

Company No.

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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group and Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimation of proved and probable oil reserves

Proved reserves are those quantities of petroleum that by analysis of geoscience and engineering data can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. Economic conditions include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Proved developed reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate. Proved undeveloped reserves are quantities expected to be recovered through future investments: from new wells on undrilled acreage in known accumulations, from extending existing wells to a different (but known) reservoir, or from infill wells that will increase recovery. Probable reserves are additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are likely to be recovered.

The Group's reserve estimates were prepared for each oilfield and include only crude oil that the Group believes can be reasonably produced within current economic and operating conditions.

Proved and probable reserves cannot be measured exactly. Reserve estimates are based on many factors related to reservoir performance that require evaluation by the engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, and the production performance of the reservoirs as well as engineering judgement. Consequently, reserve estimates are subject to revision as additional data become available during the producing life of a reservoir. When a commercial reservoir is discovered, proved reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance. Well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves beyond those envisioned during the early years of a reservoir's producing life.

In general, changes in the technical maturity of reserves resulting from new information becoming available from development and production activities and change in oil and gas price have tended to be the most significant cause of annual revisions.

Changes to the Group's estimates of proved and probable developed reserves affect prospectively the amounts of depreciation, depletion and amortisation charged and, consequently, the carrying amounts of oil and gas properties. Information about the carrying amounts of these assets and the amounts charged to profit or loss, including depreciation, depletion and amortisation is presented in Note 18.

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Depletion, depreciation and amortisation of property, plant and equipment

The Group determines the estimated useful lives and related depreciation and amortisation charges for other property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

Management will adjust the estimated useful lives where useful lives vary from previously estimated useful lives.

(c) Fair value of oil and gas assets

The fair value of oil and gas assets are assessed in connection with the acquisition of Palaeontol B.V. ("PBV").

The determination of fair value of the oil and gas assets involve significant management estimates and judgements such as future prices of crude oil, production profile, capital expenditure required and discount rate. Management's assessment and calculations are based on assumptions that are consistent with the Group's business plans.

(d) Exploration and evaluation expenditure

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. In making decisions about whether to continue capitalising the exploration costs, it is necessary to make judgments about the economic viability of the exploratory wells. If there is a change in one of these judgements in a subsequent period, then the related capitalised exploration costs would be expensed in that period, resulting in a charge to the profit or loss.

Company No.

1034400	D
---------	---

REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(e) Provision for remediation and restoration

Provision for remediation and restoration relates to asset retirement obligations in relation to the Group's operations. Provision is made when the related environmental disturbance and present obligations occur, based on the net present value of estimated future costs. The ultimate cost of environmental disturbances, asset retirement and similar obligation are uncertain and management uses its judgment and experience to provide for these costs over the life of operations. Cost estimates can vary in response to many factors including changes to the relevant legal requirements, the Group's related policies, the emergence of new restoration techniques and the effects of inflation. Cost estimates are updated throughout the life of the operation. The expected timing of expenditure included in cost estimates can also change, for example in response to changes in reserves, or production volumes or economic conditions. Expenditure may occur before and after closure and can continue for an extended period of time depending on the specific site requirements. Cash flows must be discounted if this has a material effect. The selection of appropriate sources on which to base calculation of the risk free discount rate used for this purpose also requires judgment. As a result of all of the above factors there could be significant adjustments to the provision for close down, restoration and clean-up costs which would affect future financial results.

The Group currently operates mainly in Kazakhstan. Under existing legislation, the Directors of the Group and Company are in their opinion that there are no probable liabilities that are in addition to amounts which have already been reflected in the consolidated financial statements that will have a materially adverse effect on the financial position of the Group.

(f) Current and deferred income tax

The Group and the Company are subject to income taxes in Malaysia, Netherlands and Kazakhstan jurisdiction. Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is still subject to finalisation. The Group and the Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

7 REVENUE

	<u>Group</u>		<u>Company</u>
	<u>1.1.2016 to</u>	<u>1.1.2016 to</u>	<u>1.8.2014 to</u>
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
Sales of crude oil	14,408	-	-
Sales of gas	586	-	-
	<u>14,994</u>	<u>-</u>	<u>-</u>

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

8 TAXES OTHER THAN INCOME TAXES

	<u>Group</u>	<u>Company</u>	
	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
Rent export tax	1,275	-	-
Rent export duty expenditure	1,985	-	-
Mineral extraction tax	990	-	-
Property tax	493	-	-
	<u>4,743</u>	<u>-</u>	<u>-</u>

9 EMPLOYEE COMPENSATION COSTS

	<u>Group</u>	<u>Company</u>	
	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
Wages, salaries and allowances	5,370	4,892	7,263
Welfare and other expenses*	1,525	981	250
	<u>6,895</u>	<u>5,873</u>	<u>7,513</u>

*Includes share based payment disclosed in Note 25 (b).

10 OTHER OPERATING EXPENSES – NET

	<u>Group</u>	<u>Company</u>	
	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
Acquisition related expense	(25,616)	-	(3,453)
Foreign exchange gain/(expense) on operation - net	185	(48)	22
Others	(2,780)	-	(206)
	<u>(28,211)</u>	<u>(48)</u>	<u>(3,637)</u>

Foreign exchange arising from purchases and services procured are classified as part of operating expenditure.

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

11 FINANCE INCOME/ (COSTS) – NET

	<u>Group</u>	<u>Company</u>	
	1.1.2016 to 31.12.2016 RM'000	1.1.2016 to 31.12.2016 RM'000	1.8.2014 to 31.12.2015 RM'000
<u>Finance income</u>			
Interest income from deposits with licensed banks	28,094	28,050	41,070
Other finance income	753	-	-
Foreign exchange gain, net	4,537	166	-
Finance income, net	<u>33,384</u>	<u>28,216</u>	<u>41,070</u>
<u>Finance costs</u>			
Interest expenses of loan from corporate shareholder in a subsidiary (Note 22)	(2,744)	-	-
Accretion expenses of asset retirement obligations (Note 28)	(75)	-	-
Other finance cost	(65)	-	-
Interest expense on financial liability component of the Public Issue Shares	(21,040)	(21,040)	(49,659)
Finance costs, net	<u>(23,924)</u>	<u>(21,040)</u>	<u>(49,659)</u>
Finance income/(costs), net	<u>9,460</u>	<u>7,176</u>	<u>(8,589)</u>

Foreign exchange arising from cash and bank balance is classified as part of finance cost-net.

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

12 PROFIT/ (LOSS) BEFORE INCOME TAX

	<u>Group</u>	<u>Company</u>	
	1.1.2016 to 31.12.2016 RM'000	1.1.2016 to 31.12.2016 RM'000	1.8.2014 to 31.12.2015 RM'000
Profit/ (Loss) before taxation is arrived at after charging/ (crediting):			
Auditor remuneration:			
- Statutory audit fees			
- PricewaterhouseCoopers, Malaysia	357	345	-
- Member firm of PricewaterhouseCoopers International Limited*	320	-	-
- Other entities	-	-	80
- Non audit fees:**			
- PricewaterhouseCoopers, Malaysia	1,958	1,958	-
- Member firm of PricewaterhouseCoopers International Limited*	2,530	2,530	-
Employee compensation cost (Note 9)	6,895	5,873	7,513
Depreciation of property, plant and equipment (Note 18)	3,357	227	452
Amortisation of intangible assets	4	-	-
Negative goodwill (Note 16)	(156,873)	-	-
Professional fees	770	397	327
Realised foreign exchange loss/ (gain)	800	48	(22)
Taxes other than income tax (Note 8)	4,743	-	-
Tax penalty fee	311	311	-
Share based payment	362	362	308
	<u> </u>	<u> </u>	<u> </u>

* PricewaterhouseCoopers Malaysia and other member firms of PricewaterhouseCoopers International Limited are separate and independent legal entities.

** Non-audit fees primarily relates to the role as Reporting Accountants in connection with the acquisition of the subsidiary.

13 DIRECTORS' REMUNERATION

The aggregate amount of emoluments receivable by Directors during the financial year was as follows:

	<u>Group</u>	<u>Company</u>	
	1.1.2016 to 31.12.2016 RM'000	1.1.2016 to 31.12.2016 RM'000	1.8.2014 to 31.12.2015 RM'000
Directors' fee	200	200	292
Remuneration and other emoluments	1,450	1,450	1,341
Defined contribution plans	137	137	161
	<u> </u>	<u> </u>	<u> </u>
	<u>1,787</u>	<u>1,787</u>	<u>1,794</u>

Company No.

1034400	D
---------	---

REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

14 INCOME TAX EXPENSE

	<u>Group</u>	<u>Company</u>	<u>Company</u>
	1.1.2016 to 31.12.2016 RM'000	1.1.2016 to 31.12.2016 RM'000	1.8.2014 to 31.12.2015 RM'000
Current income tax			
Malaysian income tax:			
- Current year	5,150	5,150	10,268
- Over accrual in prior year	(2,314)	(2,314)	(16)
Foreign income tax:			
- Current year	(58)	-	-
	<u>2,778</u>	<u>2,836</u>	<u>10,252</u>
Deferred income tax (Note 26)			
Origination and reversal of temporary difference	3,247	-	-
	<u>6,025</u>	<u>2,836</u>	<u>10,252</u>

The explanation of the relationship between tax expense and profit/loss before income tax is as follows:

	<u>Group</u>	<u>Company</u>	<u>Company</u>
	1.1.2016 to 31.12.2016 RM'000	1.1.2016 to 31.12.2016 RM'000	1.8.2014 to 31.12.2015 RM'000
Profit/(Loss) before income tax	<u>126,269</u>	<u>(1,389)</u>	<u>(21,901)</u>
Tax calculated at the statutory tax rates of 24% (2015: 25%)	30,305	(333)	(5,475)
Tax effects of:			
- Income not subject to tax	(38,036)	(70)	-
- Expenses not deductible for tax purposes	13,450	5,518	15,743
- Difference in overseas tax rates and tax base	1,565	-	-
- Re-measurement of deferred tax due to change in the tax rate	435	-	-
- Tax losses and deductible temporary difference for which no deferred tax asset is recognised	35	35	-
- Adjustments to deferred tax due to currency exchange rate movements	585	-	-
- Under/(Over) accrual in prior year-net	(2,314)	(2,314)	(16)
Income tax expense	<u>6,025</u>	<u>2,836</u>	<u>10,252</u>

Company No.

1034400	D
---------	---

REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

14 INCOME TAX EXPENSE (CONTINUED)

Deferred tax in Kazakhstan has been re-measured to reflect the changes in excess profit tax rate that will be applicable in the periods in which the deductible/taxable temporary differences are expected to reverse.

Income in Kazakhstan is taxed at the excess profit tax rate which is based on rate of return on subsurface use operations and requires estimation of future taxable income, capital expenditures and other assumptions which affect the estimations of amounts and periods when deductible/taxable temporary differences existing at the reporting date are reversed/settled.

15 EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2016 was based on the profit or loss attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	<u>Group</u> 1.1.2016 to <u>31.12.2016</u>
Profit attributable to ordinary shareholders (RM'000)	125,526
Weighted average number of ordinary shares ('000)	1,269,892
Basic earnings per ordinary share (RM)	0.10
Diluted earnings per ordinary share (RM)	<u>0.10</u>

The Group presents basic and diluted earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted earnings per ordinary share

Diluted EPS 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 effects of all dilutive potential ordinary shares, which comprise free convertible warrants granted to the shareholders.

The assumed conversion from the exercise of warrants and financial liability arising from public portion of the ordinary shares would be anti-dilutive.

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

16 SIGNIFICANT ACQUISITION DURING THE FINANCIAL YEAR

Summary of acquisition

On 5 March 2016, the Company entered into a tri-partite conditional Sale and Purchase Agreement with Palaeontol Cooperatief U.A. ("Palaeontol COOP") and MIE Holdings Corporation ("MIEH"), a corporation listed on the Main Board of the Stock Exchange of Hong Kong Limited for the proposed acquisition of 60% equity interest in Palaeontol B.V. ("PBV"). PBV was acquired by Reach Energy Ventures Sdn Bhd, a wholly owned subsidiary of REB and the acquisition was completed on 25 November 2016.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration:

	RM'000
Cash paid	580,528
Deferred consideration	196,706
Total purchase consideration	<u>777,234</u>

The following summarises the amount of assets and liabilities recognised at the acquisition date:

	<u>Provisional Fair Value RM'000</u>
Property, plant and equipment	1,799,274
Intangible assets	718
Inventories	9,324
Prepayments and other receivables	32,983
Trade receivables	6,990
Cash and bank balances	7,177
Trade payables	(45,512)
Accruals and other payables	(74,501)
Asset retirement obligations	(14,337)
Deferred tax liabilities	(92,425)
Amount due to related parties	(430,532)
Net identifiable assets acquired	1,199,159
Non-controlling interests	(265,052)
Negative goodwill*	(156,873)
Net assets acquired	<u>777,234</u>

*The negative goodwill is not taxable for tax purposes.

Company No.

1034400	D
---------	---

REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

16 SIGNIFICANT ACQUISITION DURING THE YEAR (CONTINUED)

Acquired trade and other receivables

The carrying amount of trade and other receivables acquired approximate the fair value as well as the gross contractual amount.

Non-controlling interests

The Group recognises the non-controlling interest ("NCI") in PBV at its proportionate share of the acquired net identifiable assets.

Revenue and profit contribution

The acquired business contributed revenue of RM14,994,000 and net loss of RM13,204,000 to the Group for the period from 1 December to 31 December 2016.

If the acquisition had occurred on 1 January 2016, the consolidated pro-forma revenue and net loss for the year ended 31 December 2016 would have been RM178,272,802 and RM69,858,425. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2016. As at the reporting date, management has yet to complete the Purchase Price Allocation ("PPA") exercise which is pending the finalization of the valuation of certain assets and liabilities (i.e. property, plant and equipment, and amount due to related party) and the consequential impact to deferred tax, NCI and negative goodwill. In accordance with MFRS 3 "Business Combination", management has 12 months from the date of the completion of the acquisition to complete the PPA.

Purchase consideration - cash outflow

	RM'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash paid	580,528
Less: Balances acquired	
Cash and bank balances	(7,177)
Net outflow of cash - investing activities	<u>573,351</u>

Acquisition related expense

Acquisition costs of RM25,615,510 that were attributable to the acquisition of PBV is included in operating expenses in profit or loss and in operating cash flows in consolidated the statement of cash flows.

Company No.

1034400	D
---------	---

REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

17 INVESTMENTS IN SUBSIDIARY

	<u>31.12.2016</u>	<u>Company</u> <u>31.12.2015</u>
	RM'000	RM'000
Unquoted shares - at cost*	-	-
Cost of investment	25,616	-
Advance to subsidiary treated as quasi-investment**	584,391	-
	<u>610,007</u>	<u>-</u>

The details of the subsidiaries are as follows:

<u>Name of subsidiary</u>	<u>Group's interest</u>		<u>Country of incorporation</u>	<u>Principal activities</u>
	<u>2016</u>	<u>2015</u>		
	%	%		
Reach Energy Ventures Sdn. Bhd.	100	-	Malaysia	Investment holding company
<u>Subsidiary held through Reach Energy Ventures Sdn. Bhd.:</u>				
Palaeontol B.V.	60	-	Netherlands	Investment holding company
<u>Subsidiary held through Palaeontol B.V.:</u>				
Emir Oil LLP***	100	-	Republic of Kazakhstan	Exploration, development, production and sale of crude oil and other petroleum products

The financial year end of the subsidiaries fall on 31 December.

* Denotes RM2

** Advance to subsidiary treated as quasi-investment is denominated in Ringgit Malaysia, unsecured, interest free, and repayable on demand

*** Audited by a member firm of PricewaterhouseCoopers International Limited which is a separate and independent legal entity from PricewaterhouseCoopers Malaysia.

Company No.

1034400	D
---------	---

REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

17 INVESTMENTS IN SUBSIDIARY (CONTINUED)

Summarised financial information for subsidiary

Set out below are the summarised financial information for Palaeontol B.V. Group ("PBV Group")

Summarised statement of financial position

	<u>2016</u> RM'000
Non-current assets	1,818,902
Current assets	109,885
Current liabilities	(220,905)
Non-current liabilities	(1,058,245)
Net assets	<u>649,637</u>
Accumulated non-controlling interests	<u>259,855</u>

Summarised statement of comprehensive income

	<u>2016</u> RM'000
Revenue	14,994
Depreciation, depletion and amortisation	(1,275)
Other operating expenses	(18,080)
Operating loss	<u>(4,361)</u>
Finance cost- net	(5,277)
Loss before taxation	(9,638)
Taxation	(3,566)
Loss for the financial period	<u>(13,204)</u>
Loss allocated to non-controlling interests	<u>(5,282)</u>

Other than the restricted cash set aside for environmental remediation relation to its operations as disclosed in Note 21, there is no restrictions on the Group's ability to access or use the assets or settle the liabilities of the PBV Group.

Company No.

1034400	D
---------	---

REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

17 INVESTMENTS IN SUBSIDIARY (CONTINUED)

Summarised financial information for subsidiary (continued)

Set out below are the summarised financial information for Palaeontol B.V. Group ("PBV Group") (continued)

Summarised statement of cash flows

	<u>2016</u> RM'000
Loss before income tax	(9,638)
Adjustments for:	
Depreciation, depletion and amortisation	1,275
Unrealised foreign exchange gain	55
Finance cost	5,451
Finance income	(44)
Share based payment transactions	617
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	(2,284)
Changes in working capital:	
Inventories	2,856
Prepayment and other receivables	(1,991)
Trade receivables	(2,055)
Trade payables	982
Other payables and accruals	59,439
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Cash flows generated from operating activities	56,947
Income tax paid	-
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Net cash generated from operating activities	56,947
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CASH FLOWS FROM INVESTING ACTIVITIES	
Finance income received	44
Movement in restricted cash	(639)
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Net cash generated used in investing activities	(595)
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Company No.

1034400	D
---------	---

REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

17 INVESTMENTS IN SUBSIDIARY (CONTINUED)

Summarised financial information for subsidiary (continued)

Set out below are the summarised financial information for Palaeontol B.V. Group ("PBV Group") (continued)

Summarised statement of cash flows (continued)

	<u>2016</u> RM'000
CASH FLOWS FROM FINANCING ACTIVITIES	
Finance cost paid	(22)
Loans received from corporate shareholder	6,236
Net cash generated from financing activities	<u>6,214</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	62,566
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	933
EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(345)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	<u><u>63,154</u></u>

Company No.

1034400 D

REACH ENERGY BERHAD
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

18 **PROPERTY, PLANT AND EQUIPMENT**

<u>Group</u>	<u>Construction in progress</u> RM'000	<u>Exploration and evaluation assets</u> RM'000	<u>Oil and gas properties</u> RM'000	<u>Leasehold, buildings and improvements</u> RM'000	<u>Vehicles, office and other production equipment</u> RM'000	<u>Information technology network equipment</u> RM'000	<u>Total</u> RM'000
<u>2016</u>							
<u>Cost</u>							
At 1 January	-	-	-	403	256	63	722
Acquisition of a subsidiary	373,110	134,774	1,275,774	7,498	8,118	-	1,799,274
Foreign exchange translation	2,128	767	7,282	43	46	-	10,266
Additions	-	-	-	-	16	-	16
At 31 December	375,238	135,541	1,283,056	7,944	8,436	63	1,810,278
<u>Accumulated depreciation</u>							
At 1 January	-	-	-	266	100	51	417
Charge for the financial year	-	-	2,822	273	250	12	3,357
At 31 December	-	-	2,822	539	350	63	3,774
<u>Net book value</u>							
At 31 December	375,238	135,541	1,280,234	7,405	8,086	-	1,806,504

Company No.

1034400	D
---------	---

REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

<u>Company</u>	<u>Leasehold, buildings and improvements</u> RM'000	<u>Vehicles, office and other production equipment</u> RM'000	<u>Information technology network equipment</u> RM'000	<u>Total</u> RM'000
<u>Cost</u>				
At 1 January 2016	403	256	63	722
Additions	-	16	-	16
At 31 December 2016	<u>403</u>	<u>272</u>	<u>63</u>	<u>738</u>
<u>Accumulated depreciation</u>				
At 1 January 2016	266	100	51	417
Charge for the financial year	135	80	12	227
At 31 December 2016	<u>401</u>	<u>180</u>	<u>63</u>	<u>644</u>
<u>Net book value</u>				
At 31 December 2016	<u>2</u>	<u>92</u>	<u>-</u>	<u>94</u>
<u>Cost</u>				
At 1 August 2014	104	135	26	265
Additions	403	228	37	668
Disposal	-	(107)	-	(107)
Write-off	(104)	-	-	(104)
At 31 December 2015	<u>403</u>	<u>256</u>	<u>63</u>	<u>722</u>
<u>Accumulated depreciation</u>				
At 1 August 2014	69	47	17	133
Charge for the financial year	301	117	34	452
Disposal	-	(64)	-	(64)
Write-off	(104)	-	-	(104)
At 31 December 2015	<u>266</u>	<u>100</u>	<u>51</u>	<u>417</u>
<u>Net book value</u>				
At 31 December 2015	<u>137</u>	<u>156</u>	<u>12</u>	<u>305</u>

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

19 PREPAYMENTS AND OTHER RECEIVABLES

	<u>Group</u>	<u>31.12.2016</u>	<u>Company</u>
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	Restated RM'000
Advances to external parties	6,024	32	42
Value-added tax recoverable	26,304	-	-
	<hr/>	<hr/>	<hr/>
Total prepayments	32,328	32	42
Other receivables	2,940	115	14,622
Deposits	135	135	147
	<hr/>	<hr/>	<hr/>
Total deposits, prepayments and other receivables	<u>35,403</u>	<u>282</u>	<u>14,811</u>
 Represent:			
Non-current	4,864	-	-
Current	30,539	282	14,811
	<hr/>	<hr/>	<hr/>
	<u>35,403</u>	<u>282</u>	<u>14,811</u>

As at 31 December 2016, substantially all other receivables are denominated in KZT. All other receivables are unsecured, interest-free and have no fixed term of repayment. The fair values of other receivables approximate their carrying amounts.

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

20 **TRADE RECEIVABLES**

	<u>Group</u>	<u>31.12.2016</u>	<u>Company</u>
	31.12.2016	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000
Trade receivables	9,245	-	-
Less: allowance for impairment of trade receivables	(169)	-	-
	<u>9,076</u>	<u>-</u>	<u>-</u>
Trade receivables – net	<u>9,076</u>	<u>-</u>	<u>-</u>

The Group's trade receivables have credit terms of between 30 days to 180 days.

The aging analysis of trade receivables were as follows:

	<u>Group</u>	<u>31.12.2016</u>	<u>Company</u>
	31.12.2016	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000
Neither past due nor impaired	9,043	-	-
Past due:			
- 60 - 180 days	12	-	-
- more than 180 days	190	-	-
	<u>9,245</u>	<u>-</u>	<u>-</u>
Less: provision for impairment of trade receivables	(169)	-	-
	<u>9,076</u>	<u>-</u>	<u>-</u>

The carrying amounts of trade receivables are denominated in the following currencies:

	<u>Group</u>	<u>31.12.2016</u>	<u>Company</u>
	31.12.2016	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000
United States Dollar ("USD")	7,596	-	-
Kazakhstani Tenge ("KZT")	1,480	-	-
	<u>9,076</u>	<u>-</u>	<u>-</u>
At 31 December	<u>9,076</u>	<u>-</u>	<u>-</u>

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

20 **TRADE RECEIVABLES (CONTINUED)**

The movement in the Group and Company's provision for impairment of trade receivables is as follows:

	<u>Group</u>	<u>Company</u>	<u>Company</u>
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
At 1 January	-	-	-
Provision arising from acquisition of subsidiary	169	-	-
At 31 December	<u>169</u>	<u>-</u>	<u>-</u>

All trade receivables above are individually impaired at the reporting dates as they relate to balances that are unlikely to be collected.

As at 31 December 2016, trade receivables of RM33,000 (2015: nil) were past due but not impaired. These relate to customers with no recent history of default

The credit quality of trade receivables that are neither past due nor impaired can be assessed by historical information about counterparty defaults:

	<u>Group</u>	<u>Company</u>	<u>Company</u>
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
Counterparties without external ratings:			
- new customers during the year	<u>9,043</u>	<u>-</u>	<u>-</u>

21 **DEPOSITS, CASH AND BANK BALANCES**

	<u>Group</u>	<u>Company</u>	<u>Company</u>
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	Restated RM'000
Cash and bank balances	63,671	518	22
Deposits with licensed financial institution	48,969	42,054	763,714
	<u>112,640</u>	<u>42,572</u>	<u>763,736</u>
Less: Deposits with licensed financial institution/ banks which are restricted in use	(6,915)*	-	(735,309)
Total cash and cash equivalents at the end of finance year/ period	<u>105,725</u>	<u>42,572</u>	<u>28,427</u>

* Under the laws of Kazakhstan, the Group is required to set aside funds for environmental remediation relating to its operations. Management is unable to estimate reliably when these amounts will be utilised, and therefore, these amounts are classified as non-current.

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

21 DEPOSITS, CASH AND BANK BALANCES (CONTINUED)

The remaining days to maturity and effective interest rate for the fixed deposits with licensed banks as at the period end ranges from 2 to 30 days (2015: ranges from 13 to 90 days).

In the prior financial period, the Company placed 94.75% of the gross proceeds raised from its initial public offering in an Islamic Trust Account. The monies in the Islamic Trust Account may only be released by the Custodian upon acquisition of a Qualifying Asset or termination of the Islamic Trust Account.

The proceeds in the Islamic Trust Account have been invested in permitted investments which is Shariah compliant and any profits generated from the permitted investments will accrue to the Islamic Trust Account. In the event the Company fails to complete a Qualifying Acquisition within the Permitted Timeframe, the amount then held in the Islamic Trust Account (net of any taxes payable and direct expenses related to the Liquidation Distribution) shall be distributed to the shareholders on a pro rata basis as soon as practicable in accordance with the provisions of the Companies Act, 1965 and other applicable laws and regulation.

Cash and bank balances are denominated in the following currencies:

	<u>Group</u>	<u>Company</u>	
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
United States Dollar ("USD")	62,759	421	-
Kazakhstan Tenge ("KZT")	7,731	-	-
Euro ("EUR")	3	3	-
Malaysian Ringgit ("MYR")	42,147	42,148	763,736
	<u>112,640</u>	<u>42,572</u>	<u>763,736</u>

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

21 DEPOSITS, CASH AND BANK BALANCES (CONTINUED)

The credit qualities of all banks balances are assessed by reference to RAM Rating Services Berhad and Fitch Rating as follows:

	<u>Group</u>	<u>Company</u>	
	<u>31.12.2016</u> RM'000	<u>31.12.2016</u> RM'000	<u>31.12.2015</u> RM'000
-AAA	10,000	10,000	101,054
-AA1	4,867	4,867	2,725
-AA2	431	431	-
-AA3	1,121	1,121	-
-A2	26,152	26,152	659,957
-BBB-	59,466	-	-
-B	10,600	-	-
-Unrated	3	1	-
	<u>112,640</u>	<u>42,572</u>	<u>763,736</u>

22 AMOUNTS DUE TO CORPORATE SHAREHOLDER IN A SUBSIDIARY

The amounts due to corporate shareholder in a subsidiary is denominated in United State Dollars, is unsecured, with the repayment terms and interest exposure as follows:

<u>Amount</u> RM'000	<u>Interest</u>	<u>Repayment terms</u>
197,850	ranging from 10% to 14%	no fixed repayment period
287,507	7.855%	due in 2019
74,349	4.855%	due in 2036
75,462	interest free	repayable on demand

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

23 SIGNIFICANT RELATED PARTY DISCLOSURES

The related party transactions of the Group and the Company comprise mainly transactions between the Company and its subsidiaries and corporate shareholders.

The related parties and their relationship with the Company are as follows:

<u>Companies</u>	<u>Relationship</u>
Reach Energy Ventures Sdn Bhd ("REVSB")	Subsidiary
Palaeontol B.V. ("PBV")	Subsidiary
MIE Holdings Corporation ("MIEH")	Corporate shareholder in a subsidiary
Reach Energy Holdings Sdn Bhd ("REHSB")	Corporate shareholder

All related party transactions were carried out on agreed terms with the related parties. The significant related party transactions of the Group and the Company are shown below:

- (a) Details of significant transactions arising during the financial year with the related companies are as follows:

	<u>Group</u>	<u>Company</u>	
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
(i) Transactions with subsidiaries			
Payments on behalf	-	25,616	-
Advance to subsidiary treated as quasi- investment	-	584,391	-
	<u>-</u>	<u>610,007</u>	<u>-</u>
(ii) Transactions with corporate shareholders			
Loan advanced during the year	2,494	-	-
Interest charged	2,744	-	-
Deferred payment	196,706	-	-
Advances given	262	-	-
Payments on behalf	90	43	-
	<u>202,296</u>	<u>43</u>	<u>-</u>

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

23 **SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

(b) Significant net period end balances owing from/(to) related parties are as follows:

	<u>Group</u>	<u>31.12.2016</u>	<u>Company</u>
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
Amounts due from corporate shareholder	43	43	-
Amounts due to corporate shareholder in a subsidiary	(635,168)	-	-
Amount due from subsidiaries	-	4	-
Investment in subsidiary	-	610,007	-
	<u> </u>	<u> </u>	<u> </u>

(c) Key Management Personnel

	<u>Group</u>	<u>31.12.2016</u>	<u>Company</u>
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
Directors:			
-Fees	200	200	292
-Remuneration and other emoluments	1,450	1,450	1,341
-Defined contribution plans	137	137	161
	<u> </u>	<u> </u>	<u> </u>
	1,787	1,787	1,794
Other Key Management personnel:			
-Remuneration and other emoluments	1,644	1,644	2,284
-Defined contribution plans	176	176	247
	<u> </u>	<u> </u>	<u> </u>
	1,820	1,820	2,531
	<u> </u>	<u> </u>	<u> </u>
	3,607	3,607	4,325
	<u> </u>	<u> </u>	<u> </u>

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Company either directly or indirectly. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

24 CAPITAL

Share capital

	31.12.2016		31.12.2015	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
<u>Group and Company</u>				
Authorised:				
Ordinary shares of RM0.01 each				
At the beginning/end of financial year/ period	5,000,000	50,000	5,000,000	50,000
Issued and fully paid:				
Ordinary shares of RM0.01 each				
At January 2016/ 1 August 2014	1,277,822	12,778	277,822	2,778
Issuance of shares during the financial period	-	-	1,000,000	10,000
Cancellation during the financial year/period	(181,410)	(1,814)	-	-
At 31 December	<u>1,096,412</u>	<u>10,964</u>	<u>1,277,822</u>	<u>12,778</u>

Share premium

Share premium comprises the premium paid on subscription of shares in the Group and in the Company over and above the par value of the shares. The movements in the share premium of the Company are as follows:

	Group		Company
	31.12.2016 RM'000	31.12.2016 RM'000	31.12.2015 RM'000
At 1 January 2016/1 August 2014	734,006	734,006	17,471
Issuance of ordinary shares during the financial period	-	-	740,000
Cancellation of shares during the financial year	(724,721)	(724,721)	-
Reclassification from finance liabilities	662,763	662,763	-
Share issuance expenses	(4,044)	(4,044)	(23,465)
At 31 December 2016/ 31 December 2015	<u>668,004</u>	<u>668,004</u>	<u>734,006</u>

Total capital

Total share capital and premium	678,968	678,968	746,784
Proceeds of shares allocated to warrant reserves	(189,993)	(189,993)	(36,357)
Proceeds of shares allocated to financial liability	-	-	(688,392)
Reclassification to capital redemption reserve	(324)	(324)	-
	<u>488,651</u>	<u>488,651</u>	<u>22,035</u>

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

25 OTHER RESERVES

	Note	Group		Company
		31.12.2016 RM'000	31.12.2016 RM'000	31.12.2015 RM'000
Warrants reserve	(a)	198,914	198,914	45,278
Share-based payment reserve	(b)	821	821	459
Capital redemption reserves	(c)	324	324	-
Foreign exchange reserve	(d)	128	-	-
		<u>200,187</u>	<u>200,059</u>	<u>45,737</u>

(a) Warrants reserve

The movements in the warrants reserve of the Group and of the Company are as follows:

	31.12.2016		31.12.2015	
	Number of warrants	Amount RM'000	Number of warrants	Amount RM'000
At 1 January 2016/ 1 August 2014	1,277,822	45,278	277,822	8,921
Created during the financial period	-	-	1,000,000	36,357
Proceeds from finance liabilities	-	153,636	-	-
At 31 December 2016/ 31 December 2015	<u>1,277,822</u>	<u>198,914</u>	<u>1,277,822</u>	<u>45,278</u>

Each warrant shall entitle the holder to subscribe for one new ordinary share of RM0.75 at the exercise price at any time during the exercise period and shall be subject to adjustments in accordance with the provision of the warrants deed poll. The warrant holders are not entitled to any voting rights or to participate in any distribution and/or offer of further securities in the Company until and unless such warrant holders exercise their warrants into new shares.

The new shares arising from the exercise of warrants shall, upon allotment and issue, rank pari passu with the then existing shares, save and except that they will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which precedes the date of allotment of the new shares.

The warrants shall be transferable in the manner in accordance with the warrants deed poll subject always to the provisions of the SICDA (Securities Industry (Central Depositories) Act) and the rules of Bursa depository and any appendices.

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

25 OTHER RESERVES (CONTINUED)

(b) Share-based payment reserve

The movements in the share-based payment reserve of the Group and Company are as follows:

	<u>Group</u>	<u>Company</u>	
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
At 1 January 2016/1 August 2014	459	459	151
Charge during the financial year/period	362	362	308
At 31 December 2016/ 31 December 2015	<u>821</u>	<u>821</u>	<u>459</u>

The subscription of ordinary shares by the previous holding company, Reach Energy Holdings Sdn. Bhd. in the previous years was with free detachable warrants with the following features:

- (i) 1 free warrant for 1 ordinary share of RM1 each;
- (ii) Exercise price for each warrant is RM0.75; and
- (iii) There is a moratorium in place whereby the warrants are not transferable during the moratorium period which is from the date of listing until the Company has commenced commercial production and generated one full financial year of audited operating revenue.

It is deemed that the free warrants were issued for payment of service.

The fair values of share-based payment were estimated using the Trinomial Lattice Model based on the following key assumptions:

	<u>Tranche 1</u>	<u>Tranche 2</u>
(i) Grant date	31 July 2013	30 June 2014
(ii) Subscription price	RM0.045 per share	RM0.099 per share
(iii) Exercise price	RM0.75 per warrant	RM0.75 per warrant
(iv) Tenure of the Warrant	8 years	8 years
(v) Risk free interest rate	3.222%	3.222%
(vi) Expected dividend yield	0%	0%
(vii) Expected share price volatility	56.65%	34.11%
(viii) Number of share options issued	113,600,000	142,000,000
(ix) Fair value at grant date	RM0.0046 per warrant	RM0.0021 per warrant

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

25 OTHER RESERVES (CONTINUED)

(c) Capital redemption reserves

In respect of the 18.14% Dissenting Shareholders, the financial liability component of the Public Issue Shares including the interest accrued, will be refunded back to the Dissenting Shareholders from the IPO Trust Proceeds held in the Islamic Trust Account. The Shares will be cancelled.

Upon the cancellation of the shares, in accordance with the Companies Act, 1965, the issued share capital is transferred to the capital redemption reserves.

(d) Forex exchange reserve

The foreign exchange reserve arises from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

26 DEFERRED TAX LIABILITIES

Deferred 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 taxes relate to the same tax authority. The analysis of deferred tax assets and deferred tax liabilities is as follows:

	<u>Group</u>	<u>Company</u>	
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
Deferred tax liabilities to be settled after more than 12 months	(96,158)	-	-

The movements during the financial year/period relating to deferred tax are as follows:

	<u>Group</u>	<u>Company</u>	
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
At 1 January 2016/ 1 August 2014	-	-	-
Acquisition of a subsidiary	(92,425)	-	-
Forex exchange translation	(68)	-	-
Credited/ (Charged) to profit or loss: (Note 14)			
- tax losses	(3,585)	-	-
- provisions	409	-	-
- property, plant and equipment	(573)	-	-
- intangible assets	84	-	-
At 31 December	(96,158)	-	-

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

26 DEFERRED TAX LIABILITIES (CONTINUED)

	<u>Group</u>	<u>31.12.2016</u>	<u>Company</u>
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
Subject to income tax			
Deferred tax assets (before offsetting):			
- tax losses	143,506	-	-
- provisions	5,712	-	-
	<u>149,218</u>	<u>-</u>	<u>-</u>
Offsetting	(149,218)	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Deferred tax assets (after offsetting)	<u>-</u>	<u>-</u>	<u>-</u>
Deferred tax liabilities (before offsetting):			
- property, plant and equipment	(245,161)	-	-
- intangible assets	(215)	-	-
	<u>(245,376)</u>	<u>-</u>	<u>-</u>
Offsetting	149,218	-	-
	<u>(96,158)</u>	<u>-</u>	<u>-</u>
Deferred tax liabilities (after offsetting)	<u>(96,158)</u>	<u>-</u>	<u>-</u>

27 TRADE PAYABLES

The carrying amounts of trade payable are denominated in the following currencies:

	<u>Group</u>	<u>31.12.2016</u>	<u>Company</u>
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
Kazakhstan Tenge ("KZT")	38,735	-	-
United States Dollars ("USD")	7,963	-	-
	<u>46,698</u>	<u>-</u>	<u>-</u>

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

28 PROVISIONS

	<u>Group</u>	<u>Company</u>
	<u>31.12.2016</u>	<u>31.12.2016</u> <u>31.12.2015</u>
	RM'000	RM'000 RM'000
Asset retirement obligations	14,949	- -
Movements of asset retirement obligations are as follows:		
At 1 January 2016/ 1 August 2014	-	- -
Arising from acquisition of subsidiary	14,337	- -
Foreign exchange translation	537	
Accretion expenses of asset retirement obligations	75	- -
At 31 December	14,949	- -

29 FINANCE LIABILITY COMPONENT OF THE PUBLIC ISSUE SHARES ("FLC")

In the prior financial period, the Company placed 94.75% of the gross proceeds from its public issuance of shares in a custodian trust account immediately upon receipt of all proceeds ("IPO Custodian Trust Proceeds"). The amount in the custodian account may only be released by the custodian upon termination of the custodian trust account;

In the event the Company fails to complete a Qualifying Acquisition within the Permitted Timeframe (i.e. 36 months from the date of listing of the Company), the Company must be liquidated. The amount then held in the custodian trust account (net of any taxes payable and direct expenses related to the liquidation), must be distributed to the respective shareholders, except for Reach Energy Holdings Sdn. Bhd. and the Initial Investors, on a pro-rata basis as soon as practicable, as permissible by the relevant laws and regulations ("Liquidation Distribution"). Reach Energy Holdings Sdn. Bhd. and Initial Investors may not participate in the Liquidation Distribution, except for securities purchased by them after the date of listing of the Company on the Bursa Securities;

In the event that the shareholders do not agree with the Qualifying Acquisition, the dissenting shareholders will be entitled to receive, in exchange for their shares, a sum equivalent to a pro rata portion of the amount then held in the Trust Account (net of any taxes payables and expenses related to the facilitation of the exchange), provided that such Qualifying Acquisition is completed within the Permitted Timeframe.

The public issue share is a compound financial instrument with financial liability and equity components. The financial liability component, being the gross proceeds placed in the custodian trust account, represents the Company's financial liability of the public shareholders.

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

29 FINANCE LIABILITY COMPONENT OF THE PUBLIC ISSUE SHARES ("FLC") (continued)

During the year, the Company fulfilled the Security Commission ("SC") Guidelines outlining the required treatment and mechanism of proceeds from its Initial Public Offering ("IPO").

In respect of the 81.86% non-Dissenting Shareholders, the financial liability component of the Public Issue Share is reclassified as equity and recognised through the share capital and warrant reserve account as the Company has no further obligation to refund the IPO Trust Proceeds held in the Islamic Trust Account to the shareholders.

In respect of the 18.14% Dissenting Shareholders, the financial liability component of the Public Issue Shares including interests accrued, is refunded to the Dissenting Shareholders from the IPO Trust Proceeds held in the Islamic Trust Account. These dissenting shares are then cancelled.

30 ACCRUALS AND OTHER PAYABLES

	<u>Group</u>		<u>Company</u>
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
Advance payments	124,572		
Withholding and other tax payable	6,242	-	-
Salary and welfare payable	1,583	214	294
Accruals and other payables	6,849	5,029	1,702
	<u>139,246</u>	<u>5,243</u>	<u>1,996</u>
Total accruals and other payables	<u>139,246</u>	<u>5,243</u>	<u>1,996</u>
Represent:			
Non-current	41,103	-	-
Current	98,143	5,243	1,996
	<u>139,246</u>	<u>5,243</u>	<u>1,996</u>

Company No.

1034400	D
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REACH ENERGY BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

31 COMMITMENTS

(i) Capital commitments for the purchase of property, plant and equipment:

	<u>Group</u>	<u>Company</u>	
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
Authorised by the director but not contracted for	199,091	-	-
Contracted but not provided for	65,904	-	-
	<u>264,995</u>	<u>-</u>	<u>-</u>

(ii) Operating lease commitments

The Group has operating lease commitments related to its non-cancellable operating leases for offices and none of the lease includes contingent rentals. The future aggregate minimum lease payments under these operating leases are as follows:

	<u>Group</u>	<u>Company</u>	
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
<1 year	2,186	123	127
1-2 years	2,063	-	-
2-5 years	46	-	-
	<u>4,295</u>	<u>123</u>	<u>127</u>

(iii) According to the production contracts for four blocks 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:

	<u>Group</u>	<u>Company</u>	
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
<1 year	198,815	-	-
1-2 years	283,641	-	-
2-5 years	1,067,136	-	-
>5 years	2,995,098	-	-
	<u>4,544,690</u>	<u>-</u>	<u>-</u>

The minimum work program includes capital expenditure of RM1,434,000 (2015: RM nil) to be incurred over the life of the production contracts expiring in 2036. Other commitments represent mainly other direct operation and maintenance costs of wells and related facilities.

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

32 FINANCIAL INSTRUMENTS BY CATEGORY

The table below provides an analysis of financial instruments categorised as follows:

- (a) Loans and receivables;
- (b) Financial liabilities measured at amortised costs

	<u>Group</u>		<u>Company</u>
	<u>31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM'000	RM'000	RM'000
<u>Loans and receivables</u>			
Trade receivables	9,076	-	-
Other receivables (exclude prepayments)	3,075	250	14,769
Deposits, cash and bank balances	112,640	42,572	763,736
Amount due from related parties	43	43	-
Amount due from subsidiary	-	4	-
	<u>124,834</u>	<u>42,869</u>	<u>778,505</u>
<u>Other financial liabilities</u>			
Trade payables	46,698	-	-
Accruals and other payables (excluding statutory liabilities)	6,495	4,690	1,612
Amounts due to corporate shareholder in a subsidiary	635,168	-	-
	<u>688,361</u>	<u>4,690</u>	<u>1,612</u>

Company No.

1034400	D
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REACH ENERGY BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

33 COMPARATIVE

During the financial year, the Company made certain reclassification to the comparatives to conform to the current year presentation, resulting in the financial statements providing more relevant information about the effects of the transaction on the Company's financial positions.

Interest earned on the custodian trust account as disclosed in Note 29 was previously presented as deposits, cash and bank balances in the statement of financial position. However, management considers it to be more relevant if it is presented as prepayments and other receivables. Prior year comparatives as at 31 December 2015 have been restated by reclassifying RM14,622,000 from deposits, cash and bank balances to prepayment and other receivables.

In the prior financial year, the Company's amount of deposits with licensed financial institution which were restricted in use was previously stated as RM749,785,545. This has been restated to RM735,509,000 in the current financial year due to an overstatement of the amount of deposits with licensed financial institution which were restricted in use. The cash and cash equivalents disclosed in the statement of cash flows for FY2015 is hence restated to RM28,427,000 in the current financial year.

The reclassification has no impact to the statement of comprehensive income for the financial year.

The impact of the reclassification is as set out below:

(a) Impact on the Statement of Financial Position

	As previously reported RM'000	Reclassification RM'000	As restated RM'000
<u>At 31 December 2015</u>			
Prepayment and other receivables	189	14,622	14,811
Deposits, cash and bank balances	778,358	(14,622)	763,736
	<u>778,358</u>	<u>(14,622)</u>	<u>763,736</u>

(b) Impact on the Statement of Cash Flows

	As previously reported RM'000	Reclassification RM'000	As restated RM'000
<u>At 31 December 2015</u>			
Cash and cash equivalents at the end of the year/ period	13,951	14,476	28,427
	<u>13,951</u>	<u>14,476</u>	<u>28,427</u>

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

34 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The Company has proposed placement of new ordinary shares of RM 0.01 each ("Placement shares") to raise gross proceeds of up to RM 180 million ("Proposed placement") during the Extraordinary General Meeting ("EGM") held on 16 November 2016. This was passed during the EGM via an ordinary resolution. On 23 March 2017, the Security Commission ("SC") has approved the Company's application for an extension of six months, which is up to 22 August 2017 for the Company to implement the Proposed Placement and the application had been approved.

35 SEGMENTAL INFORMATION

Management has determined the operating segments based on the reports reviewed by the Executive Management (Chief Operating decision maker).

During the financial year 2016, the Group has one single operating segment, which operates the exploration, development, production and sales of oil and other petroleum products in the Republic of Kazakhstan. The segment information is consistent with the financial position and financial performance as shown in the statement of financial position and statement of comprehensive income including related notes to the financial statements.

The reportable operating segment derive all revenue from the sale of crude oil in the Republic of Kazakhstan (the "Kazakhstan"). All revenue of the operating segment is contributed by external customer. The major customer, Euro Asian Oil SA ("Euro Asian") is one of the largest trading companies in Mangistau region of Western Kazakhstan. Euro Asian contributes revenue of RM13,780,556.

	<u>Malaysia</u> RM'000	<u>Kazakhstan</u> RM'000	<u>Total</u> RM'000
<u>Statement of financial position</u>			
<u>2016</u>			
<u>Non-current assets</u>			
Property, plant and equipment	94	1,806,410	1,806,504
Intangible assets	-	713	713
Total	<u>94</u>	<u>1,807,123</u>	<u>1,807,217</u>

Company No.

1034400	D
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REACH ENERGY BERHAD

(Incorporated in Malaysia)

SUPPLEMENTARY INFORMATION – BREAKDOWN OF RETAINED EARNINGS INTO REALISED AND UNREALISED

The breakdown of the retained earnings of the Group and of the Company at 31 December 2016, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	<u>Group</u>	<u>31.12.2016</u>	<u>Company</u>
	31.12.2016	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000
Total retained earnings of the Company and its subsidiaries			
-Realised	(50,681)	(43,578)	(39,234)
-Unrealised	4,456	119	-
	<u>(46,225)</u>	<u>(43,459)</u>	<u>(39,234)</u>
Less: Consolidated adjustments	132,517	-	
Total retained earnings/ (accumulated losses)	<u>86,292</u>	<u>(43,459)</u>	<u>(39,234)</u>

The determination of realised and unrealised profit or losses is based on the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits or losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purpose.

Company No.

1034400	D
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REACH ENERGY BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS PURSUANT TO
SECTION 251(2) OF THE COMPANIES ACT, 2016

We, Shahul Hamid Bin Mohd Ismail and Izlan Bin Izhab, two of the Directors of Reach Energy Berhad, hereby state that, in the opinion of the Directors the accompanying financial statements set out on pages 6 to 75 are drawn up so as to give a true and fair view of the financial position of the Group and Company as at 31 December 2016 and financial performance of the Group and of the Company for the financial year ended 31 December 2016 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The supplementary information set out on page 76 to the financial statements has been compiled in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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


SHAHUL HAMID BIN MOHD ISMAIL
DIRECTOR

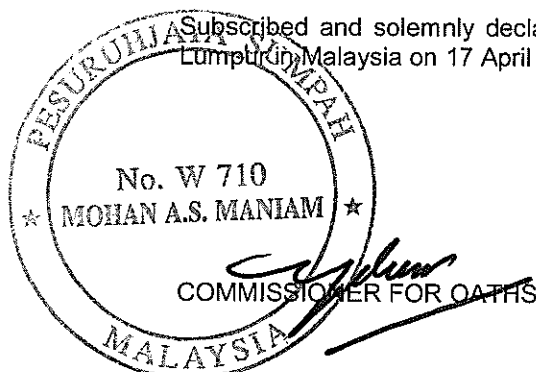

IZLAN BIN IZHAB
DIRECTOR

STATUTORY DECLARATION PURSUANT TO
SECTION 251(1) OF THE COMPANIES ACT, 2016

I, Shahul Hamid Bin Mohd Ismail, being the Officer responsible for the financial management of Reach Energy Berhad, do solemnly and sincerely declare that the financial statements set out on pages 6 to 75 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.


SHAHUL HAMID BIN MOHD ISMAIL

Subscribed and solemnly declared by the abovenamed Shahul Hamid Bin Mohd Ismail, at Kuala Lumpur in Malaysia on 17 April 2017, before me.





INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF REACH ENERGY BERHAD
(Incorporated in Malaysia)
(Company No. 1034400 D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Reach Energy Berhad (“the Company”) and its subsidiaries (“the Group”) give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 6 to 75.

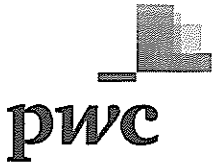
Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditors’ responsibilities for the audit of the financial statements” section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (“By-Laws”) and the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF REACH ENERGY BERHAD (CONTINUED)**
(Incorporated in Malaysia)
(Company No. 1034400 D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of the Group and the Company. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group and of the Company, the accounting processes and controls, and the industry in which the Group and the Company operate.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
<p>Acquisition of Palaeontol B.V. Group ("PBV")</p> <p>The Group completed the acquisition of PBV on 30 November 2016.</p> <p>Based on the provisional purchase price allocation review performed, negative goodwill of RM 156.9 million was recognised during the financial year, as set out in Note 16 of the consolidated financial statements.</p>	<p>Our audit procedures to address the reasonableness of key assumptions used in the determination of the provisional fair value of oil and gas assets comprised the following:</p> <ul style="list-style-type: none"> • Tested the key assumptions used in determining the fair value of the oil and gas assets by: <ul style="list-style-type: none"> - Comparing the forecasted oil prices against independent market data and estimates; - Comparing the revenue discount rates against historical trend; - Comparing the inflation and discount rates against industry practise; - Comparing the level of oil and gas reserves and expected capital expenditures against the management's external expert reserves report;

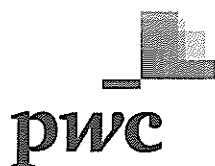


INDEPENDENT AUDITORS' REPORT
 TO THE MEMBERS OF REACH ENERGY BERHAD (CONTINUED)
 (Incorporated in Malaysia)
 (Company No. 1034400 D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p>Acquisition of Palaeontol B.V. Group ("PBV")</p> <p>We focused on this area as the quantum of negative goodwill recognised is material and the determination of fair value of the oil and gas assets involves significant management's judgement and assumptions.</p> <p>Refer to Note 4.2(b) on the Group's accounting policy on business combination and Note 16 of the consolidated financial statements.</p>	<ul style="list-style-type: none"> • Evaluated the competence and objectivity of the expert used by the Group to fair value oil and gas assets by reference to their qualifications and experience. • Engaged our valuation expert in testing the appropriateness of methodology adopted in the assessment of the fair value of oil and gas assets. <p>We did not identify any material exceptions from the procedures performed.</p>
<p>Liquidity risk of the Group</p> <p>As at 31 December 2016, the Group's current liabilities exceeded their current assets by RM270 million.</p> <p>Management identified that the key assumptions in assessing the Group's liquidity risk were the expected cash inflows from the operations of Emir Oil. The cash flow projections required management to make critical judgements on the net cash inflows generated from the oil and gas assets.</p> <p>We focused on this area due to the significant management's judgement involved in preparing the cash flow projections and the subjectivity of the liquidity risk of the Group.</p> <p>Refer to Note 5.1(c) of the consolidated financial statements.</p>	<p>In assessing the liquidity risk of the Group, we assessed the cash flow requirements of the Group over the next 12 months from the end of the reporting date based on the Group's forecasts. We obtained an understanding of the forecast expenditure which were committed as well as those based on the contracted payment terms.</p> <p>We assessed the reasonableness of key assumptions used by management in the cash flow projections which are the forecasted oil prices and quantum of expected oil production.</p>



INDEPENDENT AUDITORS' REPORT
 TO THE MEMBERS OF REACH ENERGY BERHAD (CONTINUED)
 (Incorporated in Malaysia)
 (Company No. 1034400 D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Liquidity risk of the Group (continued)	<p>We held discussions with management to understand the timing of the cash flows from the existing operations of Emir Oil based on their scheduled or planned progress and the availability of funds. We also discussed with management and checked whether the settlement of the amount due to a corporate shareholder in a subsidiary is consistent with the contractual term.</p> <p>Where there were significant variances as a result of changes in assumptions used in the cash flow projections, we have discussed with management to incorporate these changes to the cash flow projections.</p> <p>Based on the procedures performed, we noted no significant exceptions.</p>

There were no key audit matters identified at Company level.

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises Directors' Report and Statement on Risk Management and Internal Control, which we obtained prior to the date of this auditors' report, and the complete 2016 Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF REACH ENERGY BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 1034400 D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of the financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

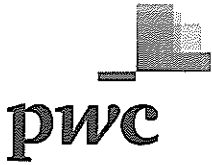
In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF REACH ENERGY BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 1034400 D)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- (d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF REACH ENERGY BERHAD (CONTINUED)**
(Incorporated in Malaysia)
(Company No. 1034400 D)

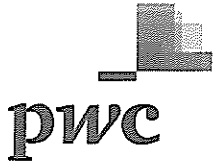
REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 17 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) Our auditors' reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Page 76 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF REACH ENERGY BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 1034400 D)

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink that reads 'Pricewaterhousecoopers' in a cursive style.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

A handwritten signature in black ink that reads 'nurul a'in' in a cursive style.

NURUL A'IN BINTI ABDUL LATIF
02910/02/2019 J
Chartered Accountant

Kuala Lumpur
17 April 2017