of the timing of the settlement of the purchase consideration deferred as at 31 December 2016.

The table below analyses the Group and Company's financial liabilities into relevant maturity groupings based on the remaining year at the end of the reporting period to their contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows of principal amount and interests.

		Contractual undiscounted cash flows				
	Carrying amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group						
2016						
Trade payables	46,698	46,698	-	-	-	46,698
Accruals and other payables (excluding statutory liabilities)	6,495	6,495	-	-	-	6,495
Amount due to corporate shareholder in a subsidiary	635,168	273,312	-	372,722	459,052	1,105,086

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Contractual undiscounted cash flows					
	Carrying amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Company						
2016						
Accruals and other payables (excluding statutory liabilities)	4,690	4,690	-	-	-	4,690
2015						
Accruals and other payables (excluding statutory liabilities)	1,612	1,612	-	-	-	1,612

5.2 Fair value estimation

Except as disclosed below, the carrying amounts of the Group and Company's financial assets and liabilities approximate their fair values due to the relatively short term nature of financial instruments.

	Group	
	Carrying amount	Fair value
	RM'000	RM'000
At 31 December 2016		
Amount due to corporate shareholder in a subsidiary	635,168	669,905

Valuation principles

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market as of the measurement date. The Group and Company determine the fair value based on discounted estimated future cash flows using the prevailing market rates for similar credit risks and remaining year of maturity. Management judgment is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving at fair value.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Fair value estimation (continued)

Valuation principles (continued)

The disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Valuation technique

The fair value of the amount due to corporate shareholder in a subsidiary as disclosed is measured based on level 2.

5.3 Capital risk management

The Group and Company's objectives when managing capital are to safeguard the Group and Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group and Company monitor capital on the basis of Debt over Earnings before Interest, Taxation, Depreciation and Amortisation ("EBITDA"). Debt is calculated as total borrowings including 'current and non-current borrowings'. EBITDA is determined as profit before finance income, finance cost, income tax and depreciation, depletion and amortisation.

The Debt over EBITDA ratios of the Group as at 31 December 2016 as follows:

	1.1.2016 to 31.12.2016 RM'000
Total intra-group borrowings	437,318
Profit before income tax	126,269
Finance income	(33,384)
Finance cost	23,924
Depreciation, depletion and amortisation	3,361
EBITDA	120,170
Debt over EBITDA ratio	3.64