



**REACH ENERGY
BERHAD**

company no: 1034400-D
(Incorporated in Malaysia)

Report on unaudited quarterly
financial results for the period
1 April 2017
to 30 June 2017
("Interim Financial Statements")

(The figures have not been audited)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | CURRENT QUARTER | IMMEDIATE PRECEDING QUARTER | CUMULATIVE QUARTER | CUMULATIVE 6 MONTHS | % |
|--|------|---|---|--|--|-------|
| | | Unaudited for the quarter ended 30 Jun 2017 | Unaudited for the quarter ended 31 March 2017 | Unaudited for period ended 30 Jun 2017 | Unaudited for the period ended 30 Jun 2016 | |
| | | RM'000 | RM'000 | RM'000 | RM'000 | |
| Revenue | | 40,737 | 44,625 | 85,362 | - | - |
| Other income | | - | - | - | 17,348 | - |
| Depreciation, depletion and amortisation | | (8,338) | (8,207) | (16,545) | - | - |
| Distribution expenses | | (8,371) | (8,548) | (16,919) | - | - |
| Employee compensation costs | | (4,203) | (4,628) | (8,831) | - | - |
| General and administrative expenses | | (4,575) | (2,545) | (7,120) | - | - |
| Other operating expenses - net | | (2,956) | (4,360) | (7,316) | (8,792) | - |
| Purchase, services and other direct costs | | (8,961) | (6,129) | (15,090) | - | - |
| Taxes other than income taxes | | (9,815) | (13,825) | (23,640) | - | - |
| Operating expenses | | (47,219) | (48,242) | (95,461) | (8,792) | - |
| (Loss)/ Profit from operations | | (6,482) | (3,617) | (10,099) | 8,556 | (218) |
| Finance income | | 1,620 | 879 | 2,499 | - | - |
| Finance cost | | (18,216) | (14,284) | (32,500) | (20,482) | - |
| Finance cost- net | | (16,596) | (13,405) | (30,001) | (20,482) | - |
| Loss before taxation | B14 | (23,078) | (17,022) | (40,100) | (11,926) | 236 |
| Income tax benefits/ (expenses) | B15 | 1,826 | (740) | 1,086 | (4,141) | - |
| Loss for the financial period | | (21,252) | (17,762) | (39,014) | (16,067) | 143 |
| Loss attributable to:- | | | | | | |
| Owners of the Company | | (14,533) | (9,729) | (24,262) | (16,067) | 51 |
| Non controlling interests | | (6,719) | (8,033) | (14,752) | - | - |
| Loss for the financial period | | (21,252) | (17,762) | (39,014) | (16,067) | |
| Earnings per share attributable to Owners of the Company | B13 | | | | | |
| Basic loss per ordinary share (RM): | | (0.01) | (0.01) | (0.02) | (0.06) | |
| Diluted loss per ordinary share (RM): | | (0.01) | (0.01) | (0.02) | - | |
| Loss for the financial period | | (21,252) | (17,762) | (39,014) | (16,067) | |
| Other comprehensive loss, net of tax | | | | | | |
| Items that will be reclassified subsequently to profit or loss: | | | | | | |
| Foreign currency translation differences | | (10,095) | (6,500) | (16,595) | - | - |
| Total comprehensive expenses for the financial period | | (31,347) | (24,262) | (55,609) | (16,067) | |
| Total comprehensive expenses for period attributable to: | | | | | | |
| Owners of the Company | | (20,505) | (13,714) | (34,219) | (16,067) | |
| Non-controlling interests | | (10,842) | (10,548) | (21,390) | - | |
| Total comprehensive expenses for the financial period | | (31,347) | (24,262) | (55,609) | (16,067) | |

The unaudited condensed consolidated statement of comprehensive income should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes.

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | Unaudited As at 30 Jun 2017 RM'000 | Audited As at 31 Dec 2016 RM'000 |
|---|------|--|--|
| Asset | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 1,723,127 | 1,806,504 |
| Intangible assets | | 644 | 713 |
| Prepayments and other receivables | | 4,656 | 4,864 |
| Restricted cash | | 7,350 | 6,915 |
| | | <u>1,735,777</u> | <u>1,818,996</u> |
| Current assets | | | |
| Inventories | | 5,816 | 7,398 |
| Trade receivables | | 6,678 | 9,076 |
| Prepayments and other receivables | | 23,568 | 30,539 |
| Amount due from corporate shareholder | | 120 | 43 |
| Deposits, cash and bank balances | | 59,378 | 105,725 |
| | | <u>95,560</u> | <u>152,781</u> |
| Total current assets | | 95,560 | 152,781 |
| Total assets | | 1,831,337 | 1,971,777 |
| Current liabilities | | | |
| Trade payables | | 57,254 | 46,698 |
| Accruals and other payables | | 49,309 | 98,143 |
| Amount due to corporate shareholder | A7 | 264,760 | 273,312 |
| Current tax liabilities | | 955 | 4,573 |
| | | <u>372,278</u> | <u>422,726</u> |
| Total current liabilities | | 372,278 | 422,726 |
| Net current liabilities | | (276,718) | (269,945) |
| Total assets less current liabilities | | 1,459,059 | 1,549,051 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 91,153 | 96,158 |
| Amount due to corporate shareholder | A7 | 362,251 | 361,856 |
| Accruals and other payables | | 14,332 | 41,103 |
| Provisions | | 11,947 | 14,949 |
| | | <u>479,683</u> | <u>514,066</u> |
| Net assets | | 979,376 | 1,034,985 |
| Equity | | | |
| Capital | | 488,975 | 488,651 |
| Capital redemption reserves | | - | 324 |
| Foreign exchange reserve | | (9,829) | 128 |
| Non-controlling interest | | 238,465 | 259,855 |
| Warrants reserve | | 198,914 | 198,914 |
| Share-based payment reserves | | 821 | 821 |
| Retained earnings | | 62,030 | 86,292 |
| | | <u>979,376</u> | <u>1,034,985</u> |
| Equity attributable to owners of the Company | | 979,376 | 1,034,985 |
| Net assets per share (RM) | | 0.89 | 0.94 |

The unaudited condensed consolidated statement of financial position should be read in conjunction with the audited consolidated financial statements for the financial period ended 31 December 2016 and the accompanying explanatory notes.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | 6 months to 30/6/2017 RM'000 | 6 months to 30/6/2016 RM'000 |
|--|---|---|
| Cash flows from operating activities | | |
| Loss before tax | (40,100) | (11,926) |
| <i>Adjustments for:-</i> | | |
| Depreciation of property, plant and equipment | 16,545 | 150 |
| Unrealised foreign exchange loss, net | 15,366 | - |
| Finance cost | 16,839 | 20,482 |
| Finance income | (2,204) | (17,254) |
| Share-based payment transaction | - | 109 |
| | <u>6,446</u> | <u>(8,439)</u> |
| Changes in working capital: | | |
| Inventories | 1,318 | - |
| Prepayment and other receivables | 5,186 | 18 |
| Trade receivable | 2,365 | - |
| Trade payables | 12,381 | - |
| Other payables and accruals | (55,722) | 571 |
| Amount due from subsidiary | - | (2) |
| Amount due to corporate shareholder | (893) | - |
| Cash flows used in operating activities | <u>(28,919)</u> | <u>(7,852)</u> |
| Income tax paid | (14,261) | - |
| Net cash (used in)/ generated from operating activities | <u>(43,180)</u> | <u>(7,852)</u> |
| Cash flows from investing activities | | |
| Purchases of property, plant and equipment | (6,144) | (17) |
| Finance income received | 602 | 30,373 |
| Acquisition of a subsidiary | - | - |
| Advances to corporate shareholder | (77) | - |
| Placement of deposits with licensed bank (trust funds) | - | (29,932) |
| Movement in restricted cash | 713 | - |
| Net cash (used in)/ generated from investing activities | <u>(4,906)</u> | <u>424</u> |
| Cash flows from financing activities | | |
| Finance cost paid | (45) | - |
| Advance from corporate shareholder in a subsidiary | - | - |
| Loans received from corporate shareholder in a subsidiary | - | - |
| Payment for share listing expenses | - | - |
| Net cash used in financing activities | <u>(45)</u> | <u>-</u> |
| Net (decrease)/ increase in cash and cash equivalents | (48,131) | (7,428) |
| Cash and cash equivalents at the beginning of year | 105,725 | 28,427 |
| Exchange difference on cash and cash equivalents | 1,784 | - |
| Cash and cash equivalents at end of period/year | <u>59,378</u> | <u>20,999</u> |

The unaudited condensed consolidated statement of financial position should be read in conjunction with the audited consolidated financial statements for the financial period ended 31 December 2016 and the accompanying explanatory notes.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<----- Attributable to Equity Holders of the Company ----->
 <----- Non-distributable ----->

| | Capital | Capital redemption reserves | Warrants reserve | Share-based payment reserves | Foreign exchange reserve | Retained earnings | Total | Non-controlling interest | Total equity |
|---|----------------|-----------------------------|------------------|------------------------------|--------------------------|-------------------|----------------|--------------------------|----------------|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| As at 1 January 2017 | | | | | | | | | |
| Balance b/f | 488,651 | 324 | 198,914 | 821 | 128 | 86,292 | 775,130 | 259,855 | 1,034,985 |
| Loss for the financial period | | | | | | | | | |
| Other comprehensive loss, net of tax | - | - | - | - | - | (24,262) | (24,262) | (14,752) | (39,014) |
| -Foreign currency translation | - | - | - | - | (9,957) | - | (9,957) | (6,638) | (16,595) |
| Total comprehensive income for the financial period | - | - | - | - | (9,957) | (24,262) | (34,219) | (21,390) | (55,609) |
| Transition to non-par value regime on 31 January 2017 | 324 | (324) | | | | | | | |
| As at 30 June 2017 | 488,975 | - | 198,914 | 821 | (9,829) | 62,030 | 740,911 | 238,465 | 979,376 |
| As at 1 January 2016 | | | | | | | | | |
| Balance b/f | 22,035 | - | 45,278 | 459 | - | (39,234) | 28,538 | - | 28,538 |
| Loss for the financial period | | | | | | | | | |
| Other comprehensive loss, net of tax | - | - | - | - | - | (16,067) | (16,067) | - | (16,067) |
| Share based payment transaction | - | - | - | 109 | - | - | 109 | - | 109 |
| Total comprehensive loss for the financial period | - | - | - | 109 | - | (16,067) | (15,958) | - | (15,958) |
| As at 30 June 2016 | 22,035 | - | 45,278 | 568 | - | (55,301) | 12,580 | - | 12,580 |

Note:

* "The new Companies Act 2016 (the "Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amounts standing to the credit of the share premium account and capital redemption reserves become part of the Company's share capital pursuant to the transitional provisions set out in Section 618 (2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use the amount standing to the credit of its share premium account of RM477,687,186.47 for purposes as set out in Sections 618 (3) and the capital redemption reserve of RM323,991.03 for the bonus issue pursuant to Section 618(4) of the Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition."

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes.

NOTES TO THE MANAGEMENT ACCOUNTS

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

A1 Basis of Preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") 134, Interim Financial Reporting issued by Malaysian Accounting Standards Board ("MASB") and Paragraph 9.22 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"). The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2016 and the accompanying notes attached to the unaudited condensed consolidated interim financial statement.

The explanatory notes attached to unaudited condensed consolidated interim financial statements provide explanations of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2016.

On 25 March 2015, the Board of Directors of Reach Energy Berhad or the Company had resolved to change the financial year end of the Company from 31 July to 31 December. As Reach Energy Berhad ("REB") is no longer a Special Purpose Acquisition Company ("SPAC") effective 16 December 2016 pursuant to its acquisition of Palaeontol B.V ("PBV"), and accordingly the Group shall announce the interim financial report on a quarterly basis as opposed to half yearly basis previously. Due to these changes, there are no comparative figures given for preceding year corresponding quarter in the current report.

A2 Changes in accounting policies

(a) Standards, amendments to published standards and interpretations that are applicable to the Group that are effective:

The Group has adopted the following amendments for the first time for the financial year beginning 1 January 2017:

- Amendments to MFRS 107 "Statement of Cash Flows - Disclosure Initiative"
- Amendments to MFRS 112, Recognition of Deferred Tax Assets for Unrealised Losses
- Amendment to MFRS 12 (Annual Improvements to MFRS Standards 2014–2016 Cycle)

The impact of the new accounting standards, amendments and improvements to published standards on the unaudited condensed consolidated interim financial statements of the Group is not material.

A3 Auditors' Opinion on Preceding Annual Financial Statements

The Group's financial statements for the financial year ended 31 December 2016 were not subject to audit qualification.

A4 Seasonality or cyclicity of operations

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

A5 Individually significant items

The Company has proposed placement of new ordinary shares of RM0.01 each to raise gross proceeds of up to RM180 million ("Proposed Placement") during the Adjourned Extraordinary General Meeting ("EGM") held on 16 November 2016. This was passed during the EGM via an ordinary resolution. On 23 March 2017, the Securities 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 has been approved.

The Company had announced on 9 August 2017 that it has decided to abort the Proposed Placement. Due to the prevailing market conditions, it is challenging for the Company to implement the Proposed Placement at an issue price that is in the best interest of the Company and its shareholders. Nevertheless, the Company will explore other avenues of fundraising.

The proceeds from the Proposed Placement were earmarked mainly to settle the remaining purchase consideration of the acquisition of 60% equity interest in Palaeontol B.V and 60% of the shareholder loan from MIE Holdings Corporation ("Acquisition"), which was completed on 25th November 2016. The Company has the flexibility to settle the remaining purchase consideration, subject to interest being charged in accordance to the terms of the sales and purchase agreement dated 5th March 2016 as disclosed in the circular to shareholders of Reach Energy dated 13 October 2016. As such, the termination of the Proposed Placement does not have any effect on the Acquisition.

A6 Material changes in estimates

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

A7 Borrowing, debt and equity security

(i) Borrowing

| | As at 30 June 2017 | | | | | |
|--|------------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
| | Long term | | Short term | | Total borrowings | |
| | *Foreign denomination | RM denomination | *Foreign denomination | RM denomination | *Foreign denomination | RM denomination |
| Amount due to corporate shareholder | | | | | | |
| Unsecured | 84,362 | 362,251 | 61,658 | 264,760 | 146,020 | 627,011 |
| | As at 31 December 2016 | | | | | |
| | Long term | | Short term | | Total borrowings | |
| | *Foreign denomination | RM denomination | *Foreign denomination | RM denomination | *Foreign denomination | RM denomination |
| Amount due to corporate shareholder | | | | | | |
| Unsecured | 80,663 | 361,856 | 60,926 | 273,312 | 141,589 | 635,168 |

*The unsecured borrowings are denominated in United States Dollars ("USD") and translated at the rate of 4.294 (2016: 4.486)

There were no repayments or drawdowns of borrowings made during the 6 months financial period ended 30 June 2017. The amount due to corporate shareholder has the following interest exposures and repayment terms:

| Amount | Interest | Repayment terms |
|---------|-------------------------|---------------------------|
| RM'000 | | |
| 189,762 | ranging from 10% to 14% | no fixed repayment period |
| 287,635 | 7.86% | due in 2019 |
| 74,616 | 4.86% | due in 2036 |
| 74,998 | interest free | repayable on demand |

(ii) Equity

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

A8 Dividend paid

There was no dividend declared or paid during the current financial period ended 30 June 2017.

A9 Material events subsequent to the end of the interim period

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

A10 Changes in the composition of the Group

There were no changes in the composition of the Group during the current financial period ended 30 June 2017.

A11 Contingent liabilities or contingent assets

There were no contingent liabilities or contingent assets as at 30 June 2017.

A12 Commitment

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

| | Unaudited As at 30 Jun 2017 RM'000 | Audited As at 31 Dec 2016 RM'000 |
|-----------------------------------|---|---|
| Authorised but not contracted for | 82,230 | 199,091 |
| Contracted but not provided for | 10,937 | 65,904 |
| | <u>93,167</u> | <u>264,995</u> |

A12 Commitment (Continued)

ii Operating lease commitments

The Group has operating lease commitments related to its non-cancellable operating leases for offices. The future aggregate minimum lease payments under these operating leases are as follows:

| | Unaudited As at 30 Jun 2017 RM'000 | Audited As at 31 Dec 2016 RM'000 |
|-----------|---|---|
| <1 year | 1,299 | 2,186 |
| 1-2 years | 2,412 | 2,063 |
| 2-5 years | - | 46 |
| | <u>3,711</u> | <u>4,295</u> |

iii According to the production contracts for four fields in Kazakhstan, the Group is obligated to perform minimum work program during the life of the production contracts. Set out below is the commitment for the minimum work program

| | Unaudited As at 30 Jun 2017 RM'000 | Audited As at 31 Dec 2016 RM'000 |
|-----------|---|---|
| <1 year | 145,837 | 198,815 |
| 1-2 years | 529,515 | 283,641 |
| 2-5 years | 1,161,476 | 1,067,136 |
| >5 years | 2,314,853 | 2,995,098 |
| | <u>4,151,681</u> | <u>4,544,690</u> |

The minimum work program includes capital expenditure of RM1,372 million (2016: 1,434 million) to be incurred over the life of the production contracts expiring in 2036. Other commitments represent mainly direct operation and maintenance costs of wells and related facilities.

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

B1 Operating Segments

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

- i Oil and gas
- ii Investment holding

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

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

Summarised Statement of Comprehensive Income

| | CURRENT QUARTER | | IMMEDIATE PRECEDING QUARTER | | CUMMULATIVE QUARTER | | CUMMULATIVE 6 MONTHS | |
|---------------------------------|---|-------------------------------|---|-------------------------------|--|-------------------------------|--|-------------------------------|
| | Unaudited for the quarter ended 30 Jun 2017 | | Unaudited for the quarter ended 31 Mar 2017 | | Unaudited financial period ended 30 Jun 2017 | | Unaudited financial period ended 30 Jun 2016 | |
| | Oil & gas RM'000 | Investment Holdings RM'000 | Oil & gas RM'000 | Investment Holdings RM'000 | Oil & gas RM'000 | Investment Holdings RM'000 | Oil & gas RM'000 | Investment Holdings RM'000 |
| Revenue | 40,737 | - | 44,625 | - | 85,362 | - | - | |
| Other income | - | - | - | - | - | - | 17,348 | |
| Results | | | | | | | | |
| Operating expenses | (44,477) | (2,742) | (45,387) | (2,855) | (89,864) | (5,597) | - | |
| Finance expense, net | (5,473) | (11,123) | (9,048) | (4,357) | (14,521) | (15,480) | - | |
| Loss before taxation | (9,213) | (13,865) | (9,810) | (7,212) | (19,023) | (21,077) | - | |
| Income tax benefits/ (expenses) | 1,891 | (65) | (666) | (74) | 1,225 | (139) | - | |
| Loss for the financial period | <u>(7,322)</u> | <u>(13,930)</u> | <u>(10,476)</u> | <u>(7,286)</u> | <u>(17,798)</u> | <u>(21,216)</u> | <u>-</u> | |

All the amounts are denominated in United States Dollars ("USD") and was translated at an average rate of 4.3700.

Summarised Statement of Financial Position

| | Unaudited as at 30 Jun 2017 | | Audited as at 31 Dec 2016 | |
|---|-----------------------------------|------------------------|---------------------------------|------------------------|
| | Oil & gas | Investment Holdings | Oil & gas | Investment Holdings |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Non-current assets | 1,735,702 | 75 | 1,818,902 | 94 |
| Current assets | 63,890 | 31,670 | 109,885 | 42,896 |
| Current liabilities | (180,599) | (191,677) | (220,905) | (201,821) |
| Non-current liabilities | (479,683) | - | (514,066) | - |
| Net assets | 1,139,310 | (159,932) | 1,193,816 | (158,831) |
| Accumulated non-controlling interest | | 238,465 | | 259,855 |

All the amounts are denominated in United States Dollars ("USD") and was translated at the closing rate of 4.294 (2016: 4.486).

B2 Overall Review of Group's Financial Performance

Comparing with preceding quarter results

| | CURRENT QUARTER Unaudited for the quarter ended 30 Jun 2017 RM'000 | IMMEDIATE PRECEDING QUARTER Unaudited for the quarter ended 31 Mar 2017 RM'000 | CUMULATIVE QUARTER Unaudited for the period ended 30 Jun 2017 RM'000 | CUMULATIVE 6 MONTHS Unaudited for the period ended 30 Jun 2016 RM'000 |
|--------------------------|---|--|---|--|
| Revenue | 40,737 | 44,625 | 85,362 | - |
| Other operating expenses | (47,219) | (48,242) | (95,461) | (11,926) |
| Loss before tax | (23,078) | (17,022) | (40,100) | (11,926) |
| Loss after tax | (21,252) | (17,762) | (39,014) | (16,067) |

For the current quarter under review, the Group recorded lower revenue of RM40.7 million as compared to RM44.6 million in the immediate preceding quarter, the lower revenue was due to the decrease in oil prices despite the increase in production of crude oil by 6%.

The Group recorded pre-tax loss of RM21.2 million as compared to a pre-tax loss of RM17.7 million in the immediate preceding quarter. The higher pre-tax loss in the current quarter as compared to preceding quarter was mainly due to lower revenue and higher finance cost although the operating cost is slightly lower.

Currently, the Group's net asset per share stood at RM0.89 as compared to the average market price of RM0.40 per share.

B3 Material change in profit before taxation

The Group recorded a loss before taxation of RM 23.0 million in the current three months period while, in the preceding three months period ended 31 March 2017, the Group recorded a loss of RM17 million.

B4 Status of Corporate proposal announced but not completed

On 23 May 2016, the Company had proposed placement of new ordinary shares of RM 0.01 each in Reach Energy Berhad to raise gross proceeds of up to RM 180.0 million ("Proposed Placement"). Pursuant to the shareholders' approval obtained at the Adjourned EGM of the Company held on 16 November 2016, the Company was authorised to proceed with the proposed placement within six (6) months from the date of approval of the Securities Commission Malaysia ("SC"), i.e. 24 August 2016. The Company has submitted an application to the SC for an extension of time of six (6) months from 23 February 2017 to 22 August 2017 for the Company to implement the Proposed Placement as set out in the shareholders Circular dated 13 October 2016. On 23 March 2017, the Securities Commission ("SC") had 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.

The Company has announced that it has decided to abort the said placement. Due to the prevailing market conditions, it is challenging for the Company to implement the Placement at an issue price that is in the best interest of the Company and its shareholders. Nevertheless, the Company will continue to explore other avenues of fundraising.

The proceeds from the Placement were earmarked mainly to settle the remaining purchase consideration of the acquisition of 60% equity interest in Palaeontol B.V and 60% of the shareholder's loan from MIE Holdings Corporation ("Acquisition") which was completed on 25th November 2016. The Company has the flexibility to settle the remaining purchase consideration, subject to interest being charged in accordance to the terms of the sales and purchase agreement dated 5th March 2016 as disclosed in the circular to shareholders of Reach Energy dated 13th October 2016. As such, the termination of the Placement does not have any affect on the Acquisition.

B5 Prospects

Ramping Up Production

Since gaining effective control over the operations of Emir-Oil on 25 May 2017 at the end of the 6-month Transition Period, Reach Energy has reset production and exploration programs to achieve its near-term targeted oil production rate of 5,000 barrels of oil per day ("BOPD"). This targeted rate is expected to be achieved primarily by the resumption of production via Electrical Submersible Pumps (ESPs) and rejuvenation of existing producing wells and shut-in wells via matrix acidizing or acid fracturing. In addition, the start-up of production of horizontal well K-123 that was drilled in 2015 is expected to contribute significantly in ramping up oil production. Horizontal wells are expected to have greater productivity based on the performance of current producing horizontal wells in Emir-Oil. An upward trend of oil production is expected throughout the second half of 2017 as the number of wells resuming production is expected to increase from 14 to 27 by the end of 2017.

Once this near-term production rate is achieved, it is expected to be maintained before the commencement of 'Phase 1' Production Ramp-Up in 2019 with the completion of oil and gas tie-ins and the commissioning of the Central Processing Facility ("CPF"). This Phase 1 upgrade is expected to increase the field processing capacity from 6,500 BOPD to 12,000 BOPD for oil and 5.5 million standard cubic feet per day ("MMscf/d") to 21.2 MMscf/d for gas.

Increasing Reserves and Resources

In January 2017, the Ministry of Energy of Kazakhstan has approved the extension of the Emir-Oil Exploration Contract by 3 years to January 2020. Emir-Oil is committed to drill 6 new exploration wells during this period to increase oil and gas reserves and resources of the concession block.

North Kariman and Yessen

Work is progressing on putting North Kariman and Yessen fields into Production Contracts. The Reserves Committee of the Republic of Kazakhstan has recently approved the submitted reserves estimate of North Kariman field.

Sales

For the financial period ended 30 June 2017, the year-to-date average crude oil export sales percentage is 87% and domestic sales percentage is 13%.

B6 Oil reserves

Following completion of the Qualifying Acquisition, Reach Energy Berhad is now a full-fledged Independent Oil and Gas Exploration and Production (E&P) company, with our maiden asset in Emir-Oil Concession Block in Mangystau Oblast, Kazakhstan. As an E&P company, our primary assets are our Oil and Gas Reserves.

Reserves are estimated remaining quantities of oil and natural gas anticipated to be recoverable from known accumulations, based on the analysis of drilling, geological, geophysical and engineering data, obtained from the use of established technology and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates.

- i) Proved Reserves (P1) are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable from known reservoirs and under defined economic conditions, operating methods and government regulations.

- ii) Probable Reserves (P2) are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.
- iii) Possible Reserves (P3) are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Probable Reserves

B6 Oil reserves (continued)

As part of our responsibility as a public-listed E&P Company, we will provide transparency of our core assets to shareholders and the public. Our appointed Independent Reserves Auditors, Chapman Petroleum Engineering Ltd, had recently completed an independent reserves and economic evaluation of oil and gas properties in the Emir-Oil Concession Block, as at the effective date on 1 January 2017.

The gross reserves (100% basis) of Emir-Oil Concession Block are summarised in the table below:

| | 1P (P1 = Proved Reserves) | 2P (P1 + P2 = Proved and Probable Reserves) | 3P (P1 + P2 + P3 = Proved, Probable and Possible Reserves) |
|----------------------------|--|--|---|
| Oil (MMstb) | | | |
| Kariman | 20.7 | 46.2 | 47.9 |
| Dolinnoe | 6.4 | 13.0 | 19.0 |
| Aksaz | 1.8 | 2.8 | 2.9 |
| Exploration (NK, Y. Borly) | 1.7 | 13.8 | 21.1 |
| Emir | 0.8 | 5.3 | 10.2 |
| TOTAL | 31.5 | 81.1 | 101.1 |
| | | | |
| | 1P (P1 = Proved Reserves) | 2P (P1 + P2 = Proved and Probable Reserves) | 3P (P1 + P2 + P3 = Proved, Probable and Possible Reserves) |
| Gas (Bscf) | | | |
| Kariman | 8.5 | 18.8 | 19.5 |
| Dolinnoe | 13.8 | 27.7 | 39.9 |
| Aksaz | 12.8 | 22.3 | 23.3 |
| Exploration (NK, Y. Borly) | 0.6 | 4.8 | 9.4 |
| Emir | 0.1 | 0.8 | 1.4 |
| TOTAL | 35.8 | 74.4 | 93.5 |
| | | | |
| | 1P (P1 = Proved Reserves) | 2P (P1 + P2 = Proved and Probable Reserves) | 3P (P1 + P2 + P3 = Proved, Probable and Possible Reserves) |
| Oil and Gas (MMboe) | | | |
| Kariman | 22.1 | 49.4 | 51.2 |
| Dolinnoe | 8.8 | 17.6 | 25.7 |
| Aksaz | 3.9 | 6.6 | 6.8 |
| Exploration (NK, Y. Borly) | 1.8 | 14.6 | 22.6 |
| Emir | 0.9 | 5.4 | 10.5 |
| TOTAL | 37.5 | 93.6 | 116.8 |

As highlighted in the tables above, the Emir-Oil Concession Block holds significant oil and gas reserves with upside potential. In addition, the crude oil produced is light and sweet (benchmarked to Brent crude price). We are excited in capitalizing our team's experience and technical know-how to maximize the value of this asset for our shareholders.

B7 Status of Utilisation of Proceeds Raised From Corporate Proposal

| Purpose of Utilisation | Proposed Utilisation | Actual Utilisation |
|---|----------------------|--------------------|
| | (RM Million) | (RM Million) |
| Acquisition of the target company/asset | 710,625 | 580,528 |
| Working capital | | |
| - Remuneration of the management team | 15,459 | 10,828 |
| - Pre-IPO office and corporate expenses | 611 | 25,646 |
| - Others | 26,475 | 22,649 |
| Estimated Listing Expenses | 26,000 | 26,795 |

B8 Profit forecast and guarantee

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

B9 Purchase or disposal of quoted securities

There were no purchase or disposal of quoted securities during the financial period ended 30 June 2017.

B10 Sale of unquoted investments and/or properties

There were no sale of unquoted investment and /or properties during the financial period ended 30 June 2017.

B11 Financial instruments with off-balance sheet risk

There were no financial instruments with material off-balance sheet risk as at 30 June 2017.

B12 Material Litigation

There were no material litigation as at 30 June 2017.

B13 Earnings per share

- i Basic earnings per ordinary share

The calculation of basic (loss)/ earnings per ordinary share as at 30 June 2017 was based on the loss attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, as follows:-

| | CURRENT QUARTER | IMMEDIATE PRECEDING QUARTER | CUMULATIVE QUARTER | CUMULATIVE 6 MONTHS |
|--|---|---|--|--|
| | Unaudited for the quarter ended 30 Jun 2017 RM'000 | Unaudited for the quarter ended 31 Mar 2017 RM'000 | Unaudited for the period ended 30 Jun 2017 RM'000 | Unaudited for the period ended 30 Jun 2016 RM'000 |
| Loss after taxation attributable to owner of the Company | (14,533) | (9,729) | (24,262) | (16,067) |
| Weighted average number of ordinary shares | 1,096,413 | 1,096,413 | 1,096,413 | 277,822 |
| Basic earnings per ordinary share (RM) | (0.01) | (0.01) | (0.02) | (0.06) |
| Diluted loss per ordinary share (RM) | (0.01) | (0.01) | (0.02) | (0.06) |

ii Diluted loss per ordinary share

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

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

B14 Loss before taxation

| | CURRENT QUARTER | IMMEDIATE PRECEDING QUARTER | CUMULATIVE QUARTER | CUMULATIVE 6 MONTHS |
|--|---|---|--|--|
| | Unaudited for the quarter ended 30 Jun 2017 RM'000 | Unaudited for the quarter ended 31 Mar 2017 RM'000 | Unaudited for the period ended 30 Jun 2017 RM'000 | Unaudited for the period ended 30 Jun 2016 RM'000 |
| Loss before taxation is arrived after charging / (crediting): | | | | |
| Interest income from deposits with licensed banks | 282 | 320 | 602 | - |
| Other finance income | 1,294 | 309 | 1,603 | - |
| Foreign exchange loss, net | (10,823) | (4,543) | (15,366) | - |
| Interest expenses on loan from corporate shareholder in a subsidiary | (7,333) | (9,461) | (16,794) | - |
| Other finance cost | (12) | (33) | (45) | - |

B15 Income tax benefit/ (expense)

| | CURRENT QUARTER | IMMEDIATE PRECEDING QUARTER | CUMULATIVE QUARTER | CUMULATIVE 6 MONTHS |
|--|---|---|--|--|
| | Unaudited for the quarter ended 30 Jun 2017 RM'000 | Unaudited for the quarter ended 31 Mar 2017 RM'000 | Unaudited for the period ended 30 Jun 2017 RM'000 | Unaudited for the period ended 30 Jun 2016 RM'000 |
| Current income tax | | | | |
| Malaysian income tax: | | | | |
| -Current year | 65 | 74 | 139 | (4,141) |
| -Over accrual in prior year | - | - | - | - |
| Foreign income tax: | | | | |
| -Current year | - | - | - | - |
| Deferred income tax | | | | |
| Origination and reversal of temporary difference | (1,891) | 666 | (1,225) | - |
| | (1,826) | 740 | (1,086) | (4,141) |

In the current year, the income tax is calculated at the statutory tax rate of 24% (2016: 24%) of the estimated assessable profit for the year.

B15 Realised and unrealised retained profit

| | Unaudited as at 30 June 2016 RM'000 | Audited as at 31 Dec 2016 RM'000 |
|---|--|---|
| Analysis of retained gain/(accumulated losses): | | |
| Realised | (22,685) | (50,681) |
| *Unrealised | (117,704) | 4,456 |
| | (140,389) | (46,225) |
| Less: Consolidation adjustment | 202,420 | 132,517 |
| | 62,031 | 86,292 |

* The unrealised retained profit are mainly deferred tax provision and foreign exchange gain of monetary items denominated in a currency other than functional currency.

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

COMPANY SECRETARIES
DATE