REACH ENERGY BERHAD ("REACH ENERGY" OR "COMPANY")

PROPOSED ACQUISITION BY REACH ENERGY OR A WHOLLY-OWNED SPECIAL PURPOSE VEHICLE ("SPV") TO BE INCORPORATED BY REACH ENERGY, OF 60% EQUITY INTEREST IN PALAEONTOL B.V., A WHOLLY-OWNED SUBSIDIARY OF PALAEONTOL COOPERATIEF U.A. ("PALAEONTOL COOP" OR "VENDOR") WHICH IN TURN IS AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF MIE HOLDINGS CORPORATION ("MIEH") AND 60% OF THE SHAREHOLDER LOANS (AS DEFINED HEREIN) IN PALAEONTOL B.V. FROM MIEH FOR A TOTAL PURCHASE CONSIDERATION OF UNITED STATES DOLLAR ("USD") 154.9 MILLION (EQUIVALENT TO RM638.2 MILLION) ("PURCHASE CONSIDERATION"), SUBJECT TO ADJUSTMENTS ("PROPOSED ACQUISITION")

*(Unless otherwise stated, the exchange rate of USD1.00 : Ringgit Malaysia ("**RM**") 4.1200, being the middle rate prevailing at 5.00 p.m. on 4 March 2016, being the latest practicable date prior to this announcement ("**LPD**") as published by Bank Negara Malaysia ("**BNM**"), has been applied in this announcement for illustration purposes.)*

1. INTRODUCTION

On behalf of the Board of Directors of Reach Energy ("**Board**"), Hong Leong Investment Bank Berhad ("**HLIB**") and Maybank Investment Bank Berhad ("**Maybank IB**") wish to announce that Reach Energy has on 5 March 2016 entered into a tri-partite conditional Sale and Purchase Agreement with Palaeontol COOP and MIEH (collectively referred to as "**Vendors**") for the Proposed Acquisition ("**SPA**").

In conjunction with the Proposed Acquisition, the following will also be entered into:

(i) deed of transfer between Reach Energy (or the SPV), Palaeontol COOP and Palaeontol B.V. whereby Palaeontol COOP will transfer 60% of its equity interest in Palaeontol B.V. or 10,800 ordinary shares with a nominal value of EUR1.00 each in Palaeontol B.V. ("**Palaeontol B.V. Shares**") ("**Sale Shares**") to Reach Energy (or the SPV) on the date of completion of the SPA ("**Completion Date**");

(ii) deed of assignment of debt between Reach Energy (or the SPV), MIEH and Palaeontol B.V. whereby MIEH will assign to Reach Energy (or the SPV) all its rights to the total loan amount outstanding owing by Palaeontol B.V. to MIEH as at the Completion Date including any accrued and unpaid interest thereon ("**Shareholder Loans**") in proportion to the acquired 60% equity interest in Palaeontol B.V. ("**Relevant Percentage**") by Reach Energy (or the SPV). As at 30 September 2015, the total outstanding Shareholder Loans is USD288.5 million; and

(iii) shareholders' agreement between Reach Energy, the SPV, Palaeontol B.V., Palaeontol COOP and MIEH to regulate the affairs of Palaeontol B.V. and govern the respective rights and obligations as shareholders of Palaeontol B.V. ("**SHA**"), to be executed within seven (7) days of the date the SPV is duly incorporated and shall be no later than the Completion Date.

Please refer to **Appendix I** of this announcement for the salient terms of the SPA and **Appendix II** of this announcement for the indicative salient terms of the SHA. Further details of the Proposed Acquisition are set out in the ensuing sections.

2. DETAILS OF THE PROPOSED ACQUISITION

2.1 Background information on the Proposed Acquisition

The Proposed Acquisition will entail Reach Energy or via the SPV acquiring 60% equity interest in Palaeontol B.V comprising 10,800 Palaeontol B.V. Shares. Palaeontol B.V. is an investment holding company and is the sole interest holder of Emir-Oil LLP ("**Emir-Oil**") which holds the entire working interest in an approximately 850.3 square kilometres ("**km^2**") onshore contracted area located in the Mangistau Oblast ("**Contract Block**") in the southwestern region of the Republic of Kazakhstan ("**Kazakhstan**"), about 40 kilometres ("**km**") northeast of the City of Aktau which is Kazakhstan's largest sea-port in the Caspian Sea coast, encompassing the following:

(i) four (4) existing oil and gas ("**O&G**") producing fields with a total contract area of approximately 45.5 km^2, namely, Aksaz, Dolinnoe, Emir and Kariman pursuant to four (4) Subsoil Use Agreements ("**SUAs**" or "**Production Contracts**") signed separately between the Ministry of Energy of Kazakhstan *(formerly known as Ministry of Oil and Gas of Kazakhstan and earlier, Ministry of Energy and Mineral Resources of Kazakhstan)* (**"MOE"**) and Emir-Oil for the production of hydrocarbons (**"Producing Fields"**); and

(ii) remaining area covering approximately 804.8 km^2 pursuant to the SUA (**"Exploration Area"**) signed between MOE and Emir-Oil for the continued exploration, development and production of hydrocarbons (**"Exploration Contract"**). The following discovered fields and prospects are included in the Exploration Area:

   (a) two (2) discovered fields, namely, North Kariman and Yessen (**"Development Fields"**) which are currently under pilot production since June 2012 and April 2013, respectively. Emir-Oil has initiated the regulatory process to incorporate North Kariman and Yessen oilfields into the existing Production Contracts for Kariman and Dolinnoe respectively; and

   (b) six (6) drillable prospects which have been identified for future exploration, appraisal, development and production, namely, Borly, Aidai, Begesh, East Saura, North Aidai, and Tanirbergen (**"Prospects"**). Two (2) exploratory wells have been successfully drilled in Borly and Aidai in 2012 and 2015 respectively. Additional technical studies and appraisal works are required to assess and confirm the commerciality of these two (2) finds.

The Producing Fields and Exploration Area are collectively known as "**Emir-Oil Fields**".

The Production Contracts for Aksaz gasfield, Dolinnoe oilfield and Kariman oilfield were entered into on 9 September 2011 for a 25-year term while the Production Contract for Emir oilfield was entered into on 1 March 2013 for a 17-year term. The Exploration Contract was renewed on 9 January 2015 for a further period of two (2) years expiring on 9 January 2017.

Since the award of the Exploration Contract on 9 July 2000, the contract holders have been successful in expanding the Contract Block from 202.6 km^2 to 850.3 km^2 and converting discovered fields within the exploration area into production contracts through the periodically renewed Exploration Contract.

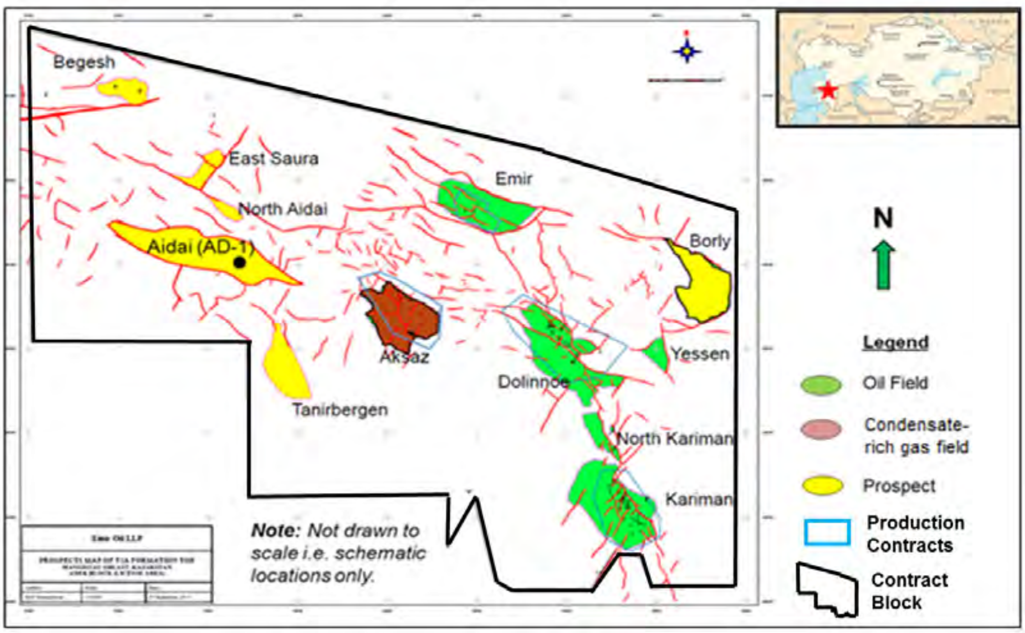
A summary of the components of the Contract Block is as follows:

Fields/Area	Type of field	Type of contract	Duration	Commencement date	Expiry date	Area
			(years)			(km^2)
Producing Fields:						
- Kariman	Oil	Production Contract	25	9 September 2011	9 September 2036	12.2
- Dolinnoe	Oil	Production Contract	25	9 September 2011	9 September 2036	18.2
- Aksaz	Condensate-rich gas	Production Contract	25	9 September 2011	9 September 2036	11.5
- Emir	Oil	Production Contract	17	1 March 2013	1 March 2030	3.5
Exploration Area	-	Exploration Contract	2	9 January 2015	9 January 2017*	804.8
Contract Block (approx.)						**850.3**

Note:

* *The Exploration Contract is renewable upon expiry, subject to the terms and conditions to be negotiated with the MOE. Emir-Oil has initiated the process to further extend the Exploration Contract.*

A map showing the outlines of the Emir-Oil Fields is presented below:



As at 1 January 2016, the indicative gross proved plus probable ("**2P**") reserves of the Producing Fields and Development Fields estimated by RPS Energy Consultants Limited ("**RPS**"), the independent technical and asset valuation expert appointed by the Company, are 72.1 Million Stock Tank Barrels ("**MMstb**") of oil and 102.4 Billion Standard Cubic Feet ("**Bscf**") of gas. The indicative net 2P reserves attributable to Reach Energy post completion of the Proposed Acquisition are 43.3 MMstb of oil and 61.4 Bscf of gas, equivalent to total net 2P reserves attributable to Reach Energy of 53.5 million barrels of oil equivalent ("**MMBoe**").

Further details of the indicative proved ("**1P**"), 2P and proved plus probable plus possible ("**3P**") oil and natural gas reserves are set out in Section 3.2 of this announcement.

The Emir-Oil Fields provide an opportunity for Reach Energy to accomplish its strategy of investing in and operating a balanced portfolio of O&G fields covering the wider spectrum of upstream O&G production, development and exploration activities. Upon completion of the Proposed Acquisition, Reach Energy will assume effective control of Emir-Oil which owns and operates four (4) Producing Fields that are in their prime and early stage of production and two (2) Development Fields which are currently under pilot production and with significant 2P reserves and high potential of further reserves/resources upgrade. This essentially will provide immediate revenue to the enlarged Reach Energy group. In addition, further production enhancement opportunities have been identified as well as drillable prospects with exploration/appraisal opportunities to be progressed.

The Proposed Acquisition will also allow Reach Energy to collaborate with MIEH, an established O&G group listed on the Main Board of the Stock Exchange of Hong Kong Limited (**"HKEX"**) and benefit from their experience gained in successfully developing the Emir-Oil Fields since 2011 when MIEH acquired Emir-Oil via Palaeontol B.V.. Under MIEH's ownership, the production of Emir-Oil Fields increased from 2,104 barrels of oil per day ("**bbl/d**") in 2011 to a peak of 5,201 bbl/d in 2014.

Upon completion of the Proposed Acquisition, Reach Energy will have majority ownership and control over the Emir-Oil Fields via its 60% equity interest in Palaeontol B.V.. The remaining 40% equity interest in Palaeontol B.V. will continue to be held by Palaeontol COOP. The Proposed Acquisition represents Reach Energy's qualifying acquisition ("**QA**") as stipulated under the Equity Guidelines issued by the Securities Commission Malaysia ("**SC**") and will transform Reach Energy into an independent Malaysia-based exploration and production ("**E&P**") company with its first operatorship in Kazakhstan. The Proposed Acquisition fulfils Reach Energy's aim for early revenue generation and offers a good return on investment to the shareholders from the existing O&G production, upside potential and further development opportunities in the Contract Block.

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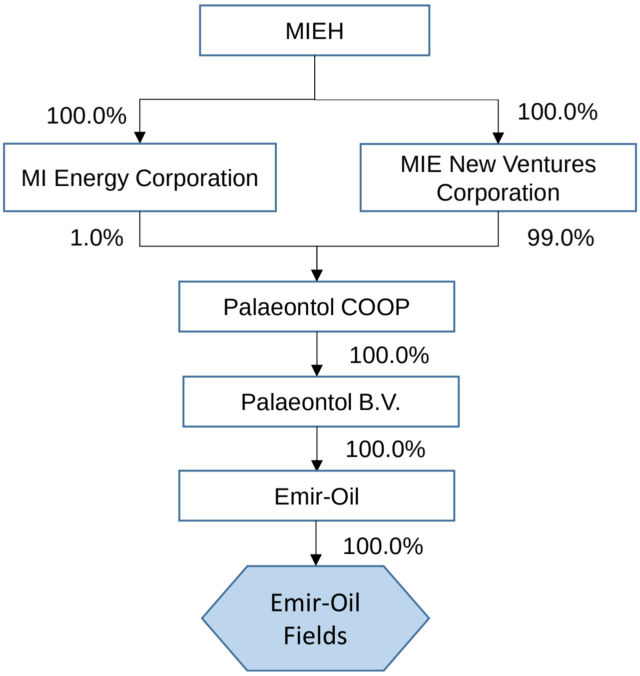
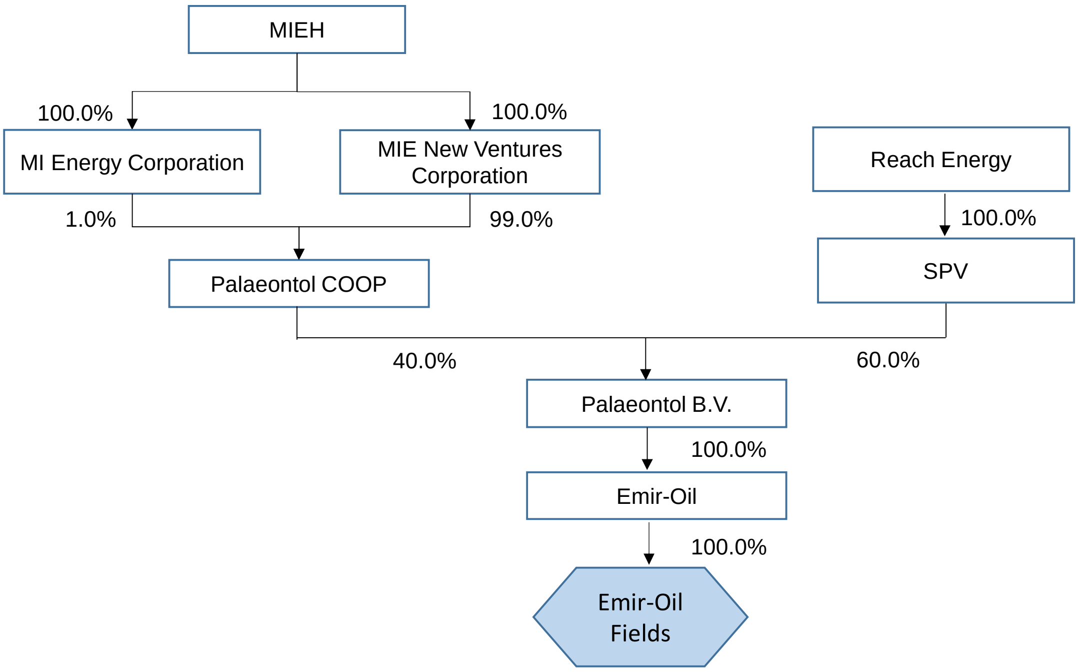
2.2 Corporate structure

The corporate structure of Palaeontol B.V. before and after the Proposed Acquisition is set out as below:

Before the Proposed Acquisition
(As at the LPD)



After the Proposed Acquisition



2.3 Basis and justification for the Purchase Consideration

The parties have agreed that the enterprise value of one hundred per cent. (100%) (before adjustment of Net Working Capital (as defined herein)) of Palaeontol B.V. and Emir-Oil (collectively referred to as "**Palaeontol B.V. Group**") is USD308,000,000 as at 30 September 2015 ("**Effective Date**") ("**Enterprise Value**") which translates to USD184,800,000 based on the Relevant Percentage of the Enterprise Value.

Subject to the adjustment mechanism described below, the aggregate consideration for the Sale Shares and the assignment of the Shareholder Loans in proportion to the Relevant Percentage less the deficiency of the Net Working Capital (as defined herein) of USD29,911,000 (based on the unaudited consolidated management accounts of the Palaeontol B.V. Group as at the Effective Date) is USD154,889,000.

At the completion of the SPA ("**Completion**"), the Purchase Consideration shall be adjusted as follows:

(i) either (a) increased by an amount equal to the net contribution amounts made by MIEH or its affiliates (excluding the Palaeontol B.V. Group) to the Palaeontol B.V. Group or received by MIEH or its affiliates (excluding the Palaeontol B.V. Group) from the Palaeontol B.V. Group respectively from the Effective Date to the Completion Date ("**Net Contribution Amount**") which shall not exceed an aggregate amount of USD21,000,000, if such amount is positive; or (b) decreased by an amount equal to the Net Contribution Amount if such amount is negative; and

(ii) increased by the Relevant Percentage of any amounts recovered from Aral Petroleum Capital LLP prior to the Completion Date in connection with the Aral Loan (as defined herein)

(collectively referred to as the "**Adjusted Purchase Consideration**"), provided always that the Adjusted Purchase Consideration shall not be greater than USD175,889,000 (unless otherwise agreed by MIEH and Reach Energy in the case of exceptional or extra items of expenditure for the Palaeontol B.V. Group).

The Adjusted Transaction Consideration shall comprise of:

(i) the purchase price of USD1.00 in respect of the sale and purchase of the Sale Shares ("**Purchase Price**"); and

(ii) the shareholder loan consideration shall be the Adjusted Purchase Consideration less the Purchase Price ("**Shareholder Loan Consideration**"), in respect of the assignment and transfer of the Shareholder Loans in proportion to the Relevant Percentage.

The Board is of the view that the Purchase Consideration is justifiable after taking into consideration, amongst others, the following:

(i) the indicative reserves of the Producing Fields and Development Fields as at 1 January 2016 as assessed by RPS;

(ii) a discounted cash flow analysis for the 2P reserves attributable to the Producing Fields and Development Fields based on assumptions with respect to production, operating expenses, capital expenditure, future realised oil price and taxes/duties payable as assessed by RPS; and

(iii) the long-term prospects of the O&G sector as well as earnings potential of the Emir-Oil Fields as set out in Section 5 of this announcement.

2.4 Mode of funding and source of funds

The Adjusted Purchase Consideration shall be satisfied in the following manner:

(i) 85% of the Adjusted Purchase Consideration to be paid on the Completion Date ("**Upfront Consideration**") but if there are any shareholders who vote against the Proposed Acquisition at the extraordinary general meeting ("**EGM**") of the Company and require Reach Energy to repurchase their ordinary shares of RM0.01 each in Reach Energy ("**Reach Energy Shares**") ("**Dissenting Shareholders**"), the Company has the right to defer part payment of the Upfront Consideration, details of which are set out in Section (f) of **Appendix I** of this announcement; and

(ii) The remaining 15% of the Adjusted Purchase Consideration ("**Deferred Consideration**") to be paid within twenty-four (24) months after the Completion Date, subject to the payment terms as disclosed in Section (e) of **Appendix I** of this announcement.

The Upfront Consideration will be funded via funds raised from Reach Energy's initial public offering ("**IPO**"), which is held under a trust account. As at 29 February 2016, the amount held under the trust account (before taking into account taxes payable) is approximately RM755.30 million.

The Deferred Consideration will be funded via proceeds from future equity/debt fund raising exercise and/or internally generated funds.

Reach Energy shall make an announcement of an equity fund raising proposal involving the issuance of new Reach Energy Shares in due course to cater for the potential shortfall in funds for the Remaining Completion Amount (as defined herein) in the event that there are Dissenting Shareholders.

2.5 Background information on the Vendors

2.5.1 Information on Palaeontol COOP

Palaeontol COOP was incorporated in the Netherlands under the laws of Netherlands as a cooperative on 8 February 2011.

The principal activity of Palaeontol COOP is investment holding.

As at the LPD, the shareholders of Palaeontol COOP are as follows:

Name	%
MIE New Ventures Corporation(1)	99.00
MI Energy Corporation(1)	1.00

Note:

(1) MIE New Ventures Corporation and MI Energy Corporate are wholly-owned by MIEH.

As at the LPD, the directors of Palaeontol COOP are MIE New Ventures Corporation and United International Management B.V..

(Source: Palaeontol COOP)

2.5.2 Information on MIEH

MIEH was incorporated in the Cayman Islands under the laws of the Cayman Islands on 20 March 2008. MIEH was listed on the Main Board of the HKEX on 14 December 2010 and has a market capitalisation of Hong Kong Dollar 2,557 million as at the LPD.

The authorised share capital of MIEH is USD100,000,000 comprising of 100,000,000,000 ordinary shares of USD0.001 each ("**MIEH Shares**") whilst its issued and paid-up share capital is USD2,938,596.793 comprising 2,938,596,793 MIEH Shares.

The principal activity of MIEH is investment holding whilst its subsidiaries are principally engaged in the exploration, development, production and sale of crude oil and other petroleum products in China, Kazakhstan and the United States of America (**"USA"**).

MIEH together with its subsidiaries ("**MIEH Group**") is an independent upstream O&G company. MIEH Group operates the Daan, and Moliqing oilfields in the Songliao Basin under various separate production sharing contracts with PetroChina Company Limited, the largest oil company in China. The MIEH Group holds 51% equity interest in Sino Gas & Energy Limited that operates Linxing and Sanjiaobei unconventional gas assets located in the Ordos Basin under two (2) separate production sharing contracts. In addition, the MIEH Group also pursues other O&G exploration, development and production opportunities internationally, both independently and in partnership with other major and independent oil companies.

As at the LPD, the substantial shareholders of MIEH are as follows:

	Direct		**Indirect**	
Name	**No. of MIEH Shares held**	**%**	**No. of MIEH Shares held**	**%**
Far East Energy Limited	1,414,700,000	48.14	-	-
Celestial Energy Limited	211,855,234	7.21	-	-
Zhao Jiangbo	-	-	1,414,700,000	48.14
Ho Chi Sing	-	-	211,855,234	7.21

The directors of MIEH as at the LPD are Zhang Ruilin, Zhao Jiangwei, Tao Tak Yin Dexter, Andrew Sherwood Harper, Tian Hongtao, Xie Na, Mei Jianping, Jeffery Willard Miller and Guo Yanjun.

(Source: MIEH)

2.6 Background information on Palaeontol B.V. and Emir-Oil

2.6.1 Palaeontol B.V.

Palaeontol B.V. was incorporated on 11 February 2011 as a limited liability company under the laws of the Netherlands.

As at the LPD, the authorised share capital of Palaeontol B.V. is EUR90,000 comprising 90,000 Palaeontol B.V. Shares, of which EUR18,000 comprising 18,000 Palaeontol B.V. Shares are issued share capital.

Palaeontol B.V. is an investment holding company and is the sole interest holder of Emir-Oil which is principally engaged in the exploration, development, production and sale of crude oil and other petroleum products in Kazakhstan.

As at the LPD, the shareholders of Palaeontol B.V. and their respective shareholdings in the company are set out as below:

	Direct		Indirect	
Name	**No. of Palaeontol B.V. Shares held**	**%**	**No. of Palaeontol B.V.Shares held**	**%**
Palaeontol COOP	18,000	100.00	-	-
MIE New Ventures Corporation	-	-	17,820	99.00
MI Energy Corporation	-	-	180	1.00
MIEH	-	-	(1)18,000	100.00

Note:

(1) Indirect shareholding via MIE New Ventures Corporation and MI Energy Corporation.

As at the LPD, the directors of Palaeontol B.V. are MIE New Ventures Corporation and United International Management B.V..

A summary of the financial information of the Palaeontol B.V. Group based on the audited consolidated financial statements of Palaeontol B.V. for the past two (2) financial years ended ("**FYEs**") 31 December 2014 and the latest unaudited results for the 9-month financial period ended ("**FPE**") 30 September 2015 is set out in **Appendix III** of this announcement.

2.6.2 Emir-Oil

Emir-Oil was initially registered with Almaty Justice Department, Kazakhstan on 20 March 2002 as a limited liability partnership under the laws of Kazakhstan No. 220-I dated 22 April 1998 "On Limited Liability and Additional Liability Partnerships" with a charter capital contribution of Kazakhstan Tenge ("**KZT**") 82,300.

MIEH via its indirect wholly-owned subsidiary, Palaeontol B.V. acquired the entire equity interest in Emir-Oil from BMB Munai Inc., and completed its acquisition on 19 September 2011.

As at the LPD, the sole director of Emir-Oil is Mr. Ma Chunming.

Emir-Oil is currently the licence owner for the Exploration Contract and the Production Contracts.

2.7 Liabilities to be assumed

Other than the customary operational liabilities, there are no other liabilities, including contingent liabilities and guarantees to be assumed by Reach Energy or the SPV pursuant to the Proposed Acquisition.

2.8 Estimated additional financial commitment

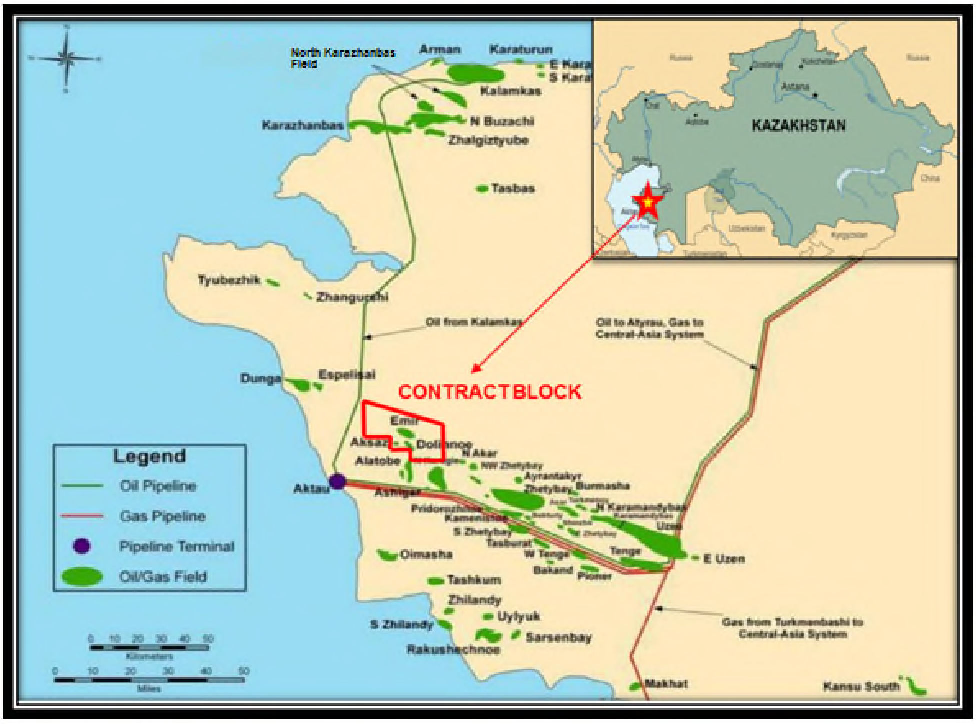
The Producing Fields are currently in production and as such, there are no financial commitments required from Reach Energy to put these fields on-stream. Capital expenditure (**"CAPEX"**) to be incurred are to enhance or expand the resource base, production facilities and/or to increase drilling activities with the objective to improve returns to shareholders. Such CAPEX shall be funded via internally generated funds in Emir-Oil, bank borrowings and/or fund raising via equity.

3. BACKGROUND INFORMATION ON EMIR-OIL FIELDS

3.1 Location and geology

As mentioned in Section 2.1 of this announcement, the Contract Block is located in the Mangistau Oblast about 40 km northeast of the City of Aktau which is Kazakhstan's largest sea-port in the Caspian Sea coast. The hydrocarbon reserves of Emir-Oil Fields are located within the articulation zone of the proven oilfield region in the prolific Mangyshlak Basin surrounded by other producing fields such as Zhetibai, Uzen and Tenge. The Mangyshlak Basin is part of the 4 main hydrocarbon provinces of Kazakhstan, a country ranked amongst the top 12 hydrocarbon reserves holders globally.

The location of the Contract Block is presented in the map below:



The Contract Block is covered with 826 km^2 of good quality three-dimensional ("**3D**") seismic data acquired in 2013. The understanding of structural geology and hydrocarbon habitat of the area is well established. The hydrocarbon filled structures are mostly aligned with the main northwest-southeast major trending fault system which is interpreted as reverse fault across the block. The main producing pay zones are the Middle Triassic carbonate reservoirs made of limestones and dolomites.

3.2 Reserves

The table below sets out the indicative 1P, 2P and 3P oil and natural gas reserves estimated by RPS in the Producing Fields and Development Fields and the portion attributable to Reach Energy post completion of the Proposed Acquisition based on production data as at 1 January 2016:

	Gross (100%)			Attributable to Reach Energy post completion of the Proposed Acquisition (60%)		
	1P	**2P**	**3P**	**1P**	**2P**	**3P**
Oil reserves (MMstb)	20.9	72.1	113.9	12.5	43.3	68.3
Gas reserves (Bscf)	26.7	102.4	136.5	16.0	61.4	81.9
Total reserves (MMboe)	25.4	89.2	136.7	15.2	53.5	82.0

3.3 O&G quality

The crude oil produced from the Emir-Oil Fields is sweet and light with American Petroleum Institute (**"API"**) gravity ranging from 36 to 55 degrees. Generally, this type of crude oil has the best commercial value.

Aksaz is essentially a condensate-rich gasfield with condensate-gas ratio ("**CGR**") ranging from 66 to 185 stock tank barrels per MMscf. The gas produced has very low carbon dioxide content and no hydrogen sulphide has been reported.

3.4 Production volume

The production volume of the Emir-Oil Fields for the past four (4) FYEs 31 December 2015 are as follows:

	FYE 31 December			
	2012	**2013**	**2014**	**2015**
Average daily net production				
Crude oil (bbl/d)	2,787	4,320	5,201	3,412
Gas (million standard cubic feet per day ("**MMscfd**"))	4.50	5.00	5.88	5.89

(Source: MIEH)

The production has been increasing from 2012 to 2014 since MIEH acquired Emir-Oil in 2011 via Palaeontol B.V.. However, in 2015, the average daily net production was curtailed to 3,412 bbl/d of oil due to the prevailing low oil price environment.

Crude oil and natural gas produced from the Emir-Oil Fields are currently sold to domestic and international markets. Crude oil is transported from the leased central processing plant to Aktau Port or customer destinations through a combination of trucking and the railway system. Historically, about 80% of the crude oil produced is exported. Gas is sold domestically via an existing pipeline to Aktau city.

As at 31 December 2015, a total of 48 wells are being operated in the Contract Block.

3.5 Processing and storage facilities

Currently, the oil processing and storage facilities are on lease to Emir-Oil by Term-Oil LLP. Emir-Oil's share of the oil processing capacity is 6,458 bbl/d of oil with oil storage capacity of 54,000 barrels ("**bbl**"). Emir-Oil has its own gas processing plant and the current gas processing capacity of Emir-Oil is 5.5 MMscfd of gas.

Emir-Oil's O&G production is constrained by the oil processing facility capacity on lease to Emir-Oil and existing gas processing facility owned by Emir Oil. Hence, in its effort to optimise revenue and operating costs, MIEH has invested in building good surface infrastructure with a well-defined upgrade plan to cater for the increase in O&G production volumes, including the construction of a new Central Processing Facility ("**CPF**") over three phases of expansion.

Under Phase 1, the new CPF will have O&G processing capacities of 12,000 bbl/d and 21 MMscfd, respectively. The new CPF is currently in advanced stage of construction and is scheduled for completion by end of 2016. Phase 1 also includes a 25-km Oil Pipeline and a 35-km Gas Pipeline from the new CPF connecting directly to the large state-owned trunk pipelines of KazTransOil ("**KTO**") and KazTransGas Aimak Gas ("**KTG**"), respectively, to be constructed at a later stage.

Phase 2 will involve upgrading the corresponding surface infrastructure of the CPF and is being considered for commencement of construction in 2019 to increase O&G processing capacities to 23,000 bbl/d and 31 MMscfd, respectively. The surface infrastructure currently being built under Phase 1 has provided the necessary reserved expansion interfaces for Phase 2 construction.

Further upgrading of the surface infrastructure could be considered upon the proving of additional reserves in the Contract Block.

The carefully phased out modular expansion of the O&G processing facilities is a prudent field development approach in optimising investment returns.

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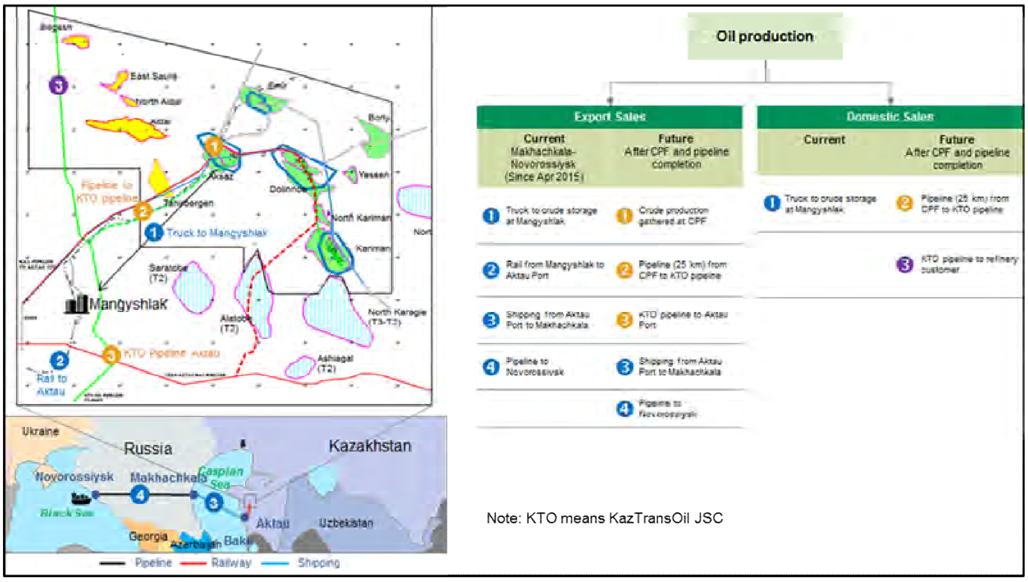
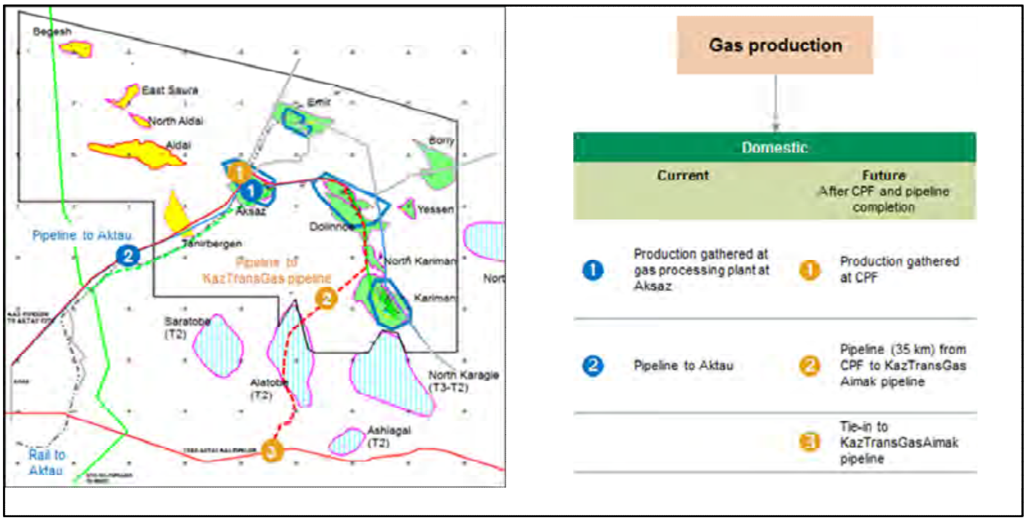
The new CPF is expected to result in savings in the operating expenses, in particular from the reduction of logistics costs. The diagrams below illustrate the current and future O&G evacuation infrastructure and logistics.





4. RATIONALE AND BENEFITS OF THE PROPOSED ACQUISITION

The Proposed Acquisition is pivotal as it will be the first hydrocarbon asset to be owned by Reach Energy. Since the Producing Fields within the Emir-Oil Fields are already in production and with established infrastructure of gas pipeline, gas processing plant, oil processing, oil storage and transportation facilities in place, the Proposed Acquisition is expected to immediately contribute positively to the revenue of Reach Energy. The Emir-Oil Fields are in the early stage of their producing life with secured licences and having the potential for achieving peak production in the future. Furthermore, additional O&G reserves, contingent resources and substantial prospective resources are expected to provide stable recurring revenue to Reach Energy over a sustainable future in this sector.

The Proposed Acquisition also presents an unique opportunity for Reach Energy to further tap into Kazakhstan's O&G sector with a strong operating platform. The strategic location of the Emir-Oil Fields in the heart of the prolific Mangyshlak Basin of Western Kazakhstan near the Caspian Sea offers high potential opportunity for Reach Energy to extend its exploration and production activities into the other hydrocarbon areas in the vicinity of the Contract Block. This is expected to enhance Reach Energy's profitability and market profile in the future.

The Board is of the view that the Proposed Acquisition represents an attractive investment opportunity for Reach Energy for the following reasons:

(i) Investment in a balanced portfolio of O&G fields

The Emir-Oil Fields provide an opportunity for Reach Energy to accomplish its strategy of investing in a balanced portfolio of O&G fields covering the wider spectrum of upstream O&G production, development and exploration activities. Upon completion of the Proposed Acquisition, Reach Energy will assume effective control of Emir-Oil which owns and operates four (4) production oilfields that are in their prime and early stage of production and two (2) development fields which are under pilot production. This essentially will provide immediate revenue to the enlarged Reach Energy group. Further production enhancement opportunities (i.e. acid stimulation, acid fracturing, horizontal drilling, well workovers, etc.) have been identified which are immediately implementable upon completion of Phase 1 of the new CPF project to improve oil recovery and increase production and revenue, subject to prevailing oil price environment.

North Kariman and Yessen oilfields are currently under pilot production, indicating commercially producible reserves. The reserve potentials for both fields are being evaluated to assess their commerciality. The plan is to extend the current Kariman production licence area to the North to include North Kariman oilfield and to extend the current Dolinnoe production licence area to the East to include Yessen oilfield. In addition, the large Contract Block has many drillable prospects with exploration/appraisal, development and production opportunities to be progressed.

(ii) Significant developed reserves in favourable geological conditions

The Emir-Oil Fields are located in the prolific Mangyshlak Basin, Western Kazakhstan in close vicinity to the Caspian Sea as well as the country's export and distribution infrastructure centred around Aktau. The hydrocarbon accumulation of Emir-Oil Fields lie within the articulation zone of proven oilfield region surrounded by other producing fields such as Zhetibai and Uzen oilfields. The main producing zone of Emir-Oil Fields is the middle Triassic carbonates with upside from upper Triassic and Jurassic sandstones.

Oil was first discovered in 1994 in Dolinoe-1 well, followed by discovery of gas in Aksaz in 1995 and oil discoveries in Emir and Kariman in 1996 and 2006 respectively. Full field production for Aksaz, Dolinnoe and Kariman commenced only in September 2011 while field production for Emir started in March 2013. Based on the geological data, field development plan and production performance, the Emir-Oil Fields have significant 2P reserves. As at 1 January 2016, RPS has estimated the remaining indicative gross 2P oil reserves of 72.1 MMstb and 2P gas reserves of 102.4 Bscf (total equivalent to approximately 89.2 MMboe) in the Producing Fields and Development Fields.

The Proposed Acquisition offers an opportunity for Reach Energy to capitalise and benefit from the continued growth of the Contract Block in Western Kazakhstan.

(iii) High reserves upgrade potential from prospective resources

As at 1 January 2016, total indicative 3P reserves held by Emir-Oil was 113.9 MMstb of oil and 136.5 Bscf of gas (total equivalent to 136.7 MMboe). The possible (P3) reserves is estimated at 47.5 MMboe. Besides the substantial P3 reserves, a number of drillable prospects have been identified from 3D seismic interpretation. The un-risked prospective resources was estimated at 222.9 MMstb of oil (*Source: MIEH*). In addition, potential areas of field and reservoir extension will provide an opportunity for Reach Energy to increase its O&G reserves within the Contract Block. Step-out appraisal-cum-development wells have been proposed to confirm the reserves extension. If successful, these will significantly increase the 2P reserves.

(iv) Successful track record for production growth with well-defined upgrading plans to increase field productivity

Prior to 2015, crude oil production from the Emir-Oil Fields increased significantly from 2,104 bbl/d in 2011 to 5,201 bbl/d in 2014. The increase in production is mainly attributable to new development well drilling, well workovers and side-tracks and various improved oil recovery applications such as acid stimulation and acid fracturing. In 2012, acid stimulation efforts and new well drilling together contributed to 62% of total oil production for that year (*Source: MIEH*).

To further improve well productivity, Emir-Oil has embarked on horizontal well drilling. Kariman-113 was the first horizontal well drilled in this block which was completed and put into production in 2013. The said well was initially tested at approximately 1,500 bbl/d and based on the well performance, more horizontal wells are being drilled.

As at 31 December 2015, 16 wells were producing out of which four (4) wells namely Kariman-113, Kariman -13, North Kariman-1 and North Kariman-2 have contributed approximately 70% of the total daily production of the Emir-Oil Fields with an average oil production of 600 bbl/d per well. These wells are flowing on natural flow and thus higher production potentials are expected from the new wells to be drilled.

The current O&G processing capacities is 6,458 bbl/d of oil through leased facilities and 5.5 MMscfd of gas through owned facilities. This has limited oil production capacity due to flaring restriction and a number of higher gas producing wells have been shut-in. The new CPF Phase 1 is being implemented to increase the O&G processing capacities. With ongoing production, development and appraisal activities in the Contract Block, oil production is expected to increase significantly.

(v) Large and growing O&G industry with supportive infrastructure in Kazakhstan

Kazakhstan has proved crude oil reserves of 30 billion bbl as of January 2014 which is the second largest endowment in Eurasia after Russia, and the twelfth largest in the world, just behind the USA. There are some 170 oilfields and 40 gasfields of which the dominant ones are concentrated around the western region surrounding the Caspian Sea.

(Source: Kazakhstan – international energy data and analysis, EIA, January 2015)

Kazakhstan's O&G pipeline systems are operated by subsidiaries of KazMunaiGas, the state-owned O&G company in Kazakhstan. Due to Kazakhstan's landlocked position and the continued use of Soviet-era infrastructure, much of Kazakhstan's O&G export infrastructure is integrated with major Caspian region oil and natural gas export routes that interlink the region. Since independence, Kazakhstan has successfully expanded and diversified its export capabilities.

The Emir-Oil Fields location, within close proximity to the country's export and distribution infrastructure and being only 40 km northeast of Aktau is ideal to access vital ground, marine and air links for its operations.

5. INDUSTRY OVERVIEW AND PROSPECTS

(i) Overview and prospects of the global O&G industry

The global consumption of petroleum and other liquid fuels grew by 1.4 million bbl/d year-on-year and averaged 93.78 million bbl/d in 2015, according to the estimation provided by EIA [1]. The EIA forecasts that global consumption of petroleum and other liquid fuels is expected to grow by 1.24 million bbl/d in 2016 and 1.46 million bbl/d in 2017 to reach 95.02 million bbl/d and 96.48 million bbl/d respectively.

The global production of petroleum and other liquids in 2015 was estimated to be 95.62 million bbl/d. According to EIA, the global production of petroleum and other liquid fuels is expected to increase to 96.07 million b/d in 2016 and 96.77 million bbl/d in 2017.

The collaborative production cut among the Organization of Petroleum Exporting Countries ("**OPEC**") members and other major producers is not expected to happen till end 2017 is the key underlying assumption for the continued increase in the production of petroleum and other liquids in the short term. The OPEC countries accounted for 40 percent of the global petroleum and other liquids production in 2015 and are expected to continue to sustain current levels of production to retain market share. The production in OPEC countries is expected to increase by 1.01 million bbl/d in 2016 and 0.87 million bbl/d in 2017. Meanwhile, production in non-OPEC countries is expected to decline by 0.56 million bbl/d in 2016 and by a further 0.17 million bbl/d in 2017.

There was a 1.84 million bbl/d surplus oil globally in 2015, and this builds up on the surplus oil of 2014 leading to a supply glut situation. Persistent oversupply of oil resulted in the downward pressure of oil prices, with Brent oil prices plunged sharply from USD99.02/bbl in 2014 to USD52.3/bbl in 2015.

Continuing growth in global oil inventories and uncertainty over future global demand growth continued to exert downward pressure on oil prices during January 2016. Brent crude oil spot prices decreased to a monthly average of USD31/bbl in January 2016, the lowest monthly average price since December 2003. As of 1 March 2016, Brent was priced at USD36.81/bbl.

The Organisation for Economic Co-operation and Development ("**OECD**") Countries commercial crude oil and other liquid fuels inventories totalled 3.03 billion bbl[1] at the end of 2015. This is equivalent to roughly 66 days stock at current consumption levels. Based on EIA forecasts, the OECD inventories are expected to rise to 3.14 billion bbl by the end of 2016, and are expected to further increase to 3.16 billion bbl by the end of 2017.

After growing by an estimated 1.82 million b/d in 2015, growth in global oil inventories is expected to slow to 1.4 million b/d in the first quarter of 2016. Brent prices are forecast to average USD50/bbl in 2017, during which the market is expected to experience small inventory draws and resulting in slow price recovery.

Oil prices are expected to increase slowly to USD60/bbl for Brent and USD58/bbl for West Texas Intermediate by 2020. Decline in production and modest growth in demand for oil are expected to be the key drivers for the recovery of oil prices. While recovery to peak prices of USD100/bbl of oil may be difficult, Frost & Sullivan estimates that prices are projected to be around USD75/bbl in the long term.

Technologies developments such as horizontal drilling, vertical drilling and hydraulic fracking have enabled the extraction of oil from oil reserves not exploitable previously. However these advanced techniques are expensive and need oil prices to stay above USD50/bbl to be viable. With oil prices below USD50/bbl, production from fields using expensive techniques is expected to decline giving opportunities for oil from conventional fields to gain market share.

Crude oil from conventional sources is cheaper to produce compared to unconventional sources as there is no need for special equipment or techniques for oil extraction. At selling prices below USD50/bbl, pressure increases on the producers to lower costs of production. It is difficult to halt production as considerable investments have been made to bring the projects into production stage. Unless costs are brought down, producers may have to sell at a loss. As such, there is a need for producers to increase their efficiency and reduce their costs of production in respond to prolonged duration of weak oil prices.

Companies producing oil from high-quality assets in politically stable countries are expected to have the competitive advantage of lower production costs per barrel of oil equivalent extracted.

(Source: Frost & Sullivan)

(ii) Overview of the O&G industry in Kazakhstan

At a proven level of crude oil reserves of 30 billion bbl[2], Kazakhstan has the second largest oil reserves in Eurasia after Russia, and ranks the twelfth largest in the world. The country has around 170 oilfields and 40 gasfields, with the larger fields concentrated around the western region surrounding the Caspian Sea. This also gives the fields an advantage as they are within close proximity to the country's export and distribution infrastructure.

[1] Energy Information Administration (EIA), USA

[2] As at 1 January 2015, Energy Information Administration, USA

Oil production in Kazakhstan in 2016[3] is forecast at 1.72 million bbl/d. This represents a growth of over 250% compared to the production in the year 2000. Production is expected to increase further when production at three major fields, namely Tengiz, Kashagan and Karachangnak completed their scheduled production ramp up between 2016 and 2017, upon which the combined output of these three (3) major fields will account for 50% of Kazakhstan's total oil output. The key to sustained growth of oil production in Kazakhstan includes continued development of its large oilfields and expansion of its oil exporting infrastructure.

Kazakhstan consumes around 300 thousand bbl/d[4] and over 85% of the oil produced is exported. Though domestic consumption is expected to grow in the coming years, Kazakhstan is likely to have surplus oil production and is expected to remain as an oil exporting country.

Kazakhstan exports light, sweet crude oil. Kazakhstan crudes are mainly sold to European countries and the People's Republic of China. The four (4) main export oil grades are the CPC Blend, Tengiz, Karachaganak condensate, and Kumkol. With the start of production at the Kashagan field in 2016/2017, the Kashagan grade will also form part of the export mix.

In terms of natural gas, Kazakhstan's Oil and Gas Ministry assessed the country's gas reserves at 3.8 trillion cubic meters, taking into account newly accessible fields in the Caspian Sea, out of which 2.4 trillion cubic meters[5] are proven reserves.

Kazakhstan's natural gas is mostly associated gas which is found in crude or condensate-rich fields. In 2013, Kazakhstan produced 18.5 billion cubic meters of natural gas and this have tripled compared to the production level of natural gas in 1999. Around 45% of the gas extracted has been re-injected into the oil wells to enhance oil production. The remaining 55% of natural gas production is commercial production. As of 2013, Tengiz and Karachaganak fields, the two largest natural gasfields in Kazakhstan, accounted for more than 90% of Kazakhstan's raw marketed natural gas production. Meanwhile, Kazakhstan has 14 processing plants associated with its natural gasfields. The processing capability is expected to increase as the country continues to invest in natural gas.

Kazakhstan's O&G fields are well connected to regional and international markets via a network of trans-regional pipelines, with a capacity to transport more than 2.5 million bbl/d.

The four (4) main trans-regional oil pipelines connecting Kazakhstan crude to the regional markets are:

(a) Caspian Pipeline Consortium;

(b) Kazakhstan-China Pipeline;

(c) Atyrau-Samara Pipeline; and

(d) Baku-Tbilisi-Ceyhan Pipeline ("**BTC**") - Kazakhstan ships oil by tanker via the Caspian Sea to Baku in Azerbaijan, from which Kazakhstan oil is loaded into the BTC pipeline.

[3] Energy Information Administration, USA

[4] BP Statistical Review, 2015; Frost & Sullivan estimates

[5] As at 1st January 2015, Energy Information Administration, USA

The subsidiaries of the state-owned KazMunaiGas operate the O&G pipelines in Kazakhstan. Owing to Kazakhstan's landlocked position and continued use of former Soviet Union infrastructure, much of Kazakhstan's oil export infrastructure is integrated with major Caspian oil and natural gas export routes that interlink the region. Since independence in 1991, Kazakhstan has successfully expanded and diversified its export capabilities.

(Source: Frost & Sullivan)

(iii) Prospects of Palaeontol B.V. and the Emir-Oil Fields

After completion of the Proposed Acquisition, with effective control of Emir-Oil which holds the entire working interest of Emir-Oil Fields, Reach Energy intends to pursue various future value-adding opportunities by continuing the existing successful field development plans and application of new technologies to optimize the near-term production growth rate and maximise returns to shareholders. In continuing with the current development activities, Reach Energy will focus on three (3) key areas for the first five (5) years as follows:

(a) advancing production (subject to prevailing oil price environment);

(b) optimising CAPEX; and

(c) controlling costs.

Firstly, Reach Energy will endeavour to focus on increasing oil production by using current well counts to perform optimal workover programmes such as re-perforation of existing intervals, acid stimulation including acid fracturing and horizontal drilling on existing wells to chase for premium reservoir pay intervals. Secondly, Reach Energy plans to reduce drilling cost and optimally phase the O&G facility upgrade projects.

As for application of high technologies, pre-stack time migration technology has been applied to the 3D seismic processing and, old and new 3D seismic volumes have been merged. Seismic attribution analysis has also been applied into the reservoir prediction and sedimentary environment study on the Middle Triassic carbonates. Such technologies are useful in the continual assessment and development of the significant reserves upsides in the Contract Block.

The Emir-Oil Fields are endowed with high quality gas rich in condensate which has good potential to develop a separate condensate value chain. Additionally, a liquid petroleum gas ("**LPG**") value chain has been planned with the inclusion of an LPG extraction facility in the new CPF construction to extract better value out of the Aksaz and Dolinnoe fields with rich natural gas and potential high LPG yield.

The oil and rich gas reserves could be significantly increased by lower risk appraisal drilling. Reach Energy is confident that the reserves of Aksaz and Dolinnoe could be increased significantly with the implementation of additional drilling programs. A better sweep of the Emir-Oil Fields is predicted by utilising water flooding to significantly enhance the oil recovery.

Currently, Emir-Oil is utilising the innovative "Modularised Construction Technique" whereby the various processing units are fabricated and shop-tested as skid-mounted units in the fabrication yards and transported to the operating site in pre-assembled modular forms for ease of site hook-up, start-up and commissioning. Such technique also provides allowance for space, tie-in points, optimum sparing, capacity upgrade, etc. for any potential plant expansion in the future. These facilities, so constructed, will help to accommodate the increasing capacity needs for sharing or joint use of infrastructure under tolling arrangement with third party operators in the area.

6. RISK FACTORS

Upon completion of the Proposed Acquisition, the business operations of the enlarged Reach Energy group will be subject to risks inherent in the O&G upstream sector.

The key risk factors arising from or associated with the Proposed Acquisition, which are by no means exhaustive, are as follows:

(i) Fluctuation in results of operations due to movements in O&G prices

The financial performance and growth of Emir-Oil is dependent on prevailing O&G prices which in turn are affected by a variety of factors which include, amongst others, global O&G supply and demand, changes in economic conditions and other geopolitical factors which are beyond the control of the enlarged Reach Energy group. Currently global crude oil prices are at the low end and volatile and hence, there can be no assurance that any fluctuations in the prices of O&G will not materially affect the business, revenue, profits and prospects of the enlarged Reach Energy group.

However, such fluctuations are not uncommon in the O&G sector and Reach Energy will continuously monitor the prices of O&G and proactively undertake measures such as engaging in hedging transactions and maintaining low cost operations, where possible, to be prepared for any adverse fluctuations.

(ii) Exposure to development, production and construction risks

The results of further development and production activities may not be certain and may produce less O&G than estimated and not achieve sufficient revenues to return positive cash flows. O&G production is largely exposed to drilling hazards and environmental damage which could increase the cost of operations and adverse field operating conditions may affect production from successful wells. In addition, the development and production operations involve risks including oil spills, blowouts, explosions, natural disasters, fire, formations with abnormal pressure and abrupt change to water cut, each of which could result in substantial damage to oil wells, production facilities, the environment or in personal injury, as well as damage to Emir-Oil and Reach Energy reputation. In addition, there is also no assurance that the Development Fields and Exploration Area can be commercialised into producing fields. The results of exploratory and development drillings are uncertain and may involve unprofitable efforts, which may arise from dry or unproductive wells.

Production risk could arise from factors such as delays in obtaining relevant approvals or consents from the authorities for the renewal of the Production Contracts and/or Exploration Contract or other matters, inadequate storage or transportation capacity or equipment failure as a result of extreme weather conditions. Emir-Oil is not insured against all risks and there is no assurance that losses and liabilities arising from any uninsured or insured events could materially and adversely affect the enlarged Reach Energy group's results of operations and financial condition.

The construction of the new CPF is also subject to risks of delay and cost overrun and there is no assurance that any technical difficulties that may arise during the construction and testing of the new CPF will be resolved in a timely or cost-effective manner.

However, in well-established onshore locations like the Emir-Oil Fields with experienced site staff, such operational risks are quite rare based on Emir-Oil's experience to date. Emir-Oil's interactions with the authorities have also been smooth and timely. Nevertheless, Reach Energy will leverage on the experience and expertise of its own team, the team in Emir-Oil as well as its partner MIEH, to proactively mitigate these risks.

(iii) Risk in reserves estimates

The process of estimating the quality and quantity of O&G reserves is dynamic, requiring interpretation of technical seismic data and many assumptions. Consequently, the reserve estimates are subject to revisions as additional data become available during the exploration and production life of a reservoir. Any material deviations from these technical interpretations and assumptions could significantly affect the estimated quantities of O&G reported. Due to inherent uncertainties, the reserve estimates concluded may be inaccurate. These factors may materially and adversely affect the business, financial condition, results of operations, and prospects of the enlarged Reach Energy group if drilling activities do not yield oil or natural gas in quantities that are commercially viable.

Nevertheless, Reach Energy has engaged RPS to assess the reserves in the Producing Fields and Development Fields, while MIEH has also similarly engaged an international independent technical expert (Chapman Petroleum Engineering Ltd from Canada) for their annual reporting of reserves to the HKEX. Reach Energy will also continuously look for opportunities to upgrade reserves by undertaking specific studies and additional field appraisal and exploration programs.

(iv) Termination of the Production Contracts

The Production Contracts were granted by the MOE on 9 September 2011 and 1 March 2013 to Emir-Oil and will expire in 2030 and 2036. The Production Contracts are extendable upon expiry, subject to availability of commercial reserves and the approval of the MOE. There can be no assurance that the Production Contracts will be renewed upon expiry. The Production Contracts can also be suspended and/or terminated on the occurrence of certain events as stipulated in the Production Contracts.

In the event the Production Contracts are suspended, terminated and/or not renewed, the operations of Emir-Oil may be affected and this would materially and adversely affect the business, financial position, results of operations and prospects of the enlarged Reach Energy group.

Notwithstanding the above, Reach Energy will closely monitor the requirements of the Production Contracts and ensure compliance in all respects.

(v) Political, economic and regulatory conditions

Changes in political, economic and regulatory conditions in the Netherlands and Kazakhstan may materially and adversely affect the business, results of operations and prospects of Palaeontol B.V. and Emir-Oil. These include but are not limited to, adverse sovereign actions affecting the confidence of foreign investors, changes in political leadership, social unrest, terrorism and unfavourable changes in government policies including the introduction of new rules and regulations as well as changes in interest rate, taxation, policy on repatriation of profits and removal of subsidies or incentives. The Company is also exposed to the interpretation and enforcement of the laws in the Netherlands and Kazakhstan.

As Emir-Oil's assets are located in southwestern Kazakhstan, its business is exposed to adverse developments affecting this region which include among others, changes in governmental regulation, capacity constraints with respect to storage facilities, transportation systems and pipelines, curtailment of production, natural disasters or adverse weather conditions.

However, this is not uncommon in the global O&G sector and as a prudent operator, Reach Energy will work closely with its partner, MIEH, to proactively monitor any changes in the ordinary course of business. Furthermore, Malaysia and Kazakhstan have good diplomatic relations and cross investment is highly promoted. As set out in Section 7.1 of this Announcement, investors have the right to repatriate profits and income from Kazakhstan (in the form of dividends, interest, royalties or other service charges and fees) subject to compliance with relevant regulations.

(vi) Acquisition risk

The Proposed Acquisition is expected to enhance the earnings of Reach Energy in the long term. Notwithstanding, there is no guarantee that the anticipated benefits of the Proposed Acquisition will be realised or that Reach Energy will be able to generate sufficient revenue from the Proposed Acquisition to offset potential CAPEX and operating expenditure to be incurred. There is also no assurance that Reach Energy will be able to maintain or improve the production level of the Emir-Oil Fields. The integration of Palaeontol B.V. and Emir-Oil under Reach Energy will require among others, the integration of operations, administrative functions, sales and marketing, information and software systems, management and other employees, uniform standards, controls, policies as well as ongoing and future research and development efforts which may not be successful.

In mitigating such risk, Reach Energy and its advisors have undertaken due diligence and assessment of the Palaeontol B.V. Group and Emir-Oil Fields in order to be able to address such risk well ahead of time.

(vii) Foreign exchange translation risk

The reporting currency of Palaeontol B.V. and Emir-Oil are USD and KZT respectively, whereas the revenue and expenses for the operations of the Emir-Oil Fields are mostly denominated in USD and the presentation currency of the Company is in RM. Hence, fluctuations in foreign exchange rates could have an adverse effect on the financial results of the enlarged Reach Energy group with the consolidation of the financial results of Palaeontol B.V. and Emir-Oil into the financial statements of the Company.

However, this is not uncommon in the global O&G sector as most transactions are conducted in USD.

(viii) Completion risk

Completion of the Proposed Acquisition is conditional upon, amongst others, the fulfilment of the conditions precedent to the SPA as set out in **Appendix I** of this announcement. If any of the conditions precedent is not fulfilled, the SPA may be terminated and Reach Energy will not be able to complete the Proposed Acquisition. In addition, in the event Reach Energy is not able to fulfil any of the conditions precedent to the SPA which it is responsible for, the Break Fee (as defined herein) may be required to be paid to MIEH, provided that MIEH has satisfied all its conditions precedent.

Further, if all conditions precedent to the SPA is fulfilled and Reach Energy fails to fulfil its obligations under the SPA on the Completion Date, MIEH may terminate the SPA and claim against Reach Energy for any loss or damage suffered up to an amount of USD8.0 million.

Reach Energy will endeavour to undertake all reasonable measures to ensure the successful completion of the Proposed Acquisition and fulfil all conditions precedent as stipulated in the SPA.

7. POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS

7.1 Kazakhstan

A summary of Kazakhstan's general policy in relation to foreign investment, taxation and repatriation of profits from a Kazakhstan company is as follows:

(i) Foreign investments

The Law of the Republic of Kazakhstan No. 373-II dated 8 January 2003 On Investments as amended ("**Law on Investment**") regulates relations connected with investments in Kazakhstan as well as determines legal and economic frameworks for encouragement of investments, guarantees protection of investors' rights during investments in Kazakhstan, identifies measures for state support of investments and sets the procedure for settlement of disputes with participation of investors.

Subsoil use rights are established by a subsoil use contract. Subsoil use rights are granted by the relevant Government authorities for a specific period, but may be extended before the expiration of the contract. The State has the pre-emptive right to acquire the transferred subsoil use rights and or the objects connected with the subsoil use rights (or part thereof). Additionally, any acquisition of the subsoil use rights and or objects connected to subsoil use rights is subject to the competent authority's prior consent.

(ii) Taxation

Corporate income tax applies to the taxable income of the Republic of Kazakhstan legal entities and non-resident companies. A company is considered to be a Kazakhstan tax resident if it is established under the laws of the Republic of Kazakhstan or if the company's governing body or place of actual management and control is located in Kazakhstan.

Corporate income tax is calculated at a rate of 20% of taxable income.

Generally, subsurface users are subject to the prevailing current tax regime (i.e. these taxpayers are required to compute tax obligations under the tax legislation effective as of the date that such tax obligations arise). Some of the currently effective taxes and special payments applicable to the subsurface users operating in O&G industry include signature bonus, commercial discovery bonus, historical payments, mineral extraction tax, excess profits tax, rent tax on exported crude O&G condensate, export customs duty and excise tax.

(iii) Repatriation of profits

Profits and income from Kazakhstan can generally be freely repatriated in the form of dividends, interest, royalties or other service charges and fees, subject to payment of taxes, compliance with currency control and banking regulations and general statutory and corporate requirements and formalities.

Under the Laws of Investment, investors are guaranteed the right to freely repatriate profits by means of transfer of net income, dividends, royalty, technical assistance and other forms of income from all investments.

7.2 Netherlands

A summary of Netherlands' general policy in relation to foreign investment, taxation and repatriation of profits from a Dutch company is as follows:

(i) Foreign investments

A private limited liability company incorporated in the Netherlands is governed by the Dutch Civil Code, which sets out the governance requirements for an entity such as shareholder meeting requirements and board composition procedures. In addition, the Dutch Civil Code is a written law which also governs the civil law, property and intellectual property law and contract law.

Under the Law of the Netherlands, a foreign individual or company may operate in the Netherlands through an incorporated or unincorporated entity or a branch, such as a subsidiary or a partnership. All legal entities and individuals engaged in commercial businesses are required to register their businesses with the Trade Registry at the local Chamber of Commerce in which the business information will be automatically transferred to the Dutch tax authorities upon registration.

The Dutch government has set up an extensive legal system as well as signing a large number of Bilateral Investment Treaties with several countries to protect foreign investments and ownership. In addition, the Dutch government does not unilaterally nationalise corporations and in the unique event of a nationalisation, the Dutch government will act as a regular market party to buy the shares of that particular company.

Under the Mining Act of the Netherlands, any company intending to engage in the exploration and extraction of natural resources shall pay a 'state profit share' to the Dutch government. In addition, such exploration and extraction activities can be performed without a permit but the results and/or findings from such activities shall be made public within a period of five (5) years. Furthermore, the exploration and extraction activities shall be based on a concession system which in general, a joint venture is set up between the company and EBN B.V., a state-owned company managed by the Dutch Ministry of Economic Affairs.

(ii) Taxation

In the Netherlands, the corporate income tax is levied on the worldwide income of the Dutch entities, as well as income generated in the Netherlands for foreign entities, at a rate of 25% on the net taxable profit (20% for taxable income up to and including Euro 200,000).

In general, a company incorporated under the Law of the Netherlands is considered to be a Dutch resident. On the other hand, a company incorporated under foreign law is considered a Dutch resident if its effective management is located in the Netherlands. Corporate residence based on effective management depends on individual facts and circumstances, and no single criterion can be applied.

In addition, no local taxes are levied on business income in the Netherlands and the companies are liable for corporate income tax on their annual taxable profits after deductions and available loss relief. Profits are attributed to each taxable period (generally a period of 12 months and need not be a calendar year) according to the principle of "sound business practice". Taxable profits are calculated by comparing the equity at the end of the year with the equity at the beginning of the year in the balance sheet statement for tax purposes.

Under the Dutch tax system, all expenses incurred for the purposes of carrying on a business are deductible for the purpose of calculating the taxable profits. In addition, the Dutch tax system also offers a large number of incentives in the form of added or accelerated deductions, special regimes such as the patent box or the tonnage regime, as well as input-side subsidies for certain activities. Furthermore, tax-deductible provisions may be set up to cover future contingencies, guarantees and environmental cleaning associated costs.

The participation exemption is defined as an exemption from corporate income tax in respect of profits derived from qualifying shareholdings or similar interests (often referred to as "participations") in Dutch and non-Dutch resident companies and similar entities. Any profit derived from a qualifying participation is tax-exempt. The Dutch tax system also provides the possibility to file a consolidated group tax return, which is known as fiscal unity regime. In addition, non-participation losses can be carried backward for one year and carried forward for nine years.

The Dutch tax administration is generally regarded as both competent and positive towards foreign investors. No taxes are levied on capital contributions to companies or other taxes on corporate capital. In line with other European Union countries, the Netherlands imposes a value-added tax as well as a number of other indirect taxes which include, among others, excise taxes and taxes on real estate transactions.

(iii) Repatriation of profits

In general, the withholding tax is levied on dividends only, and not on interests or royalties. However, the withholding tax on dividends is not applicable to any profit distributions made by the cooperative associations. In addition, companies incorporated in the Netherland can benefit from the Directive (European Union), in particular those in connection with withholding tax and mergers. Further, there is no withholding tax on any profit distribution by a Dutch branch of a foreign company to its foreign head office.

While corporate shareholders are, in principle, subject to tax on dividend income, the participation exemption can be applied in the event certain conditions are met. For instance, capital gains may be exempted under the participation exemption.

Notwithstanding the above, the Netherlands has an extensive network of tax treaties for relieving double taxation and a modern system for obtaining advance rulings, in particular on transfer pricing.

8. EFFECTS OF THE PROPOSED ACQUISITION

8.1 Issued and paid-up share capital

The Proposed Acquisition will not have any effect on the issued and paid-up share capital of Reach Energy as it does not involve the issuance of new Reach Energy Shares.

8.2 Net assets ("NA") per Reach Energy Share and gearing

Based on the latest audited statements of financial position of Reach Energy as at 31 July 2014* and on the assumption that the Proposed Acquisition had been effected on 31 July 2014, the proforma effects of the Proposed Acquisition on the NA per Reach Energy Share and gearing of Reach Energy are as follows:

	Audited as at 31 July 2014*	**After the IPO**	**(4)After the Proposed Acquisition**
	RM'000	**RM'000**	**RM'000**
Share capital	2,778	12,778	12,778
Share premium	17,471	35,646	(5)542,539
Warrant reserves	8,921	20,121	(5)222,621
Share-based payment reserves	151	821	-
Accumulated losses	(30,546)	(31,216)	(52,628)
Minority interest	-	-	137,169
Shareholders' funds/NA	**(1,225)**	**38,150**	**862,479**
No. of Reach Energy Shares in issue ('000)	277,822	1,277,822	1,277,822
NA per Reach Energy Shares(1) (RM)	(2)	0.03	0.68
Total borrowings	(3)N/A	(3)N/A	(3)N/A
Gearing ratio (times)	(3)N/A	(3)N/A	(3)N/A

Notes:

* *The Board had resolved to change the financial year end of Reach Energy from 31 July to 31 December as announced on 25 March 2015.*

(1) Computed based on shareholders' funds divided by the number of Reach Energy Shares in issue.

(2) Negligible.

(3) Not applicable.

(4) Assuming no Dissenting Shareholders.

(5) Upon completion of the Proposed Acquisition, the Company no longer has the obligation to refund the proceeds held in the trust account to its entitled shareholders. Consequently, the financial liability component of the public issue shares will be reclassified from non-current liability to warrant reserves and share premium.

8.3 Earnings and earnings per Reach Energy Share ("EPS")

The Proposed Acquisition is expected to be completed in the third quarter of 2016. Barring any unforeseen circumstances, the Proposed Acquisition is expected to contribute positively to the long-term future earnings and EPS of the enlarged Reach Energy Group as the Producing Fields are currently in production.

8.4 Substantial shareholders' shareholding

The Proposed Acquisition will not have any effect on the substantial shareholders' shareholding in the Company as it does not involve the issuance of new Reach Energy Shares.

9. APPROVALS REQUIRED

The Proposed Acquisition is subject to the following approvals or waiver, where relevant, being obtained:

(i) the approval of the SC;

(ii) the approval of the shareholders of Reach Energy at an EGM to be convened;

(iii) the approval of the Committee of Kazakhstan for Regulation of Natural Monopolies and Competition Protection for the acquisition of the Sale Shares on the terms of the SPA;

(iv) the approval of MOE for the indirect transfer of subsoil use rights under the Production Contracts and Exploration Contract through the sale and transfer of the Sale Shares;

(v) either (a) MOE's official waiver of all its pre-emption rights in connection with the indirect transfer of subsoil use rights under the Production Contracts and Exploration Contract through sale and transfer of the Sale Shares or (b) an official response from the MOE that a waiver of all its pre-emption rights in connection with the indirect transfer of subsoil use rights under the Production Contracts and Exploration Contract through sale and transfer of the Sale Shares is not required; and

(vi) (a) approval from the shareholders of MIEH at a general meeting, and to the extent required (b) consents, waivers, permissions and approvals in relation to the transaction from the HKEX and the Securities and Futures Commission of Hong Kong.

10. PERCENTAGE RATIO

The highest percentage ratio applicable to the Proposed Acquisition pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is the total assets of the Palaeontol B.V. Group compared with the total assets of Reach Energy based on the latest audited financial statements of Reach Energy for the FYE 31 July 2014 which amounts to more than 100%.

11. SUBMISSION TO THE RELEVANT AUTHORITIES AND ESTIMATED TIMEFRAME FOR COMPLETION

The application to the relevant authorities in relation to the Proposed Acquisition is expected to be submitted within 3 months from the date of this announcement.

Barring unforeseen circumstances and subject to all the requisite approvals being obtained, the Proposed Acquisition is expected to be completed in the third quarter of 2016.

12. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

None of the Directors and/or major shareholders of Reach Energy and/or persons connected with them have any interest, direct or indirect, in the Proposed Acquisition.

13. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposed Acquisition, including the basis and justification for the Purchase Consideration, the rationale and benefits of the Proposed Acquisition, prospects, risk factors and effects of the Proposed Acquisition, is of the opinion that the Proposed Acquisition is in the best interest of the Company.

14. ADVISERS

The following parties have been appointed by the Company in respect of the Proposed Acquisition:

(i) HLIB and Maybank IB as Joint Principal Advisers;

(ii) BNP Paribas as the International Financial Adviser;

(iii) RPS as the independent technical and asset valuation expert;

(iv) Skrine as the Malaysian legal counsel;

(v) SIGNUM Law Firm as the Kazakhstan legal counsel;

(vi) Houthoff Buruma Cooperatief U.A. as the Dutch legal counsel;

(vii) Frost and Sullivan as the independent market researcher; and

(viii) KPMG Kazakhstan as the financial and tax due diligence adviser.

15. DOCUMENT AVAILABLE FOR INSPECTION

The SPA will be available for inspection at the registered office of the Company at Level 8, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan during normal business hours from Mondays to Fridays (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 5 March 2016.

SALIENT TERMS OF THE SPA

Overview

Pursuant to the SPA, MIEH agreed to sell (by procuring Palaeontol COOP to sell) the Sale Shares to Reach Energy (or the SPV as Reach Energy may direct) free from all encumbrances and together with all rights, title and benefits attaching thereto including without limitation, all bonuses, rights, dividends and other distributions declared, paid or made in respect of the Sale Shares on or after the Completion Date.

At Completion, MIEH shall assign and transfer and Reach Energy (or the SPV as Reach Energy may direct) shall accept the assignment and transfer of the Shareholder Loans in proportion to the Relevant Percentage simultaneously with the sale and transfer of the Sale Shares from Palaeontol COOP to Reach Energy (or to the SPV).

The Sale Shares represent sixty per cent (60%) of the issued share capital of Palaeontol B.V..

Consideration and basis of determination

(a) The parties have agreed that the enterprise value of one hundred per cent. (100%) (before adjustment of the Net Working Capital) of the Palaeontol B.V. Group is USD308,000,000 as at the Effective Date which translates to USD184,800,000 based on the Relevant Percentage of the Enterprise Value.

Net working capital represents the amount equal to the Relevant Percentage of the sum of the following items as on the Effective Date:

(a) Inventories (+)
(b) Trade receivables (+)
(c) Current portion of prepayment and other receivables (+)
(d) Trade payables (-)
(e) Current portion of accruals and other payables (-)
(f) Cash and cash equivalents (+)

(referred to as "**Net Working Capital**").

Receivables related to the loans provided by Emir-Oil to Aral Petroleum Capital LLP, which have a total principal amount of KZT241,000,000 ("**Aral Loan**") and payables to ACAP Limited are excluded from the Net Working Capital.

(b) Subject to the adjustment mechanism described below, the aggregate consideration for the Sale Shares and the assignment of the Shareholder Loans in proportion to the Relevant Percentage less the deficiency of the Net Working Capital of USD29,911,000 (based on the unaudited consolidated management accounts of the Palaeontol B.V. Group as at the Effective Date) is USD154,889,000.

(c) At Completion, the Purchase Consideration shall be adjusted as follows:

either

(i) increased by the Net Contribution Amount which shall not exceed an aggregate amount of USD21,000,000, if such amount is positive; or

(ii) decreased by an amount equal to the Net Contribution Amount if such amount is negative; and

(iii) increased by the Relevant Percentage any amounts recovered from Aral Petroleum Capital LLP prior to the Completion Date in connection with the Aral Loan, provided always that the Adjusted Purchase Consideration shall not be greater than USD175,889,000 (unless otherwise agreed by MIEH and Reach Energy in the case of exceptional or extra items of expenditure for the Palaeontol B.V. Group).

(d) The Adjusted Purchase Consideration shall comprise of:

(i) the Purchase Price; and

(ii) the Shareholder Loan Consideration, in respect of the assignment and transfer of the Shareholder Loans in proportion to the Relevant Percentage.

(e) At Completion, the Upfront Consideration shall be payable on the Completion Date and the Deferred Consideration shall be paid to MIEH as follows:

(i) within twenty-four (24) months after the Completion Date subject to the following interest charges:

Payment Term	Interest rate (per annum)
If payment of the Deferred Consideration is made within twelve (12) months of the Completion Date	Nil
If payment of the Deferred Consideration is made twelve (12) months after the Completion Date but before twenty-four (24) months after the Completion Date	10% (commencing from thirteenth month)
If payment of the Deferred Consideration is made twenty-four (24) months after the Completion Date	14% (commencing from twenty-fifth month and in addition to interest accrued from preceding period)

(ii) if the Deferred Consideration is not paid, on the date which is twenty-four (24) months after the Completion Date and until full payment of the Deferred Consideration:

(A) MIEH, Reach Energy and their respective affiliates shall ensure that the Palaeontol B.V. Group defers any discretionary capital expenditure ("**CAPEX**") (except for CAPEX required for the committed work obligations under the Contracts) such that the Palaeontol B.V. Group shall be able to free its cash flow for the purposes of cash distribution (either by way of dividends, repayment of shareholders loan or other means) to its shareholders;

(B) any cash distributions by the Palaeontol B.V. Group to Reach Energy (or its affiliates) shall first be used to ensure that the cash and cash equivalent in the accounts of Reach Energy as set out in the then most recent quarterly balance sheet in its quarterly report as announced by Reach Energy ("**Reach Energy Cash Position**") is not less than USD10,000,000 and thereafter the remaining cash distribution shall be used firstly, to pay any accrued unpaid interest relating to the Deferred Consideration; and thereafter to repay the remainder principal amount of the Deferred Consideration; and

(C) Reach Energy shall use its best efforts to raise the maximum amount of funds (whether that be by way of debt or equity fund raising) for repayment of the Deferred Consideration provided that (1) if the net proceeds raised is less than USD1,000,000 then such amount shall not be used for repayment of the Deferred Consideration; and (2) the net proceeds raised shall first be used to ensure that the Reach Energy Cash Position is no less than USD10,000,000 and thereafter the remaining net proceeds raised (over and above Reach Energy Cash Position of USD10,000,000) shall be used for repayment of the Deferred Consideration.

(f) Within five (5) days of satisfaction of the Conditions Precedent to be observed on the part of Reach Energy, Reach Energy has a right to defer payment of part of the Upfront Consideration such that at Completion, Reach Energy shall pay the sum equal to (A) USD120,000,000 plus (B) twenty-five per cent (25%) of the amount in the Trust Account (net of taxes) on the Completion Date less the amount from the Trust Account which will be required to be paid out to holders of voting securities of Reach Energy who vote against the resolution approving the Proposed Acquisition at the EGM to be convened and have requested that Reach Energy repurchase their voting securities provided always that such amount shall not be more than the Upfront Consideration ("**Completion Payment**"). The amount equal to the Upfront Consideration less the Completion Payment ("**Remaining Completion Amount**") shall be paid to MIEH as follows:

(i) within six (6) months after the Completion Date subject to the following interest charges:

Payment Term	Interest rate (per annum)
If payment of the Remaining Completion Amount is made within six (6) months of the Completion Date	Nil
If payment of the Remaining Completion Amount is made six (6) months after the Completion Date but before eighteen (18) months after the Completion Date	10% (commencing from seventh month)
If payment of the Remaining Completion Amount is made eighteen (18) months after the Completion Date	14% (commencing from nineteenth month and in addition to interest accrued from preceding period)

(ii) if the Remaining Completion Amount is not paid on the date which is six (6) months after the Completion Date and until full payment of the Remaining Completion Amount:

(A) MIEH, Reach Energy and their respective affiliates shall ensure that the Palaeontol B.V. Group defers any CAPEX (except for CAPEX required for the committed work obligations under the Production Contracts and Exploration Contract) such that the Palaeontol B.V. Group shall be able to free its cash flow for the purposes of cash distribution (either by way of dividends, repayment of shareholders loan or other means) to its shareholders;

(B) any cash distributions by the Palaeontol B.V. Group to Reach Energy (or its affiliates) shall first be used to ensure that the Reach Energy Cash Position is not less than USD10,000,000 and thereafter the remaining cash distribution shall be used firstly, to pay any accrued unpaid interest relating to the Remaining Completion Amount; and thereafter to repay the remainder principal amount of the Remaining Completion Amount; and

(C) Reach Energy shall use its best efforts to raise the maximum amount of funds (whether that be by way of debt or equity fund raising) for repayment of the Remaining Completion Amount provided that (1) if the net proceeds raised is less than USD1,000,000 then such amount shall not be used for repayment of the Remaining Completion Amount; and (2) the net proceeds raised shall first be used to ensure that Reach Energy Cash Position is no less than USD10,000,000 and thereafter the remaining net proceeds raised (over and above Reach Energy Cash Position of USD10,000,000) shall be used for repayment of the Remaining Completion Amount.

Before full payment of the Deferred Consideration (or, as the case may be, the Remaining Completion Amount), in the case Reach Energy (or its affiliate) directly or indirectly transfers any of the Sale Shares to any third party, Reach Energy undertakes to immediately pay to MIEH a sum equal to the outstanding Deferred Consideration (or, as the case may be, the Remaining Completion Amount) (including interest thereon) owing to MIEH by Reach Energy from the amount received by Reach Energy (or its affiliate) from the transfer of such Sale Shares for the purposes of full settlement of the Deferred Consideration (or, as the case may be, the Remaining Completion Amount).

For the avoidance of doubt, the Deferred Consideration (or, as the case may be, the Remaining Completion Amount) can be repaid at any time after the Completion.

Conditions Precedent

The Completion is conditional on the following conditions ("**Conditions Precedent**") being satisfied on or before six (6) months from the date of the SPA (or such later date as the parties may agree) ("**Longstop Date**"):

(1) MIEH:

(A) having procured the approval of the MOE for the indirect transfer of subsoil use rights under the Production Contracts and Exploration Contract through sale and transfer of the Sale Shares;

(B) having procured either (i) official waiver by the MOE of all its pre-emption rights in connection with the indirect transfer of subsoil use rights under the Production Contracts and Exploration Contract through sale and purchase to Reach Energy or the SPV (as the case may be) of the Sale Shares or (ii) an official response from the MOE that a waiver of all its pre-emption rights in connection with the indirect transfer of subsoil use rights under the Production Contracts and Exploration Contract through sale and transfer to Reach Energy or the SPV (as the case may be) of the Sale Shares is not required; and

(C) having received (i) approval from shareholders of MIEH at a general meeting, and (ii) to the extent required, consents, waivers, permissions and approvals in relation to the Proposed Acquisition from the Hong Kong Stock Exchange and the Securities and Futures Commission of Hong Kong;

(2) Reach Energy:

(A) having received the approval of the SC for the purchase of the Sale Shares and the assignment and transfer of the Shareholder Loans in proportion to the Relevant Percentage pursuant to the SPA;

(B) having procured the passing at a general meeting of Reach Energy of a resolution approving the purchase of the Sale Shares and the assignment and transfer of the Shareholder Loans in proportion to the Relevant Percentage pursuant to the SPA; and

(C) having received the approval from the Committee of the Republic Kazakhstan for Regulation of Natural Monopolies and Competition Protection for the acquisition of the Sale Shares on the terms of the SPA;

None of the Conditions Precedent are waivable unless (i) such Condition Precedent(s) is or are capable of being waived by applicable law or the applicable rules and regulations of a stock exchange which MIEH or Reach Energy is subject to; and (ii) mutually agreed by both MIEH and Reach Energy.

If one or more of the Conditions Precedent:

(1) remains un-satisfied on the Longstop Date and has not been waived on or before that date; or

(2) becomes impossible to satisfy on or before the Longstop Date and, if it is a Conditions Precedent which can be waived, has not been waived within five (5) days of such Conditions Precedent becoming impossible to satisfy. In such case, such party shall immediately inform the other party the occurrence of such impossibility and in such case the other party shall not be required to fulfill the Conditions Precedent which the other party is responsible to satisfy on or before the Longstop Date;

either party may give notice to the other party that it wishes to terminate the SPA:

(a) if it is a termination pursuant to (1) above, the party who has failed to satisfy all or any of the Conditions Precedent which such party is responsible to satisfy by the Longstop Date shall pay to the other party a fixed amount of USD1,500,000 only as liquidated damages (the "**Break Fee**") provided that the other party has satisfied the Conditions Precedent which the other party is responsible to satisfy by the Longstop Date; and

(b) if it is a termination pursuant to (2) above, the party who has failed to satisfy all or any of the Conditions Precedent which such party is responsible to satisfy because it becomes impossible to satisfy on or before the Longstop Date, such party shall pay to the other party the Break Fee and the other party shall not be required to fulfill any of the remaining Conditions Precedent which the other party is responsible to satisfy,

provided that no Break Fee is payable for a failure to satisfy the Conditions Precedent set out in (2)(C) above.

If, following satisfaction or waiver of all the Conditions Precedent, any of the completion obligations of MIEH and the Palaeontol COOP are not complied with by MIEH on or before the Completion Date and Reach Energy chooses to terminate the SPA, Reach Energy shall have the right to claim against MIEH any loss or damage suffered by Reach Energy provided that the maximum aggregate liability of MIEH shall not exceed USD8,000,000.

If, following satisfaction or waiver of all the Conditions Precedent, any of the completion obligations of MIEH and Reach Energy are not complied with by Reach Energy on or before the Completion Date and MIEH chooses to terminate the SPA, MIEH shall have the right to immediately draw on the Bank Guarantee and to Reach Energy any loss or damage suffered by MIEH provided that the maximum aggregate liability of Reach Energy shall not exceed USD8,000,000.

Reach Energy will provide to MIEH the on demand bank guarantee for the amount of USD1,500,000 ("**Bank Guarantee**") within seven (7) business days from the date of the SPA. The Bank Guarantee shall be used to satisfy in full the Break Fee and/or in part any payment, liability or obligation of Reach Energy in the case of a termination by MIEH for a failure by Reach Energy to comply with the completion obligations after satisfaction or waiver of all the Conditions Precedent under the SPA. Failure by Reach Energy to provide the Bank Guarantee within the time specified shall be an event of default entitling MIEH to terminate the SPA if such default is not remedied within seven (7) business days of written notification by MIEH.

Completion

Completion shall take place on the tenth (10^{th}) day following the satisfaction or waiver of all the Conditions Precedent or at such other time as MIEH and Reach Energy shall agree or at such other time as MIEH and Reach Energy shall agree. If the tenth (10th) day is not a business day, then Completion shall be on the next day which is a business day.

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INDICATIVE SALIENT TERMS OF THE SHA

Overview

The SHA intends to make provision for the management and administration of Palaeontol B.V.'s affairs and business. MIEH, Palaeontol COOP, Reach Energy, the SPV and Palaeontol B.V. shall sign the SHA within seven (7) days of the date the SPV is duly incorporated and no later than the Completion Date, subject to the SHA coming into effect on the Completion Date.

Business of Palaeontol B.V.

The objective of Palaeontol B.V.'s business, through Emir-Oil, is the exploration, production and exploitation of hydrocarbon resources in Kazakhstan, including but not limited to the business of production of oil under the Production Contracts and Exploration Contract.

Board of directors ("Board") and management

The Board of Palaeontol B.V. shall have five (5) directors. The SPV will have the right to nominate three (3) directors, whereas Palaeontol COOP will have right to nominate two (2) directors. In the case where the shareholders of Palaeontol B.V. agree that the Board of Palaeontol B.V. shall have three (3) directors, the SPV will have the right to nominate two (2) directors, whereas the Palaeontol COOP will have right to nominate one (1) director. Directors of Palaeontol B.V. can only be removed by Palaeontol B.V.'s general meeting at the request of the appointing shareholders. The board of directors of Palaeontol B.V. shall have one chairman, who shall be a director elected from the directors appointed at the nomination of the SPV. The chairman shall not have a casting vote.

Management of Emir-Oil

The shareholders of Palaeontol B.V. and Palaeontol B.V. shall procure that the composition of the management board of Emir-Oil shall be in proportion to the respective shareholding percentage of SPV and Palaeontol COOP (and any other shareholder subsequent to the Completion Date) in Palaeontol B.V.. The management board of Emir-Oil shall have five (5) members, among which, three (3) shall be appointed by the SPV, and two (2) shall be appointed by the Palaeontol COOP. The management board of Emir-Oil shall have one (1) chairman, who shall be elected from the members appointed by the SPV. The chairman shall not have a casting vote.

Appointment of key personnel

The SPV shall have the right under the SHA to appoint the general director of Emir-Oil ("**General Director**") so long as the SPV remains the single largest shareholder in Palaeontol B.V. and the SPV has obtained the approval of the management board of Emir-Oil before such appointment (whose approval shall not be unreasonably withheld).

Palaeontol COOP shall have the right to appoint the Finance and Commercial Manager of Emir-Oil ("**Finance and Commercial Manager**") who shall be in charge of finance and commercial matters subject to Palaeontol COOP being the second largest Shareholder in Palaeontol B.V.; and provided such Finance and Commercial Manager is not a member of the management board of Emir-Oil, the approval of the management board of Emir-Oil (whose approval shall not be unreasonably withheld). The Finance and Commercial Manager shall report to the General Director.

Reserved matters

Certain matters require the approval of shareholders holding at least seventy-five per cent (75%) of the shares in Palaeontol B.V. ("**Reserved Matters**"), include: approving and changing budgets and work plans which results in the incurring of any CAPEX exceeding by ten per cent (10%) over the amount for that item in the approved budget or work plan; entering into oil and gas sales arrangements; cancelling, extending or transferring hydrocarbon licenses or applying for new licenses; submitting reserve report or development plan to the government or releasing for listing compliance purpose; entering into major contract, liability or commitment which exceeds certain monetary thresholds; amending constitutional documents; amending the SHA; paying dividends to shareholders or the granting or repaying shareholders' loans or interests; proposing for winding-up or liquidation; and transferring shares of Emir-Oil.

Deadlock

If shareholders of Palaeontol B.V. fail to agree on the Reserved Matters, they may refer the matter to the respective chief executive officers (the "**CEOs**") of Reach Energy and MIEH. If the dispute is not resolved by the CEOs within three (3) months, the shareholders shall agree to engage an independent expert to render an opinion in relation to such dispute. If the shareholders cannot agree on which expert to engage, the SPV shall be entitled to appoint an independent expert from a list of two (2) independent experts provided by MIEH; and if the SPV fails to choose the expert, MIEH is entitled to appoint an expert from the same list.

Where any independent expert has rendered his opinion, but the shareholders are still unable to resolve the dispute, the SPV may, at its sole discretion, elect to either to submit the matter to arbitration at the Singapore International Arbitration Centre or serve a notice in writing on Palaeontol COOP requiring Palaeontol COOP to sell all the shares in Palaeontol B.V. held by Palaeontol COOP at the sale price to be determined in accordance with the provisions of the SHA.

Budgets, work plans and account

Annual budgets and work plans

Annual budget and work plan of Emir-Oil shall be first approved by the Board of Palaeontol B.V. and once approved by the Board of Palaeontol B.V. the annual budget and work plan shall then be tabled before the shareholders of Palaeontol B.V. for approval. Before Emir-Oil incurs commitment or expenditure for certain expenditures (in relation to drilling, facility expansion, construction of pipelines and workover exceeding USD3 million), an authorisation for expenditure shall first be delivered to the management board of Emir-Oil for its approval.

Funding of Palaeontol B.V.

Funding requirements pursuant to the budgets and work plans which have been duly approved by the shareholders shall be determined jointly by the General Director and the Finance and Commercial Manager and thereafter approved by the Board of Palaeontol B.V. Upon approval by the Board of Palaeontol B.V. a cash call to each of the shareholders shall be issued by the Board of Palaeontol B.V. and the shareholders shall advance funds in proportionate to their shareholding in Palaeontol B.V..

Transfer of shares

Restriction on share transfers

Shareholders of Palaeontol B.V. shall not, other than in accordance with the provisions of the articles of Palaeontol B.V., the SHA and other relevant agreements, sell, assign, transfer, create or permit to subsist any trust, confer any option, right or interest, enter into any agreement, arrangement or understanding in respect of the voting rights or dividends or other rights or payments, create, transfer or decrease any economic interest in or otherwise dispose of any shares or any interest in or rights attaching to any shares of Palaeontol B.V..

Permitted transfers

Any shareholder of Palaeontol B.V. may at any time transfer shares of Palaeontol B.V. to its affiliates, provided that the transferee first enters into a deed of accession.

Right of pre-emption and tag-along rights

Each shareholder of Palaeontol B.V. may transfer some or all of their shares to any third party purchaser (not being a transfer to an affiliate) provided that the transferor shall offer to all other shareholders the shares proposed to be sold to the third party purchaser in accordance with the terms of the SHA. The non-selling shareholder(s) shall have the right either (a) to purchase all the shares (or the number of shares in proportionate to their existing shareholding if more than one existing shareholders are to accept the offer) proposed to be sold on the same terms offered by the third party purchaser or at the price determined in accordance with the SHA; or (b) to require the third party purchaser to purchase up to the pro rata portion of the shares held by it.

Default and termination

Events of Default

Events of default ("**Events of Default**") include the failure to provide funding and other shareholder duly gives notice that it wishes the failure to be an Event of Default; insolvency of the shareholder; material breach of the SHA; events otherwise stipulated to be an Event of Default in the articles of Palaeontol B.V. or in the SHA; a change of control of a shareholder of Palaeontol B.V. other than in the case of Reach Energy or MIEH. The defaulting shareholder shall be deemed to offer to all other shareholders all of its shares in Palaeontol B.V. at a price determined in accordance with the SHA.

Termination events

The SHA may be terminated until the earlier of the following:

(a) dissolution of Palaeontol B.V.;

(b) holding by one shareholder of one hundred per cent. (100%) of the shares of Palaeontol B.V.; or

(c) the agreement of all the parties to the SHA that it be terminated.

FINANCIAL INFORMATION OF PALAEONTOL B.V. GROUP

A summary of the financial information of Palaeontol B.V. group based on the audited consolidated financial statements of Palaeontol B.V. for the past two (2) FYEs ended 31 December 2014 and the latest unaudited results for the 9-month FPE 30 September 2015 are as follows:

	FYE 31 December						9-month FPE 30 September	
	(1)2012 (Unaudited)		2013 (Audited)		2014 (Audited)		2015 (Unaudited)	
	USD'000	(2)RM'000	USD'000	(2)RM'000	USD'000	(2)RM'000	USD'000	(2)RM'000
Revenue	88,279	272,738	126,443	398,422	121,452	397,549	41,108	155,372
Operating profit/(loss)	3,524	10,887	24,696	77,817	17,668	57,833	(8,567)	(32,380)
Profit/(loss) before taxation	3,794	11,722	14,797	46,625	13,705	44,861	(4,305)	(16,271)
Income tax (expense)/credit	(3,544)	(10,949)	2,449	7,717	(7,202)	(23,574)	(3,406)	(12,873)
Profit/(loss) after taxation	**250**	**772**	**17,246**	**54,342**	**6,503**	**21,286**	**(7,711)**	**(29,144)**
Operating profit/(loss) margin (%)	3.99	3.99	19.53	19.53	14.55	14.55	(20.84)	(20.84)
Profit/(loss) after taxation margin (%)	0.28	0.28	13.64	13.64	5.35	5.35	(18.76)	(18.76)
Shareholders' funds/NA	86,225	266,392	103,393	325,791	98,118	321,170	115,094	435,009
Total borrowings	200,956	620,854	232,211	731,697	273,590	895,542	285,537	1,079,216
Number of shares in issue	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000
NA per Palaeontol B.V. Share (USD/RM)	4.79	14.80	5.74	18.10	5.45	17.84	6.39	24.15
Gearing ratio (times)(3)	2.33	2.33	2.25	2.25	2.79	2.79	2.48	2.48

***Notes**:*

*(1) The financial information is extracted from the audited consolidated financial statements of Palaeontol B.V. for the FYE 31 December 2013 which include comparative information as required by International Accounting Standards 1, "Presentation of Financial Statements" in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("**IFRS 1**"). Such comparative information for the FYE 31 December 2012 is unaudited as prior to the FYE 31 December 2013, the Palaeontol B.V. Group did not prepare a complete set of financial statements as defined in IFRS 1. The Palaeontol B.V. Group prepared its consolidated financial statements in accordance with IFRS starting 2013. Accordingly, 1 January 2013 represents the first IFRS reporting date of Palaeontol B.V. Group in accordance with IFRS 1, "First-time adoption of IFRS".*

(2) *The presentation currency of the audited consolidated financial statements of Palaeontol B.V. are in USD and have been translated into RM for the purpose of this announcement using the following rates:*

Based on the yearly average of the exchange rate during the respective FYEs and FPE as follows:

FYE/FPE	***Average exchange rate (RM/USD)***
FYE 31 December 2012	3.0895
FYE 31 December 2013	3.1510
FYE 31 December 2014	3.2733
9-month FPE 30 September 2015	3.7796

(Source: BNM)

(3) *Computed based on total borrowings divided by shareholders' funds.*

Commentaries:

FYE 31 December 2013

Revenue increased by 43.23% or USD38.1 million from USD88.3 million for the FYE 31 December 2012 to USD126.4 million for the FYE 31 December 2013 mainly due to the significant increase in the sales volume for crude oil from 1.01 MMbbl to 1.56 MMbbl with an export and domestic sales volume growth of 42% and 155% respectively.

The operating profit margin and profit after taxation margin increased from 3.99% to 19.53% and 0.28% to 13.64% respectively. The significant improvement in the operating profit margin and profit after taxation margin are mainly due to the employment of first horizontal well in Kariman-113 that resulted in 3 to 6 times more in early production compared to the early production recorded from a typical vertical well. In 2003, Kariman-113 recorded a strong average daily production of 1,336 bbl/d. An additional ten (10) wells were drilled and this, coupled with the horizontal well drilling employed in Kariman-113 had boosted the average daily net production volume for crude oil from 2,787bbl in 2012 to 4,320bbl in 2013. With the higher daily net production volume for crude oil, unit cost per barrel of crude oil declined and thus, resulting in economies of scale.

FYE 31 December 2014

Revenue decreased marginally by 3.95% or approximately USD5.0 million in 2014 mainly due to a decline in the average realised oil price for crude oil from USD79.64/bbl in 2013 to USD63.34/bbl in 2014. The decline in the average realised crude oil price for the export and domestic sales were offset by the increase in the export and domestic sales volume of 13% and 57% respectively during the year.

In 2014, the average oil production for Emir-Oil was 5,201 bbl/d, representing an increase of 20.4% from 4,320 bbl/d in 2013.

The operating profit margin and profit after taxation margin declined from 19.53% to 14.55% and 13.64% to 5.35% respectively.

9-month FPE 30 September 2015

Revenue for the 9-month FPE 30 September 2015 amounted to USD41.1 million, of which 93.2% or USD38.3 million was derived from export crude oil sales at an average oil price of USD50.96/bbl and 3.2% or USD1.3 million was derived from local crude oil sales at an average oil price of USD12.06/bbl and USD1.5 million was derived from gas sales. The operating loss and loss after tax for the 9-month FPE 30 September 2015 was due to lower global oil price.