



# **REACH ENERGY BERHAD**

Company no: 1034400-D  
(Incorporated in Malaysia)

Report  
on  
Unaudited  
Quarterly Financial Results  
for the Period  
1 Oct 2018  
to  
31 Dec 2018

(The figures have not been audited)

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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		<b>INDIVIDUAL QUARTER</b>	<b>INDIVIDUAL QUARTER</b>	<b>CUMULATIVE QUARTER</b>	<b>CUMULATIVE QUARTER</b>
		<b>Unaudited for the quarter ended</b>	<b>Audited for the quarter ended</b>	<b>Unaudited for the year ended</b>	<b>Audited for the year ended</b>
	<b>Note</b>	<b>31 Dec 18 RM'000</b>	<b>31 Dec 17 RM'000</b>	<b>31 Dec 18 RM'000</b>	<b>31 Dec 17 RM'000</b>
Revenue		69,297	49,647	220,284	157,115
Operating expense					
Depreciation, depletion and amortisation		(1,617)	(40,082)	(59,900)	(64,314)
Distribution expenses		(6,476)	(8,798)	(25,673)	(29,926)
Employee compensation costs		(3,683)	(4,630)	(14,300)	(16,971)
General and administration expenses		(1,703)	(1,403)	(8,885)	(11,511)
Other operating (expenses)/income – net		(1,812)	(6,104)	1,572	(11,184)
Purchase, services and other direct Costs		(12,591)	(6,739)	(30,231)	(26,370)
Taxes other than income taxes		(22,452)	(14,038)	(74,578)	(47,049)
Total operating expenses		<u>(50,334)</u>	<u>(81,794)</u>	<u>(211,995)</u>	<u>(207,325)</u>
<b>Profit/(Loss) from operations</b>		<b>18,963</b>	<b>(32,147)</b>	<b>8,289</b>	<b>(50,210)</b>
Finance income		7,778	4,090	9,117	6,474
Finance cost		(27,074)	(29,897)	(59,913)	(77,969)
Finance income/(cost) – net		<u>(19,296)</u>	<u>(25,807)</u>	<u>(50,796)</u>	<u>(71,495)</u>
<b>Loss before taxation</b>	B13	<b>(333)</b>	<b>(57,954)</b>	<b>(42,507)</b>	<b>(121,705)</b>
Income tax expenses	B14	<u>(19,449)</u>	<u>(29,710)</u>	<u>(18,259)</u>	<u>(25,481)</u>
<b>Loss for the financial period/year</b>		<b><u>(19,782)</u></b>	<b><u>(87,664)</u></b>	<b><u>(60,766)</u></b>	<b><u>(147,186)</u></b>
<b>Loss attributable to:</b>					
Owners of the Company		(29,506)	(51,262)	(44,434)	(87,836)
Non-controlling interests		9,724	(36,402)	(16,332)	(59,350)
<b>Loss for the financial period/year</b>		<b><u>(19,782)</u></b>	<b><u>(87,664)</u></b>	<b><u>(60,766)</u></b>	<b><u>(147,186)</u></b>
<b>Earnings per share attributable to owners of the Company</b>	B12				
Basic loss per ordinary share (RM):		(0.03)	(0.05)	(0.04)	(0.08)
Diluted loss per ordinary share (RM):		(0.03)	(0.05)	(0.04)	(0.08)
<b>Loss for the financial period/year</b>		<b>(19,782)</b>	<b>(87,664)</b>	<b>(60,766)</b>	<b>(147,186)</b>
<b>Other comprehensive income/(expense), net of tax</b>					
<b>Items that will be reclassified subsequently to profit or loss:</b>					
- Foreign currency translation differences		(2,132)	(19,152)	3,075	(43,595)
<b>Total comprehensive expense for the financial period/year</b>		<b><u>(21,914)</u></b>	<b><u>(106,816)</u></b>	<b><u>(57,691)</u></b>	<b><u>(190,781)</u></b>

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 2017 and the accompanying explanatory notes.

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

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

	<b>INDIVIDUAL QUARTER</b>	<b>INDIVIDUAL QUARTER</b>	<b>CUMULATIVE QUARTER</b>	<b>CUMULATIVE QUARTER</b>
	<b>Unaudited for the quarter ended</b>	<b>Audited for the quarter ended</b>	<b>Unaudited for the year ended</b>	<b>Audited for the year ended</b>
<b>Note</b>	<b>31 Dec 18 RM'000</b>	<b>31 Dec 17 RM'000</b>	<b>31 Dec 18 RM'000</b>	<b>31 Dec 17 RM'000</b>
<b>Total comprehensive expense for the period attributable to:</b>				
Owners of the Company	(30,401)	(63,034)	(25,234)	(114,360)
Non-controlling interests	8,487	(43,782)	(32,457)	(76,421)
<b>Total comprehensive expense for the financial period/year</b>	<b>(21,914)</b>	<b>(106,816)</b>	<b>(57,691)</b>	<b>(190,781)</b>

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 2017 and the accompanying explanatory notes.

**REACH ENERGY BERHAD**  
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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	Unaudited As at 31 Dec 18 RM'000	Audited As at 31 Dec 17 RM'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1,573,818	1,569,791
Intangible assets		2,067	579
Prepayment and other receivables		2,443	3,254
Restricted cash		6,936	7,357
<b>Total non-current assets</b>		<b>1,585,264</b>	<b>1,580,981</b>
<b>Current assets</b>			
Inventories		3,073	7,382
Trade receivables		14,241	14,381
Prepayment and other receivables		12,372	15,829
Amount due from corporate shareholder in a subsidiary		2,080	671
Amount due from corporate shareholder		209	173
Deposits, cash and bank balances		48,800	27,519
Tax Recoverable		164	153
<b>Total current assets</b>		<b>80,939</b>	<b>66,108</b>
<b>Total assets</b>		<b>1,666,203</b>	<b>1,647,089</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables		31,110	53,388
Accruals and other payables		17,470	22,239
Amounts due to corporate shareholder in a subsidiary	A7	307,741	72,796
Current tax liabilities		2,718	1,080
<b>Total current liabilities</b>		<b>359,039</b>	<b>149,503</b>
<b>Net current liabilities</b>		<b>(278,100)</b>	<b>(83,395)</b>
<b>Total assets less current liabilities</b>		<b>1,307,164</b>	<b>1,497,586</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		126,409	106,349
Amounts due to corporate shareholder in a subsidiary	A7	293,434	532,019
Accruals and other payables		26,311	11,983
Provisions		13,533	9,348
		<b>459,687</b>	<b>659,699</b>
<b>Net assets</b>		<b>847,477</b>	<b>837,887</b>
<b>Equity</b>			
Capital		488,976	488,975
Other reserves		189,954	187,742
Retained earnings/(accumulated losses)		8,869	(13,976)
Equity attributable to owners of the Company		687,799	662,741
Non-controlling interest		159,678	175,146
<b>Total Equity</b>		<b>847,477</b>	<b>837,887</b>
<b>Net assets per share (RM)</b>		<b>0.77</b>	<b>0.76</b>

The unaudited condensed consolidated statement of financial position should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes.

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	←----- Attributable to Equity Holders of the Company ----->						Total RM'000	Non- controlling interest RM'000	Total Equity RM'000
	←----- Non-distributable ----->								
	Capital RM'000	Warrants reserve RM'000	Capital contribution reserve RM'000	Share- based payment reserves RM'000	Foreign exchange reserve RM'000	(Accumulated losses) /Retained earnings RM'000			
<b>As at 1 January 2018</b>	488,975	198,914	14,403	821	(26,396)	(13,976)	662,741	175,146	837,887
Loss for the financial year	-	-	-	-	-	(44,434)	(44,434)	(16,332)	(60,766)
Other comprehensive expense, net of tax - Foreign currency translation	-	-	-	-	2,211	-	2,211	864	3,075
Gain from extinguishment of debt	-	-	-	-	-	67,279	67,279	-	67,279
Total comprehensive expense for the financial year	-	-	-	-	2,211	22,845	25,056	(15,468)	9,588
<b>As at 31 Dec 2018</b>	<b>488,975</b>	<b>198,914</b>	<b>14,403</b>	<b>821</b>	<b>(24,185)</b>	<b>8,869</b>	<b>687,797</b>	<b>159,678</b>	<b>847,475</b>

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes.

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	←----- Attributable to Equity Holders of the Company -----→							Total RM'000	Non- controlling interest RM'000	Total Equity RM'000
	←----- Non-distributable -----→			Share- based payment reserves RM'000	Foreign exchange reserve RM'000	(Accumulated losses) /Retained earnings RM'000				
	Capital RM'000	Capital redemption reserves RM'000	Warrants reserve RM'000	Capital contribution reserve RM'000						
<b>As at 1 January 2017</b>	488,651	324	198,914	-	821	128	86,292	775,130	259,855	1,034,985
Prior year adjustments	-	-	-	-	-	-	(12,432)	(12,432)	(8,288)	(20,720)
<b>As restated</b>	488,651	324	198,914	-	821	128	73,860	762,698	251,567	1,014,265
Transition to non-par value regime on 31 January 2017 **	324	(324)	-	-	-	-	-	-	-	-
Loss for the financial year	-	-	-	-	-	-	(87,836)	(87,836)	(59,350)	(147,186)
Other comprehensive income, net of tax - Foreign currency translation	-	-	-	-	-	(26,524)	-	(26,524)	(17,071)	(43,595)
Total comprehensive expense for the financial year	-	-	-	-	-	(26,524)	(87,836)	(114,360)	(76,421)	(190,781)
Capital contribution due to restructuring of loans *	-	-	-	14,403	-	-	-	14,403	-	14,403
<b>As at 31 December 2017</b>	<b>488,975</b>	<b>-</b>	<b>198,914</b>	<b>14,403</b>	<b>821</b>	<b>(26,396)</b>	<b>(13,976)</b>	<b>662,741</b>	<b>175,146</b>	<b>837,887</b>

\* During the year of 2017, the management re-negotiated the shareholders loan agreement terms with the corporate shareholder in a subsidiary, MIE Holdings Corporation ("MIEH") to revise the interest rate from 7.855% to 5%. These loans are deemed to be the capital contribution from MIEH.

\*\* 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. The Board of Directors will make a decision thereon by 31 January 2019. 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 consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes.

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Unaudited 12 months 31 Dec 18 RM'000</b>	<b>Audited 12 months 31 Dec 17 RM'000</b>
<b>Cash flows from operating activities</b>		
Loss before tax	(42,507)	(121,705)
Adjustments for:-		
Depreciation of property, plant and equipment	59,902	64,314
Unrealised foreign exchange loss, net	(7,194)	33,712
Finance cost	67,108	44,257
Finance income	(9,117)	(6,474)
Loss in disposal of assets	668	75
Net provision for impairment of trade receivables	-	(159)
Net provision for inventory obsolescence	-	2,384
	<u>68,860</u>	<u>16,404</u>
Changes in working capital:		
Inventories	4,372	(3,139)
Prepayment and other receivables	4,601	12,014
Trade receivables	400	(6,336)
Trade payables	(23,744)	9,455
Other payables and accruals	10,168	(95,180)
Amount due to corporate shareholder in a subsidiary	(12,901)	(1,312)
<b>Cash flows generated from/(used in) operating activities</b>	<u>51,756</u>	<u>(68,094)</u>
Income tax paid	(11)	(2,632)
<b>Net cash generated from/(used in) operating activities</b>	<u><u>51,745</u></u>	<u><u>(70,726)</u></u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(35,014)	(11,173)
Finance income received	9,117	2,016
Advances to corporate shareholder	(35)	(130)
Movement in restricted cash	546	(1,156)
<b>Net cash used in investing activities</b>	<u><u>(25,386)</u></u>	<u><u>(10,443)</u></u>
<b>Cash flows from financing activities</b>		
Interest paid	(2,596)	-
Payment of amount due to corporate shareholder in a subsidiary	(1,738)	-
<b>Net cash used in financing activities</b>	<u><u>(4,334)</u></u>	<u><u>-</u></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	22,023	(81,169)
<b>Cash and cash equivalents at the beginning of the year</b>	27,519	105,725
<b>Exchange difference on cash and cash equivalents</b>	(742)	2,963
<b>Cash and cash equivalents at end of the period</b>	<u><u>48,800</u></u>	<u><u>27,519</u></u>

The unaudited condensed consolidated statement of cash flows should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes.

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

**A1. BASIS OF PREPARATION**

The unaudited condensed consolidated financial statements have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") 134, Interim Financial Reporting issued by Malaysian Accounting Standards Board ("MASB") and Paragraph 9.22 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"). The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2018 and the accompanying notes attached to the unaudited condensed consolidated financial statements.

The explanatory notes attached to unaudited condensed consolidated financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2018.

The accounting policies and methods of computation adopted by the Group in this unaudited condensed consolidated financial statements are consistent with those adopted in the audited consolidated financial statements for the financial year ended 31 December 2018 except for those standards, amendments and interpretations which are effective from the annual period beginning on or after 1 January 2019. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the financial year ending 31 December 2019. The adoption of these standards, amendments and interpretations has no material impact to these unaudited condensed consolidated financial statements, other than as disclosed below:-

• MFRS 9 *Financial Instruments*

MFRS 9 replaces MFRS 139 *Financial Instruments: Recognition and Measurement* from 1 January 2018.

MFRS 9 introduces changes relating to classification and measurement of financial assets, accounting for changes in own credit risk in financial liabilities, impairment assessment based on the expected credit loss model and hedge accounting.

The Group has applied MFRS 9 retrospectively on the initial application date of 1 January 2018 and has elected not to restate comparatives. The adoption of MFRS 9 did not have any significant effects on the unaudited condensed consolidated financial statements upon their initial application.

• MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111 *Construction Contracts*, MFRS 118 *Revenue*, IC Interpretation 13 *Customer Loyalty Programmes*, IC Interpretation 15 *Agreements for Construction of Real Estate*, IC Interpretation 18 *Transfer of Assets from Customers* and IC Interpretation 131 *Revenue - Barter Transactions Involving Advertising Services*.

The core principle of MFRS 15 is that an entity should recognise revenue which depicts the transfer of promised goods or services to the customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue recognition in accordance with the underlying principle of MFRS 15 encompasses the identification of the contract(s) with a customer, the performance obligations in the contracts, determination of the transaction price, and allocation of the transaction price to the performance obligations in the contract and recognition of revenue in the satisfaction of performance obligation.

The adoption of MFRS 15 did not have any significant effects on the unaudited condensed consolidated financial statements.

• Amendments to MFRS 2 *Share-Based Payment*

Classification and measurement of share-based payment transactions.

• IC Interpretations 22

Foreign currency transactions and advance consideration.



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

(a) Standards, amendments to published standards and interpretation that are applicable to the Group but not yet effective:

- |   |  |
|---|--|
| (i) Financial year beginning on or after 1 January 2019:  |  |
| • MFRS 16   | <i>Leases</i>  |
| • IC Interpretation 23                                    | <i>Uncertainty over Income Tax Treatments</i>                          |
| • Annual improvement to MFRS 2015-2017 cycle              | <i>Amendments to MFRS 123 'Borrowing Costs'</i>                        |
| • Annual improvement to MFRS 2015-2017 cycle              | <i>Amendments to MFRS 112 'Income Taxes'</i>                           |
| (ii) Financial year beginning on or after 1 January 2020: |  |
| • Amendments to MFRS 101                                  | <i>Presentation of Financial Statements</i>                            |
| • Amendments to MFRS 108                                  | <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> |
| • Amendments to MFRS 134                                  | <i>Interim Financial Reports</i>                                       |
| • Amendments to MFRS 137                                  | <i>Provisions, Contingent Liabilities and Contingent Assets</i>        |
| • Amendments to MFRS 138                                  | <i>Intangible Assets</i>   |
| • Amendments to MFRS 2                                    | <i>Share-Based Payment</i>   |
| • Amendments to MFRS 6                                    | <i>Exploration and Evaluation of Mineral Resources</i>                 |
| • Amendments to IC Interpretation 22                      | <i>Foreign Currency Transaction and Advance Consideration</i>          |

The Group plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2019 for those accounting standards that are effective for annual periods beginning on or after 1 January 2019.
- from the annual period beginning on 1 January 2020 for those accounting standards that are effective for annual periods beginning on or after 1 January 2020.

**A3. AUDITORS' OPINION ON PRECEDING ANNUAL FINANCIAL STATEMENTS**

The Group's consolidated financial statements for the financial year ended 31 December 2017 were not subject to audit qualification.

**A4. SEASONALITY OR CYCLICALITY OF OPERATIONS**

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

**A5. INDIVIDUALLY SIGNIFICANT ITEMS**

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

**A6. MATERIAL CHANGES IN ESTIMATES**

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

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**A7. BORROWING, DEBT AND EQUITY SECURITY**

**(I) BORROWING**

	As at 31 Dec 2018					
	Long term		Short term		Total borrowings	
Amount due to corporate shareholder in a subsidiary	*Foreign denomination	RM denomination	*Foreign denomination	RM denomination	*Foreign denomination	RM denomination
Unsecured	70,903	293,434	74,361	307,741	145,264	601,175
	As at 31 December 2017					
	Long term		Short term		Total borrowings	
Amount due to corporate shareholder in a subsidiary	*Foreign denomination	RM denomination	*Foreign denomination	RM denomination	*Foreign denomination	RM denomination
Unsecured	130,975	532,019	17,921	72,796	148,896	604,815

\*The unsecured borrowings are denominated in United States Dollars ("USD") and translated at the rate of 4.139 (2017: 4.062).

There was a repayment of interest on deferred consideration and drawdowns of borrowings made during the 12 months financial period ended 31 Dec 2018. The amount due to corporate shareholder in a subsidiary has the following interest exposures and repayment terms:

<u>Amount</u>	<u>Interest</u>	<u>Repayment terms</u>
RM'000		
182,281	Ranging from 10% to 14%	No fixed repayment period
248,579	5%	Due in 2019
51,375	Interest free	Due in 2019
68,041	4.86%	Due in 2036
17,825	Interest free	Due in 2036
7,787	Interest free	Repayable on demand
1,625	5%	Due in 2023
339	Interest free	Due in 2023
23,323	Interest free	No fixed repayment period

**(II) EQUITY**

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

**A8. DIVIDEND PAID**

There was no dividend declared or paid during the current financial period ended 31 Dec 2018.

**A9. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE YEAR**

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

**A10. CHANGES IN THE COMPOSITION OF THE GROUP**

There were no changes in the composition of the Group during the current financial period ended 31 Dec 2018.

**A11. CONTINGENT LIABILITIES OR CONTINGENT ASSETS**

There were no contingent liabilities or contingent assets as at 31 Dec 2018.

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**A12. COMMITMENT**

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

	<b>Unaudited As at 31 Dec 18 RM'000</b>	<b>Audited As at 31 Dec 17 RM'000</b>
Authorised but not contracted for	32,934	22,751
Contracted but not provided for	48,977	6,779
	<u>81,911</u>	<u>29,530</u>

**(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:

	<b>Unaudited As at 31 Dec 18 RM'000</b>	<b>Audited As at 31 Dec 17 RM'000</b>
< 1 year	1,929	1,991
1 – 2 years	152	1,910
	<u>2,081</u>	<u>3,901</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:**

	<b>Unaudited As at 31 Dec 18 RM'000</b>	<b>Audited As at 31 Dec 17 RM'000</b>
< 1 year	134,989	109,719
1 – 2 years	591,461	136,537
2 – 5 years	814,124	853,010
> 5 years	2,218,666	2,681,846
	<u>3,759,240</u>	<u>3,781,112</u>

The minimum work program includes capital expenditure of RM 829 million (2017: RM 1,091 million) to be incurred over the life of the production contracts expiring in 2036. Other commitments represent mainly direct operation and maintenance costs of wells and related facilities.

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

**B1. OPERATING SEGMENTS**

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

**OIL AND GAS**

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

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

**INVESTMENT HOLDING**

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

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**B1. OPERATING SEGMENTS (CONT'D)**

**(I) SUMMARISED STATEMENT OF COMPREHENSIVE INCOME**

	INDIVIDUAL QUARTER		INDIVIDUAL QUARTER		CUMULATIVE QUARTER		CUMULATIVE QUARTER	
	Unaudited for the quarter ended 31 Dec 18		Audited for the quarter ended 31 Dec 17		Unaudited for the year ended 31 Dec 18		Audited for the year ended 31 Dec 17	
	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	69,297	-	49,647	-	220,284	-	157,115	-
<u>Results</u>								
Operating expenses	(48,444)	(1,890)	(79,716)	(2,078)	(203,938)	(8,057)	(197,539)	(9,786)
Finance expense, net	(13,508)	(5,788)	(10,294)	(15,513)	(38,880)	(11,916)	(33,266)	(38,229)
Profit/(loss) before taxation	7,345	(7,678)	(40,363)	(17,591)	(22,534)	(19,973)	(73,690)	(48,015)
Income tax (expenses)/benefit	(19,467)	18	(29,909)	199	(18,259)	-	(25,510)	29
(Loss)/profit for the financial period	(12,122)	(7,660)	(70,272)	(17,392)	(40,793)	(19,973)	(99,200)	(47,986)

The amounts are denominated in United States Dollars ("USD") and was translated at an average rate of 4.036 (2017: 4.281).

**(II) SUMMARISED STATEMENT OF FINANCIAL POSITION**

	Unaudited as at 31 Dec 18		Audited as at 31 Dec 17	
	Oil & Gas RM'000	Investment Holdings RM'000	Oil & Gas RM'000	Investment Holdings RM'000
Non-current assets	1,585,245	19	1,580,946	35
Current assets	59,896	21,043	38,924	27,184
Current liabilities	(357,208)	(1,831)	(148,535)	(968)
Non-current liabilities	(254,083)	(205,604)	(659,699)	-
Net assets	1,033,850	(186,373)	811,636	26,251
Accumulated non-controlling interest			159,678	175,146

The amounts are denominated in United States Dollars ("USD") and was translated at the closing rate of 4.139 (2017: 4.062).

**B2. OVERALL REVIEW OF GROUP'S FINANCIAL PERFORMANCE**

**(I) COMPARING WITH PRECEDING YEAR QUARTER RESULTS**

	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
	Unaudited for the quarter ended 31 Dec 18 RM'000	Audited for the quarter ended 31 Dec 17 RM'000	Unaudited for the year ended 31 Dec 18 RM'000	Audited for the year ended 31 Dec 17 RM'000
Revenue	69,297	49,647	220,284	157,115
Operating expenses	(50,334)	(81,794)	(211,995)	(207,325)
EBITDA	20,580	7,935	68,188	14,104
Loss before tax	(333)	(57,954)	(42,507)	(121,705)
Loss after tax	(19,782)	(87,664)	(60,766)	(147,186)

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

**(I) COMPARING WITH PRECEDING YEAR QUARTER RESULTS**

**Individual Quarter**

The Group revenue of RM 69.3 million for the fourth quarter ended 31 December 2018 was higher than the RM 49.6 million registered in the same quarter of 2017 by RM 19.7 million or 39.6%. The revenue increase is mainly attributed to the increase in production volume in fourth quarter 2018 as compared to fourth quarter 2017. The Group has continued its strategies in work over of the existing wells to increase production, negotiation of higher domestic sales price, as well as optimising costs. As a result, the production increased to 3,100 bopd in 4Q of 2018 as compared to 2,600 bopd in 4Q of 2017.

As the cost optimising efforts continue, the operating expenses (exclude DD&A) such as distribution expenses, employee compensation costs and general and administrative expenses has decreased. The purchase, services and other direct costs has increased in the current quarter as compared to fourth quarter 2017 mainly due to repair and maintenance of production equipment to increased production.

Depreciation, depletion and amortization (DD&A) for quarter had decreased by 96.0% (from RM 40.1 million to RM 1.6 million), mainly due to increase in reserves and hence lower unit of production rates.

As a result of higher revenue and efficient cost control in the fourth quarter of 2018, the Group has recorded 159.4% (RM 12.6 million) increase in Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) as compared to lower of RM 7.9 million in fourth quarter of 2017.

The Finance Cost of RM 27.1 million in fourth quarter 2018 consists of unrealised FOREX Loss of RM 8.1 million and RM 19.0 million interest payable to corporate shareholder and other finance cost.

The Group has recorded Loss before Tax of RM 0.3 million in fourth quarter 2018, compared to Loss before Tax of RM 58.0 million in fourth quarter 2017, the loss have been decreased by RM 57.6 million, or 99.4%.

Currently, the Group's net asset per share stands at RM 0.77 as compared to the closing market price of RM 0.30 per share on 27 Feb 2019.

**Current Year Performance against the Year Ended 31 December 2017**

For current financial year to date, the Group recorded a higher revenue of RM 220.3 million as compared to RM 157.1 million in the previous financial year, representing an increase of RM 63.2 million or 40.2%. The Group achieved a Profit from Operations of RM 8.3 million, better than the corresponding year's Loss from Operations of RM 50.2 million. Loss before Tax was recorded at RM 42.5 million as compared with RM 121.7 million in prior year primarily due to higher revenue and lower finance costs. Loss after Tax decreased to RM 60.8 million as compared to RM 147.2 million recorded in year ended 31 December 2017. Major movements of revenue and expenses during the financial year were as follows.

- 1) Revenue was higher due to increase in production. The average production volume for year 2018 is 2,900 bopd as compared to 2,400 bopd in year 2017.
- 2) As the cost optimising efforts continue, the operating expenses (exclude DD&A) such as distribution expenses, employee compensation costs and general and administrative expenses has decreased.
- 3) The purchase, services and other direct costs has increased by approximately RM 3.9 million mainly due to repair and maintenance of production equipment to increased production.
- 4) Taxes other than income taxes increased by RM 27.5 million or 59.0% which in line with the higher revenue.
- 5) Finance costs has decreased by approximately RM 18.1 million or 23.2%, mainly due to FOREX gain.

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

**(II) COMPARING WITH IMMEDIATE PRECEDING QUARTER RESULTS**

	<b>CURRENT QUARTER</b>	<b>IMMEDIATE PRECEDING QUARTER</b>
	<b>Unaudited for the period ended 31 Dec 18 RM'000</b>	<b>Unaudited for the period ended 30 Sep 18 RM'000</b>
Revenue	69,297	40,836
Operating expenses	(50,334)	(49,747)
EBITDA	20,580	9,994
Loss before tax	(333)	(13,861)
Loss after tax	(19,782)	(18,287)

The Group's revenue for the current quarter under review had increased by 69.7% or RM 28.5 million from RM 40.8 million in third quarter 2018 to RM 69.3 million in the fourth quarter 2018, attributed by higher production of 3,100 bopd in fourth quarter 2018 as compared to third quarter production of 2,600 bopd.

For the current quarter under review, operating expenses recorded higher compare with immediate preceding quarter due to higher tax payout in current quarter and increase workover activities to increase production. The Group had recorded a significant increase of 105.9% (RM 10.6 million) in Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) as compared to RM 10.0 million in third quarter of 2018.

For the current quarter, the Group had reported Loss before Tax of RM 0.3 million and Loss after Tax of RM 19.8 million compared to the third quarter 2018 Loss before Tax of RM 13.9 million and Loss after Tax of RM 18.3 million.

**B3. MATERIAL CHANGE IN PROFIT BEFORE TAXATION**

The Group recorded a Loss before Tax of RM 0.3 million in the current quarter and Loss before Tax of RM 42.5 million in cumulative quarter of 31 Dec 2018 as compared to fourth quarter of 2017 Loss before Tax of RM 58.0 million and cumulative quarter for 31 Dec 2017 Loss before Tax RM 121.7 million.

**B4. PROSPECT**

The year 2018 has been a better year for Reach Energy Berhad (REB) and we have succeeded in closing the production gap in the 4th quarter. Production rates had improved, which further led to positive financial results. REB has continued with initiatives for production improvement and additionally has fulfilled contractual obligation on exploration by drilling three exploration wells, NK-3, K-16 and K-15 in 2018, which would contribute positively to REB's reserves base.

The exploration drilling of well Kariman 16 (K-16) has been safely and successfully completed. The well is currently undergoing test analysis to evaluate its degree of productivity and to quantify the contribution to reserves. Preliminary evaluations are encouraging. In addition, exploration drilling of the well Kariman 15 (K-15) is progressing as planned. K-15 is deemed to have a high chance of success considering that it is relatively close in proximity to the current Kariman field area. For 2019, two exploration wells are scheduled, one each in the North Kariman and Yessen fields.

The application for Trial Production Period (TPP) license for the Yessen Field is ongoing and progressing as planned. We are now awaiting the final approvals for environmental permit and gas usage to allow Emir-Oil to produce from this field. This is expected to increase current oil production.

A water injection pilot is part of the development plan for 2019 and is one of the initiatives for reservoir pressure maintenance in our Kariman Field. A debottlenecking surface facilities study on Emir-Oil fields is currently ongoing, which is part of our asset integrity and maintenance efforts. The main objective is to improve our facilities network in order to reduce back-pressures in the system to maximize our daily production throughput.

Infrastructure developments include hooking up the North Kariman cluster to the main network, preparing surface facilities for the Yessen TPP and improving internal transport links.

The latest Reserves Audit by GCA as at 31 Dec 2018 has shown significantly positive results as presented in the latter section of this report.

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**B4. PROSPECT (CONT'D)**

Looking ahead, 2019 presents an exciting arena for REB, as Emir-Oil is planning a more aggressive development program, consisting of new development wells and the commissioning of the Central Processing Facility (CPF). The CPF will not only increase and upgrade our oil handling capacity and facilities significantly, but it will also deliver immediate cost savings related to oil and gas preparation.

The core objectives for 2019 are to attain the planned production level through careful stewardship of wells in conjunction with smart CAPEX and OPEX management, delivering reduced lifting costs and robust bottom-line results.

**B5. RESERVES**

As part of our responsibility as a public-listed E&P Company, we provide transparency of our core assets to shareholders and the public. Our appointed Independent Reserves Assessor, Gaffney Cline and Associates (GCA), had completed an independent reserves and economic evaluation of oil and gas properties in the Emir-Oil Concession Block, as at the effective date on 1 January 2019.

As at 1 January 2019, the gross reserves (100% basis) of Emir-Oil Concession Block are summarized in the table below:

**(I) OIL AND LIQUEFIED PETROLEUM GAS (LPG)**

FIELD	OIL RESERVES (MMSTB)		
	1P <u>(PROVED RESERVES)</u>	2P <u>(PROVED + PROBABLE RESERVES)</u>	3P <u>(PROVED + PROBABLE + POSSIBLE RESERVES)</u>
Kariman	12.416	49.990	77.282
Dolinnoe	7.743	15.590	25.369
Aksaz	0.245	1.440	2.746
Yessen	2.448	4.970	7.820
Emir	1.791	3.310	5.621
<b>Total</b>	<b>24.643</b>	<b>75.300</b>	<b>118.838</b>

**(II) GAS**

FIELD	GAS RESERVES (BSCF)		
	1P <u>(PROVED RESERVES)</u>	2P <u>(PROVED + PROBABLE RESERVES)</u>	3P <u>(PROVED + PROBABLE + POSSIBLE RESERVES)</u>
Kariman	4.612	26.410	39.051
Dolinnoe	19.835	31.284	52.439
Aksaz	2.594	18.090	40.549
Yessen	1.546	2.312	4.047
Emir	0.502	0.738	1.494
<b>Total</b>	<b>29.089</b>	<b>78.834</b>	<b>137.580</b>

**(III) OIL, LPG AND GAS**

FIELD	OIL AND GAS RESERVES (MMBOE)		
	1P <u>(PROVED RESERVES)</u>	2P <u>(PROVED + PROBABLE RESERVES)</u>	3P <u>(PROVED + PROBABLE + POSSIBLE RESERVES)</u>
Kariman	13.184	54.392	83.791
Dolinnoe	11.048	20.804	34.109
Aksaz	0.677	4.455	9.504
Yessen	2.706	5.355	8.495
Emir	1.875	3.433	5.870
<b>Total</b>	<b>29.490</b>	<b>88.439</b>	<b>141.769</b>

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**B6. STATUS OF UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSAL**

<u>Purpose of Utilisation</u>	<u>Proposed Utilisation</u> (RM'000)	<u>Actual Utilisation</u> (RM'000)
Acquisition of the target company/asset	710,625	580,528
Working capital		
- Remuneration of the management team	15,459	13,099
- Pre-IPO office and corporate expenses	611	25,646
- Others	26,475	33,414
Estimated listing expenses	26,000	26,795

**B7. PROFIT FORECAST AND GUARANTEE**

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

**B8. PURCHASE OR DISPOSAL OF QUOTED SECURITIES**

There were no purchase or disposal of quoted securities during the financial period ended 31 Dec 2018.

**B9. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES**

There were no sale of unquoted investment and /or properties during the financial period ended 31 Dec 2018.

**B10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

There were no financial instruments with material off-balance sheet risk as at 31 Dec 2018.

**B11. MATERIAL LITIGATION**

There were no material litigation as at 31 Dec 2018.

**B12. EARNINGS PER SHARE**

**(I) BASIC LOSS PER ORDINARY SHARE**

The calculation of basic loss per ordinary share as at 31 Dec 2018 was based on the loss attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, as follows:-

	<u>INDIVIDUAL</u> <u>QUARTER</u>	<u>INDIVIDUAL</u> <u>QUARTER</u>	<u>CUMULATIVE</u> <u>QUARTER</u>	<u>CUMULATIVE</u> <u>QUARTER</u>
	<u>Unaudited</u> <u>for the</u> <u>quarter</u> <u>ended</u> <u>31 Dec 18</u> <u>RM'000</u>	<u>Audited</u> <u>for the</u> <u>quarter</u> <u>ended</u> <u>31 Dec 17</u> <u>RM'000</u>	<u>Unaudited</u> <u>for the</u> <u>year</u> <u>ended</u> <u>31 Dec 18</u> <u>RM'000</u>	<u>Audited</u> <u>for the</u> <u>year</u> <u>ended</u> <u>31 Dec 17</u> <u>RM'000</u>
Loss after taxation attributable to owner of the Company	(29,506)	(51,262)	(44,434)	(87,836)
Weighted average number of ordinary shares	1,096,413	1,096,413	1,096,413	1,096,413
Basic loss per ordinary share (RM)	(0.03)	(0.05)	(0.04)	(0.08)
Diluted loss per ordinary share (RM)	(0.03)	(0.05)	(0.04)	(0.08)

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

Diluted earnings/(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 of the ordinary shares would be anti-dilutive.



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**B13. LOSS BEFORE TAXATION**

	<b>INDIVIDUAL QUARTER</b>	<b>INDIVIDUAL QUARTER</b>	<b>CUMULATIVE QUARTER</b>	<b>CUMULATIVE QUARTER</b>
	<b>Unaudited for the quarter ended 31 Dec 18 RM'000</b>	<b>Audited for the quarter ended 31 Dec 17 RM'000</b>	<b>Unaudited for the year ended 31 Dec 18 RM'000</b>	<b>Audited for the year ended 31 Dec 17 RM'000</b>
Loss before taxation is arrived after charging/(crediting):				
Interest income from deposits with licensed banks	393	1,197	1,569	2,060
Other finance income	7,385	2,893	7,548	4,414
Foreign exchange gain/(loss), net	(8,084)	(12,714)	(496)	(33,712)
Interest expenses on loan from corporate shareholder in a subsidiary	(8,363)	(7,946)	(32,681)	(34,653)
Interest expenses on deferred consideration	(5,296)	(5,551)	(19,962)	(5,551)
Other finance cost	(5,331)	(3,686)	(6,774)	(4,053)

**B14. INCOME TAX EXPENSES**

	<b>INDIVIDUAL QUARTER</b>	<b>INDIVIDUAL QUARTER</b>	<b>CUMULATIVE QUARTER</b>	<b>CUMULATIVE QUARTER</b>
	<b>Unaudited for the quarter ended 31 Dec 18 RM'000</b>	<b>Audited for the quarter ended 31 Dec 17 RM'000</b>	<b>Unaudited for the year ended 31 Dec 18 RM'000</b>	<b>Audited for the year ended 31 Dec 17 RM'000</b>
Current income tax				
Malaysian income tax:				
- Current period/year	18	170	-	-
- Over accrual in prior year	-	29	-	29
Foreign income tax:				
- Current year	(673)	(166)	(673)	(166)
Deferred income tax:				
- Origination and reversal of temporary difference	(18,794)	(29,743)	(17,586)	(25,344)
	<u>(19,449)</u>	<u>(29,710)</u>	<u>(18,259)</u>	<u>(25,481)</u>

In the current year, the income tax is calculated at the statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year.

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

**COMPANY SECRETARIES**  
**28 FEBRUARY 2018**