

## INDEPENDENT TECHNICAL EXPERT AND VALUATION REPORT (Cont'd)



## INDEPENDENT VALUATION REPORT

OF EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

Year	Oil Export	Oil Domestic	Gas Domestic	Revenue	Opex	Social Charges	MET	ERT	Export Duty	Property Tax	EBITDA	Capital Expenditure	CIT	EPT	Change in WC	Net Cash Flow
	US\$/bbl	US\$/bbl	US\$/McF	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
2016	37.50	16.67	0.77	19,617	(6,364)	(730)	(1,202)	(2,586)	(3,236)	(2,287)	3,211	(28,600)	(1,69)	(442)	13,481	(12,519)
2017	39.94	21.73	0.82	69,433	(13,131)	(444)	(4,171)	(9,044)	(10,737)	(4,436)	27,471	0	(1,413)	(3,581)	(20,310)	2,167
2018	45.68	24.19	0.89	80,175	(13,811)	(818)	(4,699)	(10,200)	(11,966)	(4,852)	33,831	(37,313)	(3,515)	(763)	20,605	12,845
2019	54.73	27.06	0.95	188,023	(26,536)	(810)	(11,125)	(28,557)	(27,809)	(5,054)	88,133	(33,163)	(10,898)	(6,372)	(10,014)	27,686
2020	60.50	29.52	1.01	247,808	(33,643)	(1,681)	(15,181)	(42,174)	(35,474)	(6,330)	113,324	(121,774)	(13,559)	(729)	45,647	22,910
2021	66.27	31.98	1.07	477,574	(41,082)	(1,513)	(29,018)	(80,928)	(67,324)	(6,404)	251,305	(69,005)	(31,605)	(13,482)	(39,820)	97,393
2022	71.04	34.03	1.13	494,599	(41,281)	(1,053)	(29,554)	(88,404)	(69,384)	(5,677)	259,246	(21,116)	(36,232)	(5,194)	(26,450)	123,500
2023	75.80	36.08	1.20	509,251	(42,172)	(1,057)	(29,854)	(90,423)	(71,120)	(5,028)	269,596	(21,538)	(46,476)	(57,149)	(374)	144,060
2024	79.56	37.72	1.27	473,706	(41,331)	(886)	(26,991)	(93,338)	(66,525)	(4,280)	240,353	(7,323)	(41,842)	(60,423)	(6,553)	124,213
2025	82.92	39.20	1.34	436,564	(41,074)	(934)	(24,159)	(85,417)	(61,837)	(3,745)	219,398	(14,939)	(38,137)	(56,542)	5,097	114,877
2026	84.57	39.98	1.43	388,975	(40,462)	(828)	(20,937)	(75,644)	(53,688)	(3,188)	194,228	(7,619)	(33,736)	(58,429)	(2,767)	91,678
2027	86.27	40.78	1.51	320,227	(36,259)	(722)	(16,826)	(62,233)	(43,304)	(2,675)	158,208	0	(27,298)	(48,914)	(1,070)	80,925
2028	87.99	41.60	1.60	270,694	(32,879)	(696)	(14,046)	(58,153)	(37,782)	(2,263)	124,874	0	(21,678)	(35,291)	2,553	70,459
2029	89.75	42.43	1.70	232,345	(30,071)	(597)	(12,063)	(49,913)	(31,793)	(1,925)	105,984	0	(18,532)	(29,379)	2,091	60,164
2030	91.55	43.28	1.80	185,823	(36,341)	(403)	(9,629)	(39,776)	(28,565)	(1,666)	69,443	0	(13,481)	(18,470)	2,230	39,722
2031	93.38	44.14	1.91	155,489	(24,930)	(326)	(8,078)	(33,345)	(23,477)	(1,460)	63,872	0	(11,198)	(13,631)	1,694	40,737
2032	95.24	45.03	2.02	140,624	(23,099)	(326)	(7,310)	(30,170)	(20,825)	(1,280)	57,615	0	(10,213)	(11,903)	1,185	36,684
2033	97.15	45.93	2.14	126,631	(22,143)	(326)	(6,593)	(28,489)	(18,403)	(1,125)	49,553	0	(8,797)	(9,124)	754	32,386
2034	99.09	46.85	2.27	108,639	(22,135)	(326)	(5,669)	(24,443)	(15,480)	(997)	39,588	0	(6,971)	(6,390)	369	26,596
2035	101.07	47.78	2.41	87,145	(22,054)	(326)	(4,557)	(19,571)	(13,736)	(900)	26,000	0	(4,395)	(3,088)	521	19,038
2036	103.10	48.74	2.55	54,006	(11,875)	(315)	(2,863)	(12,160)	(8,367)	(843)	(88,368)	0	(33)	0	849	(87,552)

Figure 4-5 – Proved Plus Probable Reserves (2P) Cash Flow Summary



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INDEPENDENT VALUATION REPORT  
OF EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

# APPENDIX I

## GLOSSARY OF TECHNICAL TERMS



## INDEPENDENT VALUATION REPORT

OF EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016



## INDEPENDENT VALUATION REPORT

OF EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

## APPENDIX - GLOSSARY OF TECHNICAL TERMS

1C	Low Estimate Contingent Resources
2C	Best Estimate Contingent Resources
3C	High Estimate Contingent Resources
1P	Proved Reserves
2P	Proved plus Probable Reserves
3P	Proved plus Probable plus Possible Reserve
Acre	Area in acre
AOF	Absolute Open Flow
API	American Petroleum Institute
B	billion
bbl	barrels
bbl/d	barrels per day
BBTUD	Billions of British Thermal Units per Day
bcpd	barrels of condensate per day
BOE	barrel of oil equivalent
$B_g$	gas formation volume factor
$B_{gi}$	gas formation volume factor (initial)
$B_o$	oil formation volume factor
$B_{oi}$	oil formation volume factor (initial)
$B_w$	water volume factor
bcpd	barrels of condensate per day
bopd	barrels of oil per day
BTU	British Thermal Unit
Bscf	billions of standard cubic feet
bwpd	barrels of water per day
°C	Temperature in Centigrade
cc	cubic centimeter
CGR	condensate gas ratio
cP	Viscosity in centiPoise
DCQ	daily contracted quantity direct
DST	Drill Stem Test
Entitlement Volumes	the volumes of oil and/or gas which a Contractor receives under the terms of a PSC
ELT	Economics Limit Test
EUR	Estimated Ultimate Recovery



## INDEPENDENT VALUATION REPORT

OF EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**APPENDIX - GLOSSARY OF TECHNICAL TERMS**

°F	Temperature in Fahrenheit
FBHP	flowing bottom hole pressure
FTHP	flowing tubing head pressure
FTHT	flowing tubing head temperature
ft	Length in feet
ft <sup>3</sup>	Volume in cubic feet
ftSS	depth in feet below sea level
GEF	Gas Expansion Factor
GIP	Gas in Place
GIIP	Gas Initially in Place
gm	Weight in grams
gm/cc	Density in grams per cubic centimeter
GOR	gas/oil ratio
GRV	gross rock volume
GSA	Gas Sales Agreement
GWC	gas water contact
lb	Weight in pounds
lb/cuft	Density in pounds per cubic feet
KB	Kelly Bushing
km	Length in kilometers
km <sup>2</sup>	Area in square kilometers
km <sup>3</sup>	Volume in cubic kilometers
m	Length in meter
MM	million
MM\$	million US dollars
MD	measured depth
mD	permeability in millidarcies
MDT	Modular Formation Dynamics Tester
m <sup>3</sup>	cubic meters
m <sup>3</sup> /d	cubic meters per day
MMscf/d	millions of standard cubic feet per day
Money of the Day	Cash values calculated to include the effect of inflation
NTG	net to gross ratio
NPV	Net Present Value

## INDEPENDENT TECHNICAL EXPERT AND VALUATION REPORT (Cont'd)



## INDEPENDENT VALUATION REPORT

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**APPENDIX - GLOSSARY OF TECHNICAL TERMS**

OWC	oil water contact
P1	Proved Reserves
P2	Probable Reserves
P3	Possible Reserves
P <sub>10</sub>	Probability of 10% chance the value would be larger than the reported and considered high value
P <sub>50</sub>	Probability of 50% chance the value would be larger than the reported and considered best value
P <sub>90</sub>	Probability of 90% chance the value would be larger than the reported and considered low value
P <sub>b</sub>	bubble point pressure
P <sub>c</sub>	capillary pressure
petroleum	deposits of oil and/or gas
phi	porosity fraction
phia	Effective porosity fraction
p <sub>i</sub>	initial reservoir pressure
PRMS	Petroleum Resources Management System (SPE Terminology)
PSC	Production Sharing Contract
psi	pounds per square inch
psia	pounds per square inch absolute
psig	pounds per square inch gauge
rcf	Volume in reservoir cubic feet
Real	Cash values calculated to exclude the effects of inflation
scf	standard cubic feet measured at 14.7 pounds per square inch and 60°F
scfd	standard cubic feet per day
scf/stb	standard cubic feet per stock tank barrel
stb	stock tank barrels measured at 14.7 pounds per square inch and 60°F
stb/d	stock tank barrels per day
stb/MMscf	stock tank barrels per million standard cubic feet measured at 14.7 pounds per square inch and 60°F
STOIIP	stock tank oil initially in place
S <sub>w</sub>	water saturation
US\$	United States Dollars
TAC	Technical Assistance Contract
TAN	Total Acid Number (of oil)



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**APPENDIX - GLOSSARY OF TECHNICAL TERMS**

Tscf	trillion standard cubic feet
TVDSS	true vertical depth (sub-sea)
TVT	true vertical thickness
TWT	two-way time
US\$	United States Dollar
V <sub>sh</sub>	shale volume
WI	Working Interest
WC	water cut
WHP	Well Head Pressure
φ	porosity





INDEPENDENT VALUATION REPORT  
OF EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**APPENDIX II**

**RESERVES AND RESOURCES**

**DEFINITIONS AND GUIDELINES**



**INDEPENDENT VALUATION REPORT**  
OF EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

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**INDEPENDENT TECHNICAL EXPERT AND VALUATION REPORT (Cont'd)**


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**INDEPENDENT VALUATION REPORT**

OF EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**RESERVES AND RESOURCES DEFINITIONS AND GUIDELINES**

Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE)

**Petroleum Resources Management System (PRMS)**
**Definitions and Guidelines (8)**
**Preamble**

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be-discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

International efforts to standardize the definition of petroleum resources and how they are estimated began in the 1930s. Early guidance focused on Proved Reserves. Building on work initiated by the Society of Petroleum Evaluation Engineers (SPEE), SPE published definitions for all Reserves categories in 1987. In the same year, the World Petroleum Council (WPC, then known as the World Petroleum Congress), working independently, published Reserves definitions that were strikingly similar. In 1997, the two organizations jointly released a single set of definitions for Reserves that could be used worldwide. In 2000, the American Association of Petroleum Geologists (AAPG), SPE and WPC jointly developed a classification system for all petroleum resources. This was followed by additional supporting documents: supplemental application evaluation guidelines (2001) and a glossary of terms utilized in Resources definitions (2005). SPE also published standards for estimating and auditing Reserves information (revised 2007).

These definitions and the related classification system are now in common use internationally within the petroleum industry. They provide a measure of comparability and reduce the subjective nature of resources estimation. However, the technologies employed in petroleum exploration, development, production and processing continue to evolve and improve. The SPE Oil and Gas Reserves Committee works closely with other organizations to maintain the definitions and issues periodic revisions to keep current with evolving technologies and changing commercial opportunities.

The SPE PRMS document consolidates, builds on, and replaces guidance previously contained in the 1997 Petroleum Reserves Definitions, the 2000 Petroleum Resources Classification and Definitions publications, and the 2001 "Guidelines for the Evaluation of Petroleum Reserves and Resources"; the latter document remains a valuable source of more detailed background information.

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources. It is expected that SPE PRMS will be supplemented with industry education programs and application guides addressing their implementation in a wide spectrum of technical and/or commercial settings.

It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should be

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8 These Definitions and Guidelines are extracted from the Society of Petroleum Engineers / World Petroleum Council / American Association of Petroleum Geologists / Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) Petroleum Resources Management System document ("SPE PRMS"), approved in March 2007, and available, free and in full, at: [www.spe.org/spe-app/spe/industry/reserves/index.htm](http://www.spe.org/spe-app/spe/industry/reserves/index.htm)

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 INDEPENDENT TECHNICAL EXPERT AND VALUATION REPORT (Cont'd)
 

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clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

### RESERVES

***Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.***

Reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status. To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented. To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

### Proved Reserves

*Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.*

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. The area of the reservoir considered as Proved includes:

- the area delineated by drilling and defined by fluid contacts, if any, and
- adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.

In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved Reserves (see "2001 Supplemental Guidelines," Chapter 8). Reserves in undeveloped locations may be classified as Proved provided that the locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive. Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations. For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.

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**INDEPENDENT TECHNICAL EXPERT AND VALUATION REPORT (Cont'd)**

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**INDEPENDENT VALUATION REPORT**

OF EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**Probable Reserves**

*Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.*

It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate. Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.

**Possible Reserves**

*Possible Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves*

The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate. Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.

**Probable and Possible Reserves**

(See above for separate criteria for Probable Reserves and Possible Reserves.)

The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects. In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area. Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources. In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.

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**INDEPENDENT TECHNICAL EXPERT AND VALUATION REPORT (Cont'd)**

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**INDEPENDENT VALUATION REPORT**

OF EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**CONTINGENT RESOURCES**

*Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.*

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

**PROSPECTIVE RESOURCES**

*Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.*

Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.

**Prospect-** A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.

Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.

**Lead-** A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.

Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.

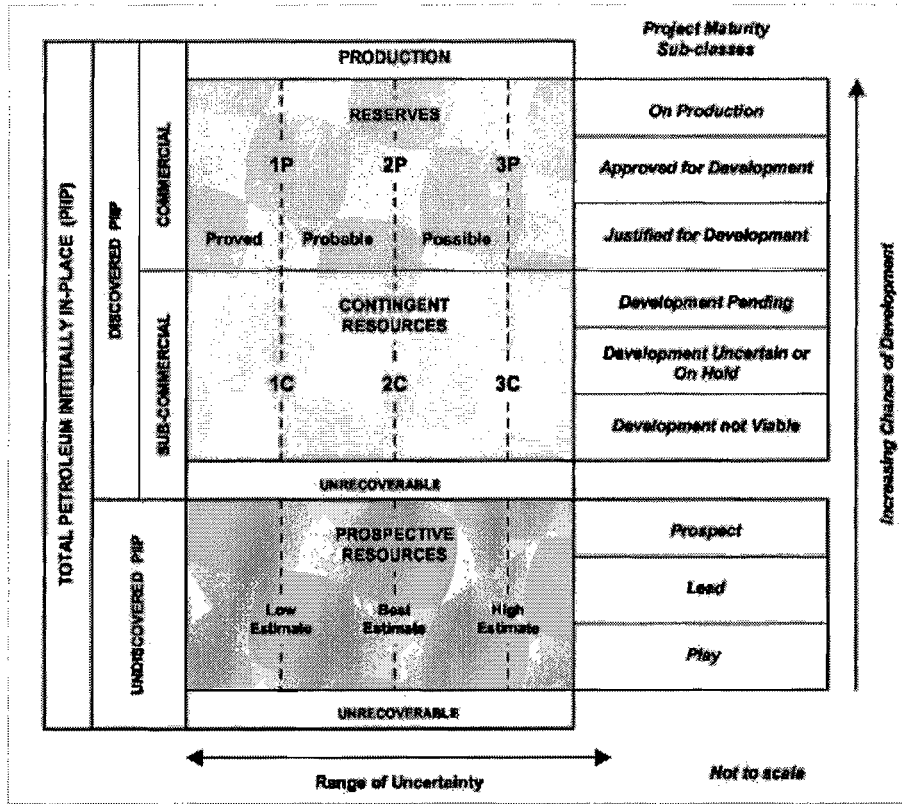
**Play-** A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.

Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

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**INDEPENDENT VALUATION REPORT**  
OF EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**END OF INDEPENDENT VALUATION REPORT**



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INDEPENDENT UPSIDE SUMMARY REPORT

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**INDEPENDENT UPSIDE POTENTIAL  
SUMMARY REPORT**

**EMIR-OIL CONCESSION BLOCK,  
ONSHORE KAZAKHSTAN**

**AS OF JULY 1, 2016**

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**INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)**


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Project Ref: ECV2198

September 20, 2016

Dear Sirs,

**INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT EMIR-OIL CONCESSION BLOCK,  
 ONSHORE KAZAKHSTAN**

In response to Reach Energy Berhad's ("REB" or the "Company") request, RPS Energy Consultants Limited ("RPS") has completed a technical and commercial due diligence of the Emir-Oil Concession Block ("Asset" or the "Property") indirectly owned by MIE Holdings Corporation ("MIE") in relation to MIE's 100% working interest in Emir-Oil LLP ("Emir-Oil"). The Emir-Oil Concession Block, located onshore Kazakhstan consists of 850.3 square kilometers ("km<sup>2</sup>") petroleum concession areas divided into four production and one exploration contract areas. Subsequently, RPS has undertaken an independent valuation and conducted a Reserves evaluation of the Emir-Oil Concession Block.

RPS has previously evaluated the Asset in the following reports:

- 1) "Independent Valuation Report of Emir-Oil Concession Block, Onshore Kazakhstan as of January 1, 2016" by RPS Energy Consultants Limited (Project: ECV1980002). This report used various data provided by the company including third party reserves reports prepared by Chapman Petroleum Engineering Ltd, the latest of which was the January 1, 2015 report entitled "Reserve and Economic Evaluation Oil and Gas Properties ADEK Block Republic of Kazakhstan Owned by MIE Holdings Corporation January 1, 2015" dated March 4, 2015 by Chapman Petroleum Engineering.
- 2) "Independent Upside Potential Report of Emir-Oil Concession Block, Onshore Kazakhstan as of January 1, 2016" by RPS Energy Consultants Limited (Project: ECV1980001), hereinafter referred to as the "IRR Report". This report used the same data sources as (1) to investigate the upside potential for the Asset
- 3) "Independent Valuation Report of Emir-Oil Concession Block, Onshore Kazakhstan as of July 1, 2016" by RPS Energy Consultants Limited, (Project: ECV2198), hereinafter referred to as the "IVR Report". For this updated evaluation the Company provided RPS with the well production data in Excel file format. Additionally, the Company provided various third party reserves reports prepared by Chapman Petroleum Engineering Ltd. RPS derived its primary data source and formed its audit opinion based on the data associated with the report "Evaluation of Reserve and Prospective Resources Oil and Gas Properties, ADEK Block (Licence Area), Mangistau Oblast, Republic of Kazakhstan for MIE Holdings Corporation, December 31, 2015 (January 1, 2016), Chapman Petroleum Engineering Ltd.", dated March 9, 2016 by Chapman Petroleum Engineering Ltd.

It should be noted that the Chapman reports were only used as one of the sources of data and other data provided included production and exploration contracts, commercial data and economic models, selected well reports, well tests and PVT data, electric well logs LAS files, selected wells petrophysical

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



## INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT

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interpretations and other relevant subsurface data. RPS has used these data as a source of information to form its audit opinion and derive at its interpretation and conclusions

Upon completion of the IVR Report the Company requested RPS to update the IRR Report based on the data and findings of the IVR Report. RPS undertook this upside potential study following the signing of a Letter of Engagement under a Call Off Agreement dated January 30, 2015 and Call Off Order dated August 3, 2016.

**INTRODUCTION**

Reach Energy Berhad had on March 5, 2016 announced that the Company has entered into a tri-partite conditional sale and purchase agreement with Palaeontol Cooperatief U.A. ("Palaeontol COOP") and MIE to acquire 60% equity interest in Palaeontol B.V. (a wholly-owned subsidiary of Palaeontol COOP which in turn is an indirect wholly-owned subsidiary of MIE) and 60% of the shareholder loans in Palaeontol B.V. from MIE for a total cash consideration of USD154.9 million, subject to adjustments ("Proposed Acquisition"). Palaeontol B.V. is an investment holding company and is the sole interest holder of Emir-Oil.

Emir-Oil is currently the Operator of the Emir-Oil Concession Block with 100% working interest in the Property. The Asset is located in the onshore Mangyshlak Basin of Western Kazakhstan and covers an area of 850.3 km<sup>2</sup>, which contains the following:

- Four oil fields namely: Aksaz, Dolinnoe, Kariman, and Emir which have been put into production under four separate subsoil use contracts for the production of hydrocarbons.
- According to MIE, two discoveries namely North Kariman and Yessen fields are currently under "recoverable reserves assessment" for development approval
- Six prospects have been identified by the Operator outside the current production contracts namely Borly, Begesh, East Saura, Aidai, North Aidai and Tanirbergen. Additionally, four prospects have been mapped within and surrounding the current production contracts namely Aksaz, Dolinnoe, Emir and Kariman.

As stated earlier, RPS has previously reviewed the geological, geophysical and petrophysical aspects of the Asset that are used to estimate ranges of "static" volumes. Addressing the range of uncertainty associated with the mapping and geometry of the structure and sedimentology of the oil-bearing reservoirs, the petrophysical rock parameters and the fluid properties of the oil has permitted RPS to estimate a range of Stock Tank Oil Initially In-Place ("STOIIP") for each of the reservoirs within the Asset. The static STOIIP volumes have been used to benchmark the dynamic recoverable volumes in order to identify potential upsides in the further development of the Asset. RPS has analysed the performance of the producing fields under the current drive mechanisms and has made forecasts relating to the estimated Low, Best and High future production, costs, prices and cash flow. RPS has estimated the volumes of the Proved Reserves ("1P"), Proved plus Probable Reserves ("2P") and Proved plus Probable plus Possible Reserves ("3P") for the Asset. These estimates were based on data and information available up to December 2015. The previous report was based on production data available up to and including December 31, 2015, and had a Reference Date of January 1, 2016.

Based on RPS's previous evaluation of the Asset and at the request of the Company, RPS has for this report:

- Reviewed the upside potential of additional future infill drilling locations and workover plans for all reservoirs.
- Reviewed the potential of additional developments in the block, potential additional revenue streams, as well as various Capital Expenses ("Capex") savings.
- Reviewed the upside potential from secondary recovery of the oil accumulations. In order to maximize the commercial chance of successes, RPS has used the existing well stock by converting

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**INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)**


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suitable wells to injectors/producers and has considered the well life of existing wells as an important component for deciding when to convert those wells. For the minor reservoirs, waterflood performance was estimated based on the calculated performance of the major reservoirs.

- Reviewed the potential Prospects and the estimated hydrocarbon potential of the prospects.

The report is based on data and information, including production data available up to and including June 30, 2016, and has a Reference Date of July 1, 2016. The data set included: geological, geophysical and engineering data together with reports, presentations and financial information pertaining to the contractual and fiscal terms applicable to the Asset. In carrying out this review, RPS has relied solely upon this information.

RPS has applied its expectation of the long term Brent Oil price by using RPS Energy's opinion of the future crude oil price at the Reference Date of July 1, 2016, which is based on a long term forward curve (year 2016 to year 2024) and US\$80 per barrel flat real (at 2% inflation per annum) thereafter.

Oil volumes are reported in Millions of stock tank barrels ("MMstb"). All volumes are reported as gross (100%) interest, net working interest, and MIE's ("Contractor's") net entitlement, and all lie entirely within the permit boundary of the Asset.

A list of abbreviations and their definitions as used in this report is included in **Appendix I**. Volumes presented in this report have been estimated using the March 2007 SPE/WPC/AAPG/SPEE Petroleum Resources Management System ("PRMS") as the standard for classification and reporting (see **Appendix II**).

**SUMMARY**

The update was completed during a two-month period between July and August 2016.

This study was based on technical data, future development plans and resource estimates provided by MIE to RPS, as well as RPS's previous work on the Asset. The approach in conducting this study has been to focus on identifying various opportunities that would require the least investment in the near future and still significantly enhance the monetary value of the Asset. The opportunities evaluated included:

Primary Upsides: (Table 1)

1. Primary & LPG Extraction/Sales (Q1, 2019) – Project approved by authorities as part of Central Processing ("CPF") Phase I project and LPG extraction facilities already installed. Currently awaiting commissioning.
2. Reduced Transportation Tariff (Q1, 2019) – This is part of the approved CPF Phase I project including the oil and gas tie-ins to KazTransOil ("KTO") / KazTraGas ("KTG") trunklines.
3. Well Cost Reduction (2016) – Part of normal operating activities and does not require approval from authorities.

Secondary Upsides (Table 2)

4. Waterflooding (2022) – Approval from authorities required along with further studies and budget allocation.
5. Higher Export Crude Mix (2016) – Requires approval from authorities. No additional cost involved.
6. Improved Gas Price (after 2020) – Approval from authorities required. Once the 35km gas pipeline is tied-in to the KTG trunkline, higher volumes of sales gas can be exported at a higher price. No additional CAPEX involved.

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



## INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT

EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

7. Improved Oil Price (2016 onwards) – No additional cost or approval from authorities required.
8. Abandonment Cost (2036) – Approval from authorities required.
9. Potential Discovery of D-8 and Y-3 Discoveries (2H, 2016) – Approved by authorities for drilling and CAPEX allocated.
10. Borly Structure (2021) – Approval from authorities required along with further studies and budget allocation.
11. Prospective Resources (2022) -- Approval from authorities required along with further studies and budget allocation.
12. Production Beyond 2036 (>2036) – Approval from authorities required along with further studies and budget allocation.

Upside development projects included the assumption of successful commercial discoveries in D -8 and Y-3 wells and Borly structure being developed. Commercial upside potential evaluated both well and abandonment cost reductions, transportation tariff saving, improved oil and gas pricing, higher export crude mix, as well as assuming that the license period may be extended past the license expiry date of 2036. In terms of additional revenue streams, in addition to the oil and gas sales volumes, RPS has identified the extraction of LPG from the gas product stream as an upside revenue stream for the Asset and has estimated these volumes.

After an initial review of the various options (drilling horizontal wells etc.) it became clear that waterflooding the oil reservoirs would result in significant incremental oil volumes. The principal reason for waterflooding an oil reservoir is to increase the oil production rate and the recoverable oil. This is accomplished by injecting water into the reservoir, via water injection wells, in order to increase the reservoir pressure and to displace the oil. Water from the injection wells physically sweep the reservoir and drive the oil to the adjacent production wells. Waterflooding is a standard secondary recovery process used in the oil industry to increase oil recovery. Hence, the focus of the technical work has been the development of a waterflood plan. Emphasis was placed on the performance of currently producing wells, reservoir property data, fluid property data, and identification of potential waterflood patterns for the various reservoirs. The aim was to outline a potential waterflood development that is sufficiently detailed to form a robust estimation of the future production under waterflooding. This was accomplished by determining the upside potential from secondary recovery of the large accumulations in order to maximize the commercial chance of successes. RPS used the existing well stock by converting suitable wells to injectors/producers and has considered the well life of existing wells as an important component for deciding when to convert those wells. For the minor reservoirs, waterflood performance was estimated based on the calculated performance of the major reservoirs. RPS investigated both pattern and line drive waterflood patterns, with a five spot pattern selected due to the relatively low permeability of the reservoirs. For the identified potential waterflood patterns, RPS has generated well maps identifying the patterns as well as classifying wells as: new producers or injectors, existing producer, or existing producers converted to injectors. Waterflood phasing considered the well life of existing wells as an important component for deciding when to convert wells. Finally RPS has generated pattern water flood production profiles for the Low, Best and High waterflood performances based on sensitivity analyses of the reservoir parameter, costs, prices and cash flow.

RPS considered the Asset to be in its relatively early stages of production to warrant further investigation into tertiary or Enhanced Oil Recovery ("EOR") schemes post waterflooding.

In addition to the waterflood potential, RPS reviewed the near-term exploration of the Asset. RPS did not have sufficient information to form an independent evaluation of the prospects identified by MIE, and have instead relied on the information provided by Chapman<sup>1</sup>. Chapman has estimated an oil resource of

<sup>1</sup> "Evaluation of Reserve and Prospective Resources Oil and Gas Properties, ADEK Block (Licence Area), Mangistau Oblast, Republic of Kazakhstan for MIE Holdings Corporation, December 31, 2015 (January 1,

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**INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)**

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167.2 million to 287.6 million of Unrisked Prospective Resources and has estimated the Geological Chance of Success ("GCOS") of discovering these resources to range from 18% to 34%, depending on the prospect.

All the 12 identified upside potential cases for the Emir -Oil Concession Block have been classified as either Primary or Secondary Upside scenarios based on REB's ability to control the implementation and outcome of the projects. The Primary Upside scenarios are those cases that RPS considers there is a reasonable expectation that REB can implement the plans for these scenarios. The Secondary Upside scenarios are those cases in which either there is greater uncertainty in the outcome of the plan (drilling prospects, for example) or where REB has little or no control on the outcome (oil price increases, for example).

Previously<sup>1</sup>, RPS has estimated, based on the enterprise value of the offered price of USD 308 million (100%) and the transaction structure including the payment schedule of the consideration, the project Internal Rate of Return ("IRR") for the investment at 18.7%. The economic results for the Primary Upside scenarios are presented in **Table 1** and the table indicates the total upside Net Present Value ("NPV"), discounted at 10%, for the Asset to be US\$ 626 million, resulting in an IRR of 22.9%. **Table 2** shows the same information as **Table 1** but for the Secondary Upside projects. The table indicates that there is potentially an additional 17.2% of IRR that may be captured from these projects. **Figure 1** shows the incremental NPV of the various projects and **Figure 2** shows the same plot but for the incremental IRR. The evaluation results demonstrate attractive upside potential above 20% IRR.

Based on the study, it is RPS's opinion that the estimates of total remaining recoverable hydrocarbon volumes form a reasonable representation of the future potential of the Asset. The reported hydrocarbon resources are estimates based on professional judgment and are subject to future revisions, upward or downward, as a result of future planned operations or as additional information become available.

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2016), Chapman Petroleum Engineering Ltd.", dated March 9, 2016 by Chapman Petroleum Engineering Ltd.

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**Table 1 – Summary of Net Present Values and Internal Rate of Return for Primary Upside Scenarios as of July 1, 2016**

Emir-Oil Concession Block	NPV @ 10% (US\$ MM)		INTERNAL RATE OF RETURN	
	Net to MIE		Net to MIE	
	2P		2P	
		Incremental		Incremental
Base Case <sup>1</sup>	511		18.7%	
Primary and LPG Sales <sup>2</sup>	578	67	21.1%	2.4%
Transportation Tariff Saving <sup>3</sup>	536	25	19.6%	1.0%
Well Cost Reduction <sup>4</sup>	533	23	19.5%	0.8%
<b>Total</b>		<b>115</b>		<b>4.2%</b>
<b>Cumulative</b>	<b>626</b>		<b>22.9%</b>	

**Notes:**

- 1) Previously report numbers as per Independent Valuation Report of Emir-Oil Concession Block Petroleum Reserves, as of July 1, 2016 (Project: ECV2198).
- 2) Upside potential based on assuming that LPG sales start from January 2019 onwards and no other changes made to the economic model. MIE Holding has applied what we believe is the net back LPG sales price of US\$800/t in their valuation. MIE Holding also confirmed that no further capital investment is required in order to supply the LPG in future. However, RPS believes that there will be some investment required to handle greater LPG sales volumes in the future. Hence, RPS has assumed 80% of this net back price in this valuation.
- 3) Assumed possible reduction in transportation tariff of approximately 19% due to alternative pipeline for crude oil export and no other changes made to the economic model. This is based on an alternative crude oil export route under an all pipeline option via Uzen - Atyrau - Samara pipeline system. The Company anticipates that this is achievable from January 2019 with the new 25-km oil pipeline tie in to the KTO trunkline.
- 4) Upside potential based on assuming the drilling Capex of US\$5.2 million per well in the evaluation with no other changes made to the economic model. This is achievable from wells to be drilled from 2016 onwards based on benchmarking in the vicinity with other onshore operating companies.



## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**Table 2 – Summary of Net Present Values and Internal Rate of Return for Secondary Upside Scenarios as of July 1, 2016**

Emir-Oil Concession Block	NPV @ 10% (US\$ MM)		INTERNAL RATE OF RETURN	
	Net to MIE		Net to MIE	
	2P		2P	
		Incremental		Incremental
Base Case <sup>1</sup>	511		18.7%	
Waterflooding <sup>2</sup>	693	115	24.1%	3.0%
Higher Export Crude Mix <sup>3</sup>	523	12	19.1%	0.4%
Improve Gas Price <sup>4</sup>	538	27	19.6%	1.0%
Improve Oil Price <sup>5</sup>	661	150	24.2%	5.6%
Abandonment Cost Reduction <sup>6</sup>	520	9	18.9%	0.2%
Potential Discovery of D-8 and Y-3 <sup>7</sup>	527	16	19.3%	0.6%
Borly Structure <sup>8</sup>	516	6	18.9%	0.2%
Prospective Resources <sup>9</sup>	678	167	23.6%	4.9%
Production Beyond 2036	548	37	20.0%	1.4%
<b>Total</b>		<b>539</b>		<b>17.2%</b>

**Notes:**

- 1) Previously report numbers as per Independent Valuation Report of Emir-Oil Concession Block Petroleum Reserves, as of July 1, 2016 (Project: ECV2198).
- 2) Upside potential based on assuming waterflood projects are implemented in four oil fields with no other changes made to the economic model. A total incremental Capex of US\$ 275 million (producers and injectors drilling; facilities upgrade) and incremental Opex of US\$ 90 million are estimated. The Waterflood Incremental NPV and IRR values are incremental to the Primary and LPG Sales case and not the Base case.
- 3) Upside potential based on assuming that, 89% of the produced crude is exported in the evaluation with no other changes made to the economic model.
- 4) Upside potential based on assuming a gas price of US\$2.50/Mscf after 2020 in the evaluation with no other changes made to the economic model.
- 5) Upside potential based on assuming a Brent Long Term oil price of US\$95/bbl in the evaluation with no other changes made to the economic model.
- 6) Assumed 1% of total Capex instead of the original assumption of 10% of total Capex as per MIE's estimates and no other changes made to the economic model.
- 7) Based on the area estimate of the Dolinnoe Prospect (D-8), it is assumed that if it is successfully discovered, the EUR will be approximately similar to the Dolinnoe Field's Best Estimate EUR of 13 MMstb. Similarly, based on the area estimate of the Yessen Prospect (Y-3), it is assumed that if it is successfully discovered, the EUR will be approximately similar to the Yessen Field's Best Estimate EUR of 9.4 MMstb.
- 8) Unrisked Prospective Resources based on Chapman's Probable Reserve estimate of 7.8 MMstb.
- 9) Excluding Dolinnoe Prospect (D-8).

INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

Figure 1 – Summary of Net Present Value (NPV) for Various Upside Scenarios as of July 1, 2016

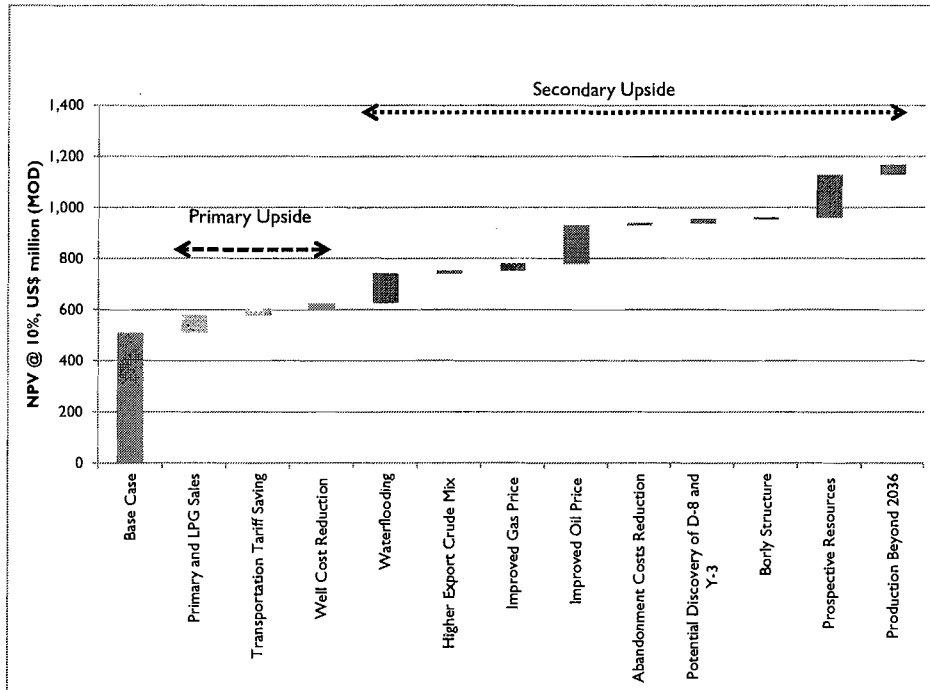
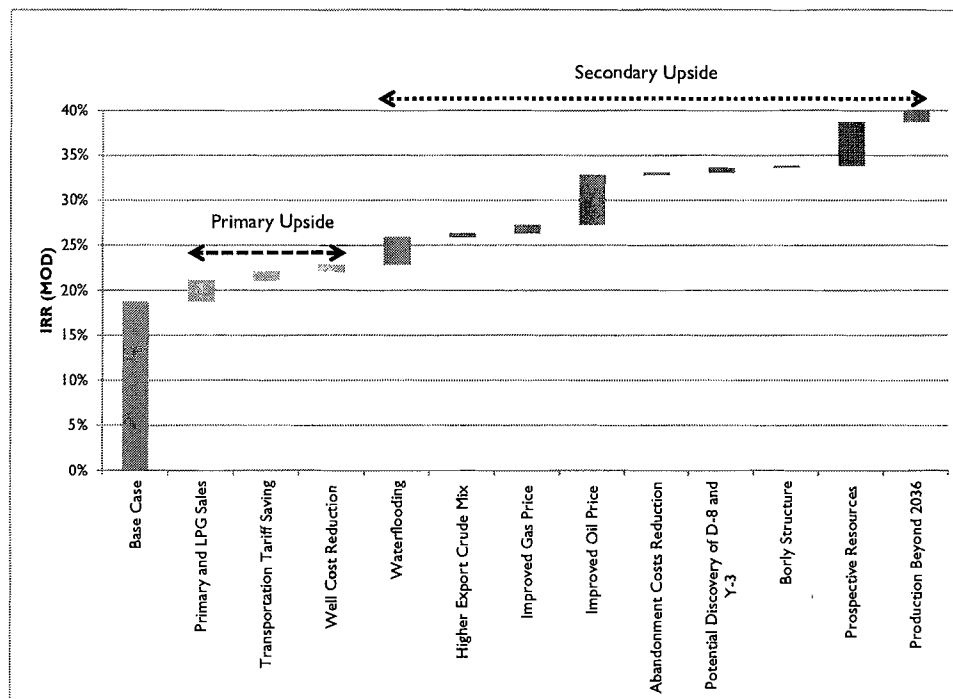


Figure 2 – Summary of Internal Rate of Return (IRR) for Various Upside Scenarios as of July 1, 2016



INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)

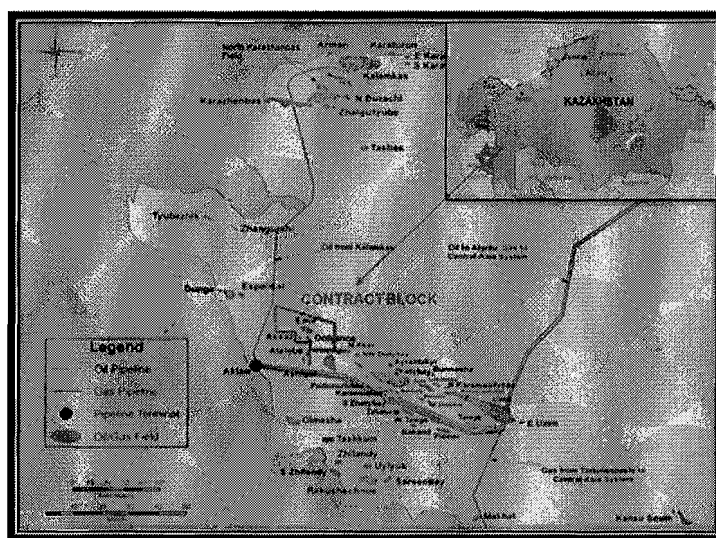


INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
 EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

DISCUSSION

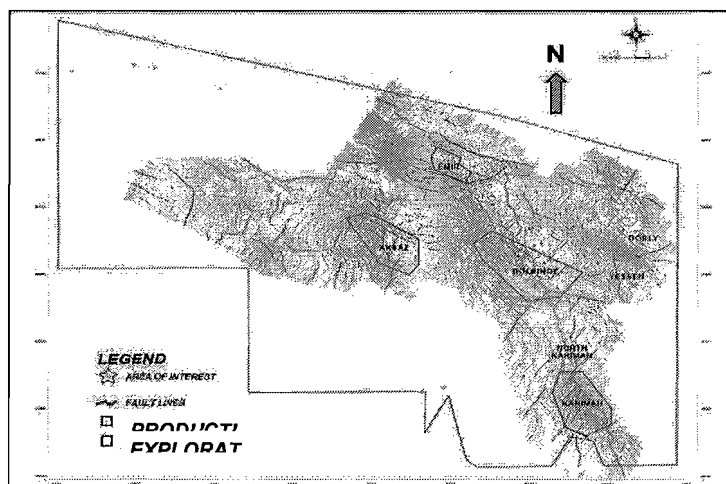
The Emir-Oil Concession Block ("Asset"), located onshore Kazakhstan being reviewed and audited by RPS consists of the following: Kariman oil field Production Contract, Dolinnoe oil field Production Contract, Aksaz gas-condensate field Production Contract, Emir oil field Production Contract, North Kariman oil field Discovery, Yessen oil field Discovery, and the prospects under the exploration contract. The Kariman, Dolinnoe, North Kariman and Aksaz fields are currently on production. The Asset location map is included in (Figure 3).

Figure 3 – Asset Location Map



The Asset production contracts and exploration contract maps are provided in Figure 4 and the summary of contracts for each field is provided in Table 3.

Figure 4 – Asset Production Contracts and Exploration Contract Map



Source Modified from: Reserve and Economic Evaluation Oil and Gas Properties ADEK Block Republic of Kazakhstan Owned By MIE Holdings Corporation January 1,

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



## INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT

EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

Table 3 – Overview of Emir-Oil Concession Block Production and Exploration Contracts

Contract Names	Acreage (km <sup>2</sup> )	Contract Type	Effective Date	Duration (Years)	MIE's Net Working Interest
Kariman	12.24	Production	09 Sep 2011	25	100%
Dolinnoe	18.24	Production	09 Sep 2011	25	
Aksaz	11.48	Production	09 Sep 2011	25	
Emir	3.53	Production	01 Mar 2013	17	
Exploration	804.81	Exploration	The contract was extended for two years from 9 January 2015 to 9 January 2017.		

Aksaz gas field was discovered in 1995 and began production in 2005. As of June 30, 2016, a total of seven wells have been drilled in the field, of which three are producing and four are shut-in. Current production is approximately 168 stb/day of condensate, and the cumulative condensate production as of June 30, 2016 is 979 Mstb.

Dolinnoe field was discovered in 1994 and began production in 2004. As of June 30, 2016, a total of ten wells have been drilled in the field, with five wells producing and four suspended and a new exploration/appraisal well (Dolinnoe-8) has been spudded on June 29, 2016 and is currently being drilled. Current production is approximately 465 stb/day of oil, and the cumulative oil production as of June 30, 2016 is 1,923 Mstb.

Emir oil field was discovered in 1996 and put into production in 2004. As of June 30, 2016, four wells have been drilled with none currently producing. The cumulative oil production as of June 30, 2016 is 21 Mstb.

Kariman oil field was discovered in 2006 and began production in March 2007. As of June 30, 2016, a total of 22 wells have been drilled in the field of which four are currently on production and 18 shut-in. Current production is approximately 1,927 stb/day of oil, and the cumulative oil production as of June 30, 2016 is 7,306 Mstb.

North Kariman-2 well has been producing since June 2012 on pilot oil production under an exploration contract. The produced oil is piped into the current production system. As the exploration contract is expiring in January 2017, the Operator is currently intending to apply to extend the current Kariman production contract area to the north to include North Kariman Field. As of June 30, 2016, a total of two wells have been drilled in the field and one is currently producing. Current production is approximately 482 stb/day of oil, and the cumulative oil production as of June 30, 2016 is 621 Mstb.

As of June 30, 2016, a total of three wells have been drilled in the field where two are currently temporarily shut-in and a new exploration/appraisal well (Yessen-3) has been spudded on June 29, 2016 and is currently being drilled. The field has been on production since April 2013 on pilot oil production under the exploration contract. As the exploration contract is expiring in January 2017, the Operator is currently intending to apply to extend the Dolinnoe production license area to the east to include the Yessen Field. As of June 30, 2016, a total of three wells have been drilled in the field where two are currently temporarily shut-in and a new exploration/appraisal well (Yessen-3) has been spudded on June 29, 2016 and is currently being drilled. The cumulative oil production for the field is 40 Mstb.

The Operator does not record the produced gas volumes for all the above fields consistently. There were only some periods where the produced gas was recorded. However, there were also lapsed periods where the produced gas was not recorded. Therefore, RPS is unable to report the cumulative gas volumes, which have been produced from the aforementioned fields.

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



## INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT

EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**Primary Recoverable**Development Plan

Currently the Operator rents the surface crude oil storage and processing facilities. The oil storage facilities were expanded in 2010 resulting in the current storage capacity of 54,100 barrels and a processing capacity of 7,540 bbl oil per day. However, the Operator's share of processing capacity is only 6,458 bbl of oil per day. Crude oil is currently transported to the nearby oil storage and processing facilities by truck, and then transported by train to the point of sale at Mangyshlak Train Station on FCA (Free Carrier) basis. Euro-Asian Oil is the current purchaser of oil and the final price is settled on a FOB (Free On Board) basis with the sales volume and price determined monthly as the export volume needs to be approved and verified by the Kazakhstan government. Oil price is indexed to Brent crude price and the price is on a discounted basis to account for transportation. The Operator is constructing a new central processing facility ("CPF") with an oil processing capacity of 12,000 bbl of oil per day; and a 25 km oil transportation pipeline will be built from the CPF to KazTransOil ("KTO") Oil Pipeline. Once the upgrade is completed, oil transportation will be purely based on pipelines.

Gas processing facilities were initially established between 2008 and 2009 with processing capacity of 100,000 m<sup>3</sup>/d or 3.5 MMscf/d. In 2009 the plant capacity was increased to current level of 140,000 m<sup>3</sup>/d or 4.9 MMscf/d (sales gas), of which 105,000 m<sup>3</sup>/d (3.7 MMscf/d) and 35,000 m<sup>3</sup>/d (1.2 MMscf/d) is for Aksaz and Dolinnoe (including Kariman) fields, respectively. Produced gas is sold to KazTransGas Aimak JSC at US\$48/1000 m<sup>3</sup> or US\$1.36/ Mscf and the sales contract stipulates that the buyer takes 4.65 million m<sup>3</sup>/month, about 152,000 m<sup>3</sup>/d or around 5.4 MMscf/d. The gas sales contract is re-negotiated on an annual basis. As the oil production is constrained by the limited gas handling facilities, the Operator intends to upgrade the gas processing facilities by building a central processing facility with gas processing capacity of 600,000 m<sup>3</sup>/d or 21 MMscf/d. In addition, a 35 km natural gas transportation pipeline from the CPF to KazTransGas Aimak Gas Pipeline is planned, and that will result in increased gas sales volumes.

Phase 1 expansion is based on producing Kariman, Dolinnoe and Aksaz fields; and will increase crude oil production capacity to 12,000 stb/d and sales gas to 19 MMscf/d by January 2019. The plan was submitted to the Kazakhstan government in November 2013 and was approved in June 20, 2014. Surface infrastructure expansion (only the Central Processing Facility) is already in construction and at the advanced stage of completion.

Phase 2 well locations are defined within existing producing fields and reservoirs. Phase 2 expansion is based on new "step-out" discoveries for the Kariman, Dolinnoe, and Aksaz fields, and production from the North Kariman field. Phase 2 well locations are defined within existing producing fields and reservoirs and the majority of the wells would be classified as in-fill wells. The plan is to expand crude oil production capacity to 23,000 stb/d and wellhead gas to 31 MMscf/d. The above peak capacity is expected to be reached in 2022. The Phase 1 surface infrastructure currently being built has taken into account Phase 2 expansion. Phase 2 construction is targeted for completion by the end of 2020. In order to implement Phase 2 development, the Operator will be required to seek approval to, amongst others, install additional facility to cater for the increase in capacity for Phase 2, additional new oil and gas pipelines and drill additional wells. The fields are located onshore which allows the Operator the flexibility in terms of timing to commence Phase 2. Further, RPS has also reviewed the Operator's actions and plans to proceed with Phase 2.

Production Forecast

For the IVR Report REB had initially specified various development forecast scenarios during the valuation exercise, with each scenario consisting of Low, Best and High volumes and profiles estimates. However, only the final scenario is presented herein. The final scenario target oil and gas rates were derived based on the Operator's Central Processing Facility and infrastructure upgrade plan as described in previous section. Note that RPS only considered Phase 1 and Phase 2 expansion plans in the evaluation, as the resource base used to justify the Phase 3 development is speculative at this stage. Based on the Capex optimisation discussions between MIE and REB, the CAPEX spending (i.e. infill drilling and facility upgrading) has been postponed for two to three years compared to the outlined development plan

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



## INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT

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described in previous section. RPS has generated the production profiles based on this Capex deferment case.

**Table 4** summarizes the oil and gas rates for Scenario-1. The target oil and wellhead gas rates being 3,025 stb/d and 5.5 MMscf/d, respectively from July 1, 2016 to January 1, 2017, using the rented facility (which has capacity of maximum oil rate of 6,458 stb/d. Note that at the beginning of July 1, 2016, the initial oil production was set to the historical average oil rate for June 2016 (i.e, 3,025 stb/d).

The facility maximum oil rate of 6,458 stb/d commences from January 1, 2017 until December 31, 2018. Facility leasing ceases on December 31, 2018 and Phase 1 increased maximum throughput of 12,000 stb/d of oil and 21.2 MMscf/d of wellhead gas will be available from January 1, 2019 onwards once the 25 km oil pipeline and 35 km gas pipeline are completed. Phase 2 facility increased capacity commences in January 1, 2021 with the target oil rate being 23,000 stb/d and maximum wellhead gas of 31 MMscf/d. Previously, shut-in wells are reactivated from January 1, 2017 onwards to meet various target rates. RPS notes that the aforementioned oil and gas rates appear reasonable based on the development schedule.

**Table 4 – Scenario-1 Target Rates and Description**

Date	Scenario-1		
	Oil Rate/Limit stb/d	Raw Gas Rate MMscf/d	Remarks
1-Jul-2016	3,025 <sup>1</sup>	5.5	Existing wells.
1-Jan-2017	5,000	5.5	Rented facility maximum oil rate and gas rate is 6,458 stb/d and 5.5 MMscf/d, respectively. Reactivation of old wells.
1-Jan-2018	5,250	5.5	Rented facility maximum oil rate and gas rate is 6,458 stb/d and 5.5 MMscf/d, respectively. Reactivation of old wells.
1-Jan-2019 <sup>2</sup>	12,000	21.2	Phase 1 postponed to January 2019. No facility leasing.
1-Jan-2021 <sup>2</sup>	23,000	31.0	Phase 2 delayed for 2.5 years.

**Note:**  
 1) June 2016 average historical oil rate used for forecast.  
 2) Facilities constrained.

**Primary Recoverable with Upside Economic Assumptions – Well Cost Reduction**

The following six sections quantifies the upside potential related to the economic assumptions used in Independent Valuation Report.

The assumptions used in the Independent Valuation Report were based on the market conditions as of July 1, 2016, in which the price of oil and gas was at depressed levels. It is well documented<sup>2</sup> that there is a lag time between significant moves in oil price and the associated impact on capital and operating costs. The recent collapse in oil price<sup>3</sup> will force a reduction in capital equipment and oil services as Operator's force their suppliers to reduce costs due to Operator's diminished cash flow. In the US the time lag for onshore developments is quite short, as short as six months, due to resilience of US producers<sup>2</sup>, but for less competitive and high cost markets, the time lag can be up to 18 months or more before a low price effect is observed in capital expenditure costs.

2 Tight Oil Production Trends in a Low Price Environment, Grant Nülle, U.S. Energy Information Administration, June 15, 2015.

3 Anatomy of the Last Four Oil Price Crashes, World Bank, April, 2015.

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The effect is seen in the Chapman report of January 1, 2015<sup>4</sup> compared with the latest version of the reported with an effective date of January 1, 2016<sup>5</sup>, in which the average cost of drilling has been reduced. In the 2015 report the report drilling cost was US\$6.25 million per well and in the 2016 report the drilling cost was stated as US\$5.2 million per well, a reduction of US\$1.05 million per well. RPS has therefore used a drilling cost of US\$5.2 million per well in this upside potential. Benchmarking in the vicinity with other operating companies; we see further decreasing drilling costs based on turnkey contracts and better management of the drilling duration. The marginal gain from new development wells in the current sluggish macro environment has resulted in the Operator deferring the drilling until 2018. When the drilling campaign restarts in 2018, the well costs may revert on average to the US\$ 5.2 million per well level or higher. However, any higher well costs would also indicate an improving macro environment and a higher oil price than that used in the Independent Valuation Report.

The results of this evaluation are presented in **Table 1** and the table includes the NPV and the internal rate of return for both the previously reported evaluation and this upside potential case.

Primary Recoverable with Upside Economic Assumptions - Abandonment Cost Reduction

Again the assumptions used in the Independent Valuation Report were based on the market conditions as of July 1, 2016, in which the price of oil and gas was at depressed levels. Based on the information available in the previous year's Chapman's report, well abandonment costs were approximately 1% of the well cost. Therefore, for the purpose of this upside valuation, we have run a sensitivity of 1% of total Capex as the abandonment costs, as opposed to the 10% used in the Independent Valuation Report. The results of this evaluation are presented in **Table 2**.

Primary Recoverable with Upside Economic Assumptions - Transportation Tariff Reduction

The results of this evaluation are presented in **Table 1** and are based on assuming US\$8.6/bbl of transportation tariff, instead of US\$ 10.6/bbl used in the base case with no other changes made to the economic model. Upon completion of the CPF in 2016 oil will be evacuated by the existing pipeline to the Aktau terminal and thereafter shipped to the Black Sea export terminal at Novorossiysk. For this upside scenario, it is assumed that the oil will be transported all the way from the CPF to the Novorossiysk export terminal via pipeline (Uzen - Atyrau - Samara pipeline system) to the Novorossiysk export terminal when the oil and gas pipelines are tied-in to KTO and KTG trunklines, resulting in a saving of approximately US\$ 2/bbl. The approval to construct the 25-km oil pipeline from the CPF to tie-in to the large state-owned trunk pipelines of KazTransOil JSC ("KTO") has already been granted and is expected to be fully operational in early 2019. The details of this all pipeline export route will be subject to further discussion with KTO.

Primary Recoverable with Upside Economic Assumptions - Sales Gas Price Upside (Improved Gas Price)

RPS's base valuation assumes sales gas price to be US\$ 0.77/Mscf based on the latest gas sales agreement provided by MIE in 2016. RPS notes that the gas sales contract is renewed annually. In this case RPS has considered using a gas price of US\$ 2.50/Mscf after 2020 in the evaluation with no other changes made to the economic model. This was based on increasing gas sales volumes due the gas pipeline being operational (35 km gas pipeline tie-in to KTG trunkline), thus allowing the Operator to sell higher volumes at a higher price, as pricing is higher for higher delivery of daily gas volumes. The results of this evaluation are presented in **Table 2**.

4 Reserve and Economic Evaluation Oil and Gas Properties, ADEK Block, Republic of Kazakhstan for MIE Holdings Corporation, Chapman Petroleum Engineering Ltd, January 1, 2015.

5 Reserve and Economic Evaluation Oil and Gas Properties, ADEK Block, Republic of Kazakhstan for MIE Holdings Corporation, Chapman Petroleum Engineering Ltd, January 1, 2016.

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Primary Recoverable with Upside Economic Assumptions - Crude Price Upside (Improved Oil Price)

Previously RPS had used a Low Price Case (long term price of US\$65/bbl) and High Price Case (long term price of \$95/bbl) for price sensitivity purposes in Independent Valuation Report. Recent oil prices over the last five years has demonstrated considerable variability and highlights the uncertainty in forecasting medium to long term oil prices. For this scenario RPS has used a Brent long term price of US\$95/bbl (price projection summarized in **Table 5**) for the 2P (Proved plus Probable) Reserves, and again the results of the evaluation are presented in **Table 2**.

**Table 5 - RPS Brent Price Forecasts (Q1 2016)**

	<b>Base Price Case</b>	<b>High Price Case</b>
	<b>US\$/bbl, MoD</b>	<b>US\$/bbl, MoD</b>
2016	50.3	55.0
2017	53.0	64.0
2018	59.0	71.5
2019	66.0	79.0
2020	72.0	86.0
2021	78.0	93.0
2022	83.0	99.0
2023	88.0	105.0
2024	92.0	110.0
2025	95.6	113.5
2026	97.5	115.8
2027 onwards	+ 2% p.a.	+ 2% p.a.

Primary Recoverable with Upside Economic Assumptions - Crude Oil Export Upside (Higher Export Crude Mix)

In the Independent Valuation Report, RPS has assumed 15% of crude oil sold domestically despite the fact that MIE has exported an average of 82%, 77%, 88%, and 94% to the international market in 2013, 2014, 2015, and first half of 2016, respectively. The results for this scenario are presented in **Table 2**.

Primary Recoverable with Upside Economic Assumptions - Primary Recoverable with LPG Sales Based on Scenario I

CPF Phase 2 expansion is based on new "step-out" discoveries for the Kariman, Dolinnoe, and Aksaz fields, and production from the North Kariman field. The CPF Phase I with LPG extraction facilities, is expected to be completed in mid-2018. The Phase I Project upgrade will result in an increase in gas sales and RPS has included this additional potential revenue stream from LPG sales. The market for LPG sales



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was reviewed in the Frost and Sullivan's report<sup>6</sup>. LPG extraction was not included in the Independent Valuation Report as there was no sales contract for the LPG.

Based on the gas composition made available to RPS for the Aksaz, North Kariman and Kariman Fields, the LPG yield was estimated by extracting the Propane and Butane components from the produced gas assuming a plant efficiency of 90%. The resulting average LPG yield of 9.7 tonne/MMscf for the North Kariman and Kariman oil fields was used for the other oil fields without gas composition; that is for the Dolinnoe, Emir and Yessen fields (Table 6). The LPG yield for low and high estimates is +/-10% of the best estimate. LPG recovery starts in January 2019 once the CPF Phase I project has been completed (based on the deferred Capex case).

**Table 6 – Low, Best, and High Estimate LPG Yield (Imperial and Metric Units)**

Field	LPG Yield (Tonne/MMscf)			LPG Yield (stb/MMscf)		
	Low Estimate	Best Estimate	High Estimate	Low Estimate	Best Estimate	High Estimate
Aksaz	2.7	3.0	3.3	31.6	35.1	38.6
Dolinnoe <sup>1</sup>	8.7	9.7	10.7	102.7	114.2	125.6
Emir <sup>1</sup>	8.7	9.7	10.7	102.7	114.2	125.6
Kariman	9.5	10.6	11.6	112.6	125.1	137.6
North Kariman	7.9	8.8	9.7	92.9	103.2	113.5
Yessen <sup>1</sup>	8.7	9.7	10.7	102.7	114.2	125.6
<b>TOTAL</b>		51.5			606.0	

**Note:**  
1) Using average yield from North Kariman and Kariman oil fields.

The results of the production forecast for Scenario I (Primary) with LPG recovery are summarized in Table 7 and the table shows the condensate recovery factor; which was back-calculated based on total condensate volume recovered, is lower for High Estimate as there is more condensate to be recovered beyond the contract expiry period.

<sup>6</sup> Independent Market Research Report on the Global Oil & Gas Industry and the Oil & Gas Exploration and Production Industry in the Republic of Kazakhstan; Frost and Sullivan (August, 2016).

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Table 7 – Primary Recoverable Volumes with LPG Extraction

Field	Oil Volume (MMstb)	Sales Gas Volume (Bscf)	LPG <sup>2</sup> Volume (MMstb)	Total Hydrocarbon Volume (MMBOE) <sup>1</sup>
<b>Low Estimate</b>				
Aksaz	0.204	3.501	0.090	0.878
Dolinnoe	2.547	6.964	0.596	4.303
Emir	1.794	0.159	0.020	1.840
Kariman	14.828	4.115	0.432	15.946
North Kariman	1.606	0.350	0.033	1.698
Yessen	3.786	0.742	0.091	4.001
<b>Emir-Oil Fields</b>	<b>24.765</b>	<b>15.832</b>	<b>1.262</b>	<b>28.666</b>
<b>Best Estimate</b>				
Aksaz	3.371	25.289	0.915	8.500
Dolinnoe	9.977	57.290	7.429	26.954
Emir	3.527	0.432	0.059	3.658
Kariman	39.723	14.372	2.042	44.160
North Kariman	6.109	1.568	0.177	6.548
Yessen	7.309	1.630	0.223	7.804
<b>Emir-Oil Fields</b>	<b>70.016</b>	<b>100.583</b>	<b>10.845</b>	<b>97.625</b>
<b>High Estimate</b>				
Aksaz	16.271	80.590	3.166	32.868
Dolinnoe	7.382	41.286	6.147	20.410
Emir	1.858	0.302	0.045	1.954
Kariman	58.439	30.854	4.989	68.570
North Kariman	14.224	5.439	0.701	15.832
Yessen	17.969	4.849	0.729	19.507
<b>Emir-Oil Fields</b>	<b>116.143</b>	<b>163.320</b>	<b>15.778</b>	<b>159.141</b>
<b>Note:</b>				
1) Assuming 6 Mscf of gas equivalent to 1 BOE.				
2) Total LPG recoverable volumes are based on the available total gas volumes from 2019 to 2036.				

Approval by the authorities is not required as the Project has been approved as part of the new CPF and oil and gas tie-in pipelines. The LPG Extraction Facility has already been installed and is awaiting commissioning once the tie-in pipelines are completed in 2018. LPG producers do not require licensing and can sell directly to licensed distributors and exporters. The Independent Market Research Report prepared by Frost and Sullivan<sup>6</sup> indicates that LPG export demand from Kazakhstan is on the increase and pricing is attractive. Local demand in the Mangystau Region is low and so Emir Oil has good opportunity to export LPG at higher pricing.

The economic evaluation for this upside case is shown in **Table I** and the production profiles for the Asset are depicted **Figure 5**.

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Figure 5 – Production Profiles (Emir-Oil Concession Block)

		Emir-Oil Fields																	
		Low Estimate						Best Estimate						High Estimate					
Year	Days	Oil		Sales Gas		LPG		Oil		Sales Gas		LPG		Oil		Sales Gas		LPG	
		stb/d	MMstb	MMscf/d	Bscf	ton/d	KTonne	stb/d	MMstb	MMscf/d	Bscf	ton/d	KTonne	stb/d	MMstb	MMscf/d	Bscf	ton/d	KTonne
2016	183	3,005.5	0.550	4,848	0.887	-	-	3,005.5	0.550	5,062	0.926	-	-	3,000.0	0.549	4,950	0.906	-	-
2017	365	5,000.0	2.375	4,367	2.481	-	-	5,000.0	2.375	5,076	2.779	-	-	5,000.0	2.374	4,902	2.695	-	-
2018	365	5,126.0	4.246	3,970	3,930	-	-	5,065.8	4.224	5,116	4.646	-	-	5,180.8	4.265	5,114	4.562	-	-
2019	365	10,084.9	7.927	4,476	5,564	48,100	17,556	9,961.6	7,860	10,316	8,412	92.33	33,701	10,561.6	8,120	15,058	10,058	161.57	58,971
2020	366	10,027.3	11,597	7,429	8,283	58,418	38,937	11,767.8	12,167	17,561	14,839	123.01	78,721	11,969.9	12,501	17,289	16,386	117.02	101,802
2021	365	8,953.4	14,865	6,469	10,644	50,367	57,321	20,901.4	19,796	25,049	23,982	220.19	159,091	22,843.8	20,839	25,384	25,651	196.35	173,471
2022	365	6,876.7	17,375	4,354	12,233	36,729	70,727	20,194.5	27,167	25,657	33,346	184.53	226,444	23,000.0	29,234	25,314	34,891	171.17	235,948
2023	365	5,134.2	19,245	2,857	13,276	25,958	80,202	19,482.2	34,278	25,291	42,577	206.37	301,770	23,000.0	37,629	24,978	44,008	172.01	298,731
2024	366	3,781.4	20,633	1,918	13,978	18,372	86,926	17,163.9	40,560	24,948	51,708	221.48	382,833	22,937.2	46,024	25,140	53,209	174.62	362,641
2025	365	2,830.1	21,666	1,338	14,466	13,297	91,780	15,156.2	46,092	24,772	60,750	236.60	469,192	22,997.3	54,418	25,153	62,390	182.15	429,126
2026	365	2,128.8	22,443	0,956	14,815	9,727	95,330	13,158.9	50,895	24,442	69,671	243.86	558,200	22,997.3	62,812	25,413	71,665	189.86	498,424
2027	365	1,624.7	23,036	0,702	15,072	7,269	97,983	10,613.7	54,769	19,014	76,612	209.22	634,565	22,882.2	71,164	25,633	81,021	197.72	570,594
2028	366	1,237.7	23,489	0,530	15,266	5,527	100,006	8,773.2	57,980	14,968	82,090	171.76	697,430	21,590.2	79,066	25,551	90,373	200.96	644,144
2029	365	958.9	23,839	0,404	15,413	4,214	101,544	7,402.7	60,682	12,117	86,513	142.04	749,274	20,315.1	86,481	25,585	99,712	203.94	718,583
2030	365	684.9	24,089	0,304	15,524	3,203	102,713	5,783.6	62,793	9,951	90,145	116.96	791,962	17,956.2	93,035	25,550	109,037	205.74	793,680
2031	365	523.3	24,280	0,232	15,609	2,434	103,601	4,753.4	64,528	7,516	92,888	88.72	824,346	16,693.2	99,128	25,523	118,353	206.97	869,224
2032	366	412.4	24,431	0,186	15,677	1,932	104,309	4,204.9	66,067	6,331	95,206	74.86	851,743	15,046.4	104,635	26,711	128,129	225.26	951,669
2033	365	328.8	24,551	0,150	15,732	1,560	104,878	3,726.0	67,427	5,266	97,128	62.35	874,502	11,315.1	108,765	26,745	137,891	231.70	1,036,241
2034	365	257.5	24,645	0,119	15,775	1,222	105,324	3,134.2	68,571	4,252	98,680	50.32	892,869	8,975.3	112,041	27,853	148,058	291.11	1,142,497
2035	365	211.0	24,722	0,100	15,811	1,023	105,697	2,460.3	69,469	3,366	99,908	39.68	907,351	6,983.6	114,590	25,563	157,388	285.75	1,246,796
2036	244	176.2	24,765	0,082	15,832	0,844	105,903	2,241.8	70,016	2,765	100,583	32.7	915,319	6,364.8	116,143	24,310	163,320	286.50	1,316,702

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**Waterflood Program (Secondary Recovery)**Methodology

The principal reason for waterflooding an oil reservoir is to increase the oil production rate and the recoverable oil. This is accomplished by injecting water into the reservoir, via water injection wells, in order to increase the reservoir pressure and to displace the oil. Water from the injection wells physically sweep the reservoir and drive the oil to the adjacent production wells. Waterflooding is a standard secondary recovery process used in the industry to increase oil recovery. Potential problems associated with waterflood techniques include inefficient recovery due to variable permeability, or similar conditions affecting fluid transport within the reservoir, and early water breakthrough that may cause production and surface processing problems.

RPS determined the upside potential from secondary recovery by investigating both pattern and line drive waterflood depending on the existing well locations in a given reservoir. Only large accumulations were investigated by RPS in order to support the additional Capex to implement a waterflood development. To maximise the upside potential of the Asset, RPS used the existing well stock by converting suitable wells to either injectors or producers. After which, additional wells were drilled as part of waterflood implementation.

RPS used the United States Department of Energy's Polymer Predictive Model<sup>7</sup> ("PPFM") to generate a single pattern waterflood production profile for the various reservoir units.

RPS identified a total of 32 waterflood patterns for various fields and reservoirs with the acreage for each pattern being limited to 80 acre spacing. The pattern spacing also yielded a reasonable development time period of ten to fourteen years to implement and complete the waterflood development. Only reservoirs with the largest STOIP values were initially considered for secondary development, which was then supplemented by the smaller reservoirs assuming the oil recovery factor would be similar to the evaluated major reservoirs. Average rock parameters were estimated for each pattern and the Dykstra-Parsons Coefficient<sup>8,9</sup> used to define reservoir heterogeneity in the model, was set to 0.72 (the default value). Initial reservoir pressure and temperature, flood pressure and fluid PVT properties were defined for each reservoir.

The largest reservoirs were targeted first with two reservoirs developed simultaneously by injecting water into two zones (commingled injection) and producing (commingled production) from the same two zones. The five spot patterns were configured in order to maximize utilization of the existing well stock and to allow for an 80 acre pattern size. Primary recovery ceases when waterflood is implemented. Water injection rates were estimated to be 2,000 stb/d per reservoir, or a total 4,000 stb/d per well targeting two reservoirs. The deepest reservoirs are targeted first then followed by the shallower reservoirs. Waterflood ceases when the watercut reaches 95%. The timing of waterflood programs for the various fields and reservoirs are presented in **Table 8**. The waterflood program ends in 2046.

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- 7 Energy's Polymer Predictive Model, R. Michael Ray and José Diaz Muñoz, Department of Energy of the United States of America and the Ministry of Energy and Mines of the Republic of Venezuela, DOE/BC-86/10/SP (DE87001207), December, 1986.
  - 8 Dykstra, H. and Parsons, R.L. 1950. The prediction of oil recovery by waterflooding. In *Secondary Recovery of Oil in the United States*, second edition, 160–174. Washington, DC: API.
  - 9 Dykstra-Parsons coefficient of permeability variation is a common descriptor of reservoir heterogeneity. It measures reservoir uniformity by the dispersion or scatter of permeability values. A homogeneous reservoir has a permeability variation that approaches zero, while an extremely heterogeneous reservoir would have a permeability variation approaching one. For most reservoirs the coefficient ranges from 0.5 to 0.9.

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Table 8 – Waterflood Planning and Implementation

Field	Reservoir	Start Year	End Date		
			Low Estimate	Best Estimate	High Estimate
Kariman	T2C & T2B	2023	2031	2035	2035
Dolinnoe	T2C & T2B	2023	2030	2033	2035
Emir	T2B & T2A	2024	2033	2038	2043
Yessen	T2C & T2A	2024	2031	2033	2035
Kariman	T2A & Upper T3 <sup>1</sup>	2032/2036 <sup>2</sup>	2036	2043	2046
<b>Note:</b>					
1) This will be conducted after completing T2C and T2B reservoirs (Kariman Field).					
2) Low estimate is 2032; Best and High estimates are in 2036.					

Additional water injectors and oil producers are required to implement the waterflood development for the targeted reservoirs in all four fields and (Table 9) depicts the change in infill well count due to introduction of waterflooding.

Table 9 – Additional Wells to Implement Waterflood

Field	Reservoir	Low Estimate	Best Estimate	High Estimate
Kariman	T2C, T2B, T2A & Upper T3	14	21	27
Dolinnoe	T2C & T2B	5	9	13
Emir	T2B & T2A	1	5	8
Yessen	T2C & T2A	7	7	8
Total		27	42	56

As primary production will cease once the waterflood is implemented, the planned infill wells are adjusted accordingly so that some of these infill wells can be used for the waterflood program. For the best estimate case, the planned infill well count had been reduced from a total of 36 down to 33; that is three fewer infill wells are required.

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Primary and Secondary Oil Recovery Factors

A summary of the oil the recovery factors from the primary recovery and the secondary recovery waterflood development is summarized in **Table 10**.

**Table 10 – Summary of Waterflood Oil Recovery Factor for Major and Minor Reservoirs**

Field	Primary Recovery at July 1, 2016	Primary Recovery Before Starting Waterflood	Waterflood Pattern Recovery	STOIIP Coverage Area During Waterflood (%) <sup>1)</sup>	Field Average Recovery Factor After Waterflood <sup>2)</sup>	Final Recovery Factor after Primary Plus Secondary Recovery
	<b>Oil Recovery Factor (%)</b>			%	<b>Oil Recovery Factor (%)</b>	
	<b>Low Estimate</b>					
Kariman	5.1%	7.4%	20.2%	67.4%	13.6%	26.1%
Dolinnoe	7.8%	8.7%	24.4%	73.9%	18.0%	34.6%
Emir	0.14%	8.8%	17.6%	44.2%	7.8%	16.8%
Yessen	0.10%	5.1%	28.6%	47.7%	13.6%	18.8%
	<b>Best Estimate</b>					
Kariman	3.0%	7.0%	35.5%	61.0%	21.7%	31.7%
Dolinnoe	4.2%	6.9%	38.8%	72.0%	27.9%	39.0%
Emir	0.03%	2.5%	28.8%	53.6%	15.4%	17.9%
Yessen	0.06%	2.7%	36.7%	44.1%	16.2%	18.9%
	<b>High Estimate</b>					
Kariman	1.7%	4.2%	39.3%	73.1%	28.8%	34.7%
Dolinnoe	2.3%	1.8%	45.0%	61.8%	27.8%	31.9%
Emir	0.02%	0.2%	44.4%	57.8%	25.7%	25.9%
Yessen	0.03%	2.5%	35.6%	37.8%	13.5%	16.0%
<b>Note:</b>						
1) Average STOIIP coverage for the major and minor reservoirs for the proposed development area.						
2) Oil waterflood pattern recovery factor multiplied by the percentage of the developed waterflood area STOIIP, resulting in a lower recovery factor as there are some areas not subject to waterflooding.						

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



## INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT

EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

Waterflood Program - Recoverable Oil, Sales Gas and LPG Volumes

It has been assumed that water injection would pressurize the reservoir above the saturation pressure and that oil production would occur above the saturation pressure, resulting in single phase oil production. The LPG yields used in this evaluation are presented in **Table 6**. A summary of the Low, Best and High estimates of the recoverable oil, sales gas, and LPG volumes from both primary production and the proposed waterflood development (until 2046) are presented in **Table 11**.

**Table 11 – Recoverable Volume from Primary Production and Waterflood (Until 2046)**

Field	Oil Volume (MMstb)	Sales Gas Volume (Bscf)	LPG Volume (MMstb)	Total Hydrocarbon Volume (MMBOE) <sup>1</sup>
<b>Low Estimate</b>				
Aksaz	0.204	3.501	0.090	0.878
Dolinnoe	6.548	11.124	1.108	9.510
Emir	2.471	0.222	0.027	2.536
Kariman	30.376	8.670	1.059	32.880
North Kariman	1.606	0.350	0.033	1.698
Yessen	7.826	5.304	0.653	9.363
<b>Emir-Oil Fields</b>	<b>49.032</b>	<b>29.171</b>	<b>2.970</b>	<b>56.864</b>
<b>Best Estimate</b>				
Aksaz	3.371	25.289	0.915	8.500
Dolinnoe	15.881	33.744	4.209	25.714
Emir	11.846	1.365	0.187	12.260
Kariman	69.344	22.326	3.258	76.323
North Kariman	6.109	1.568	0.177	6.548
Yessen	13.063	17.211	2.353	18.285
<b>Emir-Oil Fields</b>	<b>119.614</b>	<b>101.503</b>	<b>11.099</b>	<b>147.629</b>
<b>High Estimate</b>				
Aksaz	16.271	80.590	3.166	32.868
Dolinnoe	25.146	52.646	7.856	41.777
Emir	29.498	4.058	0.610	30.785
Kariman	141.823	50.890	8.358	158.663
North Kariman	14.224	5.439	0.701	15.832
Yessen	18.291	44.149	6.641	32.290
<b>Emir-Oil Fields</b>	<b>245.253</b>	<b>237.772</b>	<b>27.332</b>	<b>312.214</b>
<b>Note:</b>				
1) Assuming 6 Mscf of gas equivalent to 1 BOE.				

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

The total Low, Best and High estimates of recoverable oil, sales gas and LPG volumes from primary and secondary production for the Emir-Oil Concession Block are tabulated in **Table 12**.

**Table 12 – Summary of Recoverable Oil Volumes (MMstb) from July 2016 for Primary Production and Primary Production Plus Waterflood Program.**

	Primary Drive Until 2036 <sup>1</sup>	Primary Drive Plus Waterflood Until 2036 <sup>2</sup>	Primary Drive Plus Waterflood Until 2046 <sup>3</sup>
	<b>Low Estimate</b>		
Oil Volume (MMstb)	18.054	49.032	49.032
Sales Gas (Bscf)	12.755	29.171	29.171
LPG Volume (MMstb)	0.867	2.970	2.970
<b>Total Hydrocarbon (MMBOE)</b>	<b>21.046</b>	<b>56.864</b>	<b>56.864</b>
	<b>Best Estimate</b>		
Oil Volume (MMstb)	32.993	108.822	119.614
Sales Gas (Bscf)	46.098	95.580	101.503
LPG Volume (MMstb)	3.249	10.234	11.099
<b>Total Hydrocarbon (MMBOE)</b>	<b>43.925</b>	<b>134.985</b>	<b>147.629</b>
	<b>High Estimate</b>		
Oil Volume (MMstb)	53.221	188.168	245.253
Sales Gas (Bscf)	100.697	203.689	237.772
LPG Volume (MMstb)	5.933	21.866	27.332
<b>Total Hydrocarbon (MMBOE)</b>	<b>75.937</b>	<b>243.982</b>	<b>312.214</b>
<b>Notes:</b>			
1) Refer report Independent Valuation Report of Emir-Oil Concession Block Petroleum Reserves, as of July 1, 2016 (Project: ECV2198).			
2) Recovery from primary drive plus waterflood until 2036.			
3) Recovery from primary drive plus waterflood until end of waterflood program, which is in 2046.			

The resulting Best case oil, sales gas and LPG production profiles (rates and cumulative) from primary production plus the waterflood program are tabulated in **Table 13** and also illustrated in **Figure 6** to **Figure 8**.



## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



## INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT

EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**Table 13 – Emir-Oil Concession Block Best Estimate Production Profiles from July 2016 for Primary Production Plus Waterflood Program (Until 2046)**

Emir-Oil Concession Block – Production Profiles (Best Estimate)						
Year	Rates			Cumulative		
	Oil	Sales Gas	LPG	Oil	Sales Gas	LPG
	stb/d	MMscf/d	Stb/d	MMstb	Bscf	MMstb
2016	3,005.5	5.062	-	0.550	0.926	-
2017	5,000.0	5.076	-	2.375	2.779	-
2018	5,065.8	5.116	-	4.224	4.646	-
2019	9,961.6	10.316	1,090.0	7.860	8.412	0.398
2020	11,767.8	17.561	1,452.0	12.167	14.839	0.929
2021	20,901.4	25.049	2,611.4	19.796	23.982	1.882
2022	20,194.5	25.657	2,191.5	27.167	33.346	2.682
2023	44,796.0	34.462	3,803.3	43.518	45.925	4.071
2024	44,306.1	34.797	4,024.3	59.734	58.661	5.543
2025	31,437.2	25.988	2,996.6	71.208	68.146	6.637
2026	23,179.0	19.885	2,275.0	79.668	75.404	7.468
2027	16,852.6	12.922	1,645.0	85.820	80.121	8.068
2028	12,500.0	9.127	1,230.7	90.395	83.461	8.518
2029	9,464.9	6.780	944.8	93.849	85.936	8.863
2030	7,300.8	5.343	746.1	96.514	87.886	9.136
2031	4,822.0	3.759	522.9	98.274	89.258	9.326
2032	3,999.1	3.103	431.7	99.738	90.393	9.484
2033	3,469.6	2.655	369.5	101.004	91.362	9.619
2034	1,698.2	0.824	118.5	101.624	91.663	9.663
2035	1,558.3	0.761	109.6	102.193	91.941	9.703

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

Emir-Oil Concession Block – Production Profiles (Best Estimate)						
Year	Rates			Cumulative		
	Oil	Sales Gas	LPG	Oil	Sales Gas	LPG
	stb/d	MMscf/d	Stb/d	MMstb	Bscf	MMstb
2036	18,111.4	9.943	1,451.8	108.822	95.580	10.234
2037	10,748.2	5.872	856.9	112.745	97.723	10.547
2038	7,049.3	3.831	558.8	115.318	99.122	10.751
2039	4,257.1	2.359	344.7	116.872	99.983	10.876
2040	2,746.3	1.522	222.4	117.877	100.539	10.958
2041	1,900.3	1.053	153.9	118.570	100.924	11.014
2042	1,498.7	0.830	121.4	119.117	101.228	11.058
2043	1,359.8	0.753	110.1	119.614	101.503	11.099
2044	-	-	-	119.614	101.503	11.099
2045	-	-	-	119.614	101.503	11.099
2046	-	-	-	119.614	101.503	11.099

INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
 EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

Figure 6 – Emir-Oil Concession Block Oil Production Profiles (Primary Drive Plus Waterflood)

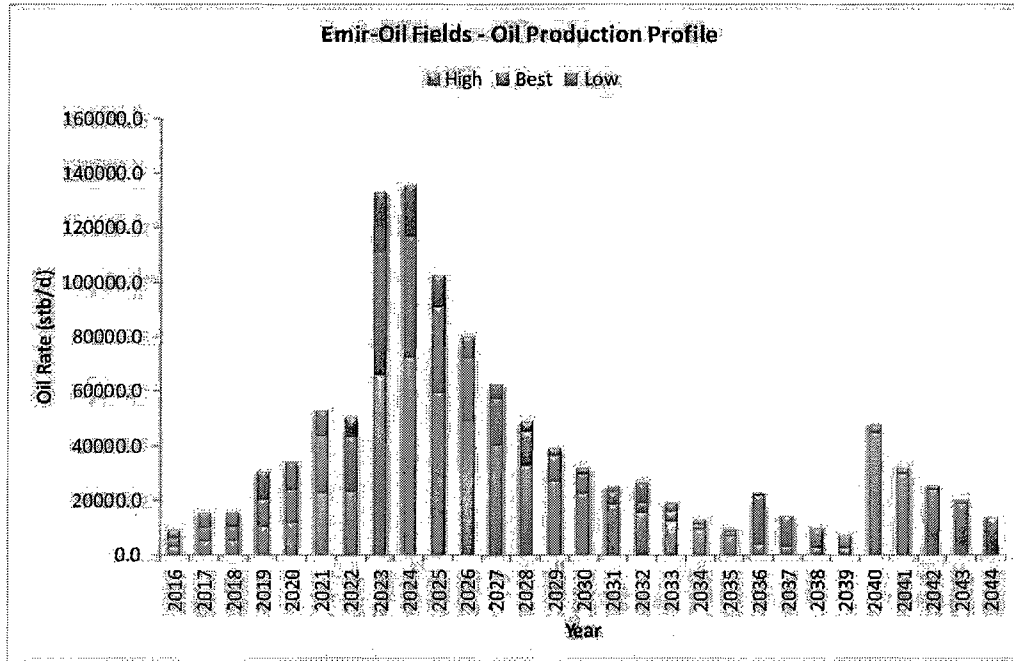


Figure 7 – Emir-Oil Concession Block Sales Gas Production Profiles (Primary Drive Plus Waterflood)

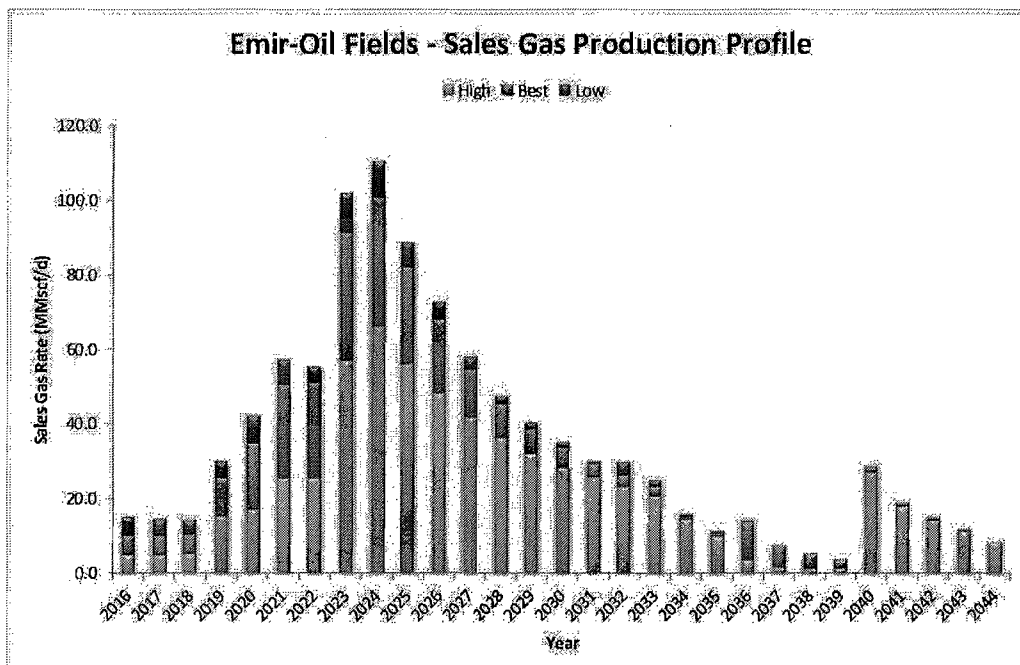
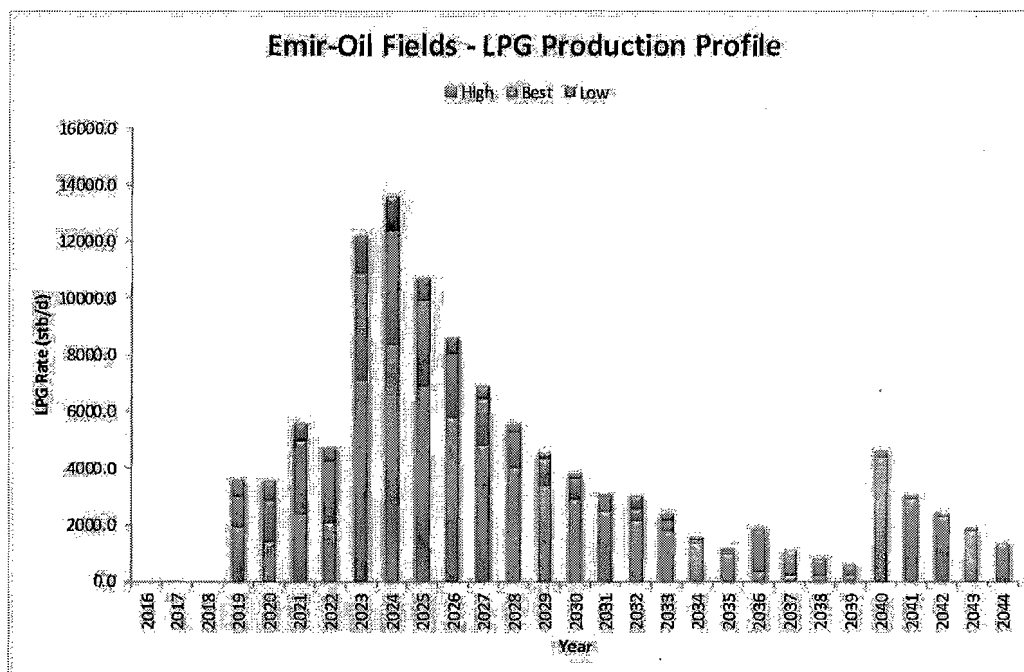


Figure 8 – Emir-Oil Concession Block LPG Production Profiles (Primary Drive Plus Waterflood)

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016



#### Waterflood Program - Technical Contingency

In terms of the production forecast reliability, the waterflood forecasts assume idealized flooding, albeit with a Dykstra-Parsons Coefficient<sup>9</sup> of 0.72, which implies a fair amount of heterogeneity, but no fingering or fracturing acting as conduits that would bypass in situ oil volumes. Carbonate reservoirs, like the reservoirs being considered here for waterflooding, nearly always contain some degree of fracturing that could lead to poor waterflood efficiency and thus lower than predicted recoverable oil volumes.

In addition, there are several technical contingencies that need to be resolved in order for the waterflood incremental volumes can be considered as Reserves. Since all the fields are not producing much water, the Operator needs to identify a water source for the waterflood development, in RPS's opinion this is not expected to be a major technical hurdle. This is because the Chapman<sup>10</sup> report indicates there is a possibility of edge water drive in the Dolinnoe field. If an aquifer is present, then water from the Dolinnoe field can be used as a water source. In addition, the Operator needs to conduct various pre-FEED studies to define the required facility and processing equipment to both inject and treat produced water, including injection water compatibility studies. Incompatible source water may damage the reservoir and affect the oil recovery during the waterflooding process. Finally, RPS notes that a water injection rate of 2,000 stb/d into a single reservoir may be a challenge, due to the relatively low productivity of the formations. Water injectivity tests should be conducted prior to initiating waterflooding. If necessary, acidization or hydraulic fracturing may be required to improve the well injectivity index. However, the additional costs associated with acidization or hydraulic fracturing have not been accounted for in this evaluation.

#### Waterflood Program - Economic Results

The economic results for this upside case are presented in **Table 2** and **Table 14** and the results include the benefit of waterflooding as well as the additional revenues due to LPG sales.

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**Table 14 – Summary of Net Present Values and Internal Rate of Return on Waterflooding and LPG Sales as of July 1, 2016 (Base Case Price)**

	NPV @ 10% (US\$ million)	INTERNAL RATE OF RETURN
	Best	Best
Emir-Oil Concession Block <sup>1</sup>	578	21.1% <sup>2</sup>
Emir-Oil Concession Block <sup>2</sup>	693	24.1%
Incremental On Primary and LPG Sales	115	3.0%

**Notes:**

- 1) Upside potential based on assuming that LPG sales start from January 2019 onwards and no other changes made to the economic model
- 2) Upside potential based on assuming waterflood projects are implemented four oil fields with no other changes made to the economic model. The Waterflood Incremental NPV and IRR values are incremental to the Primary and LPG Sales case and not the Base case.

### Emir-Oil Concession Block Prospective Resources

#### Potential Discovery of D-8 and Y-3

In June 2016, the Operator has drilled D-8 well to explore and appraise the prospective area surrounding the Dolinnoe field. Based on the area estimate of the Dolinnoe Prospect (D-8), it is assumed that if it is successfully discovered, the EUR will be approximately similar to the Dolinnoe Field's Best Estimate EUR of 13 MMstb. The D-8 well, located just outside of the Dolinnoe Field contract area, will appraise a separate fault bounded closure on the western side of the Dolinnoe Field. The well will be located approximately 1.5 km downdip from the Dolinnoe major bounding fault, and will test a closure of approximately 9.2 km<sup>2</sup>.

The Operator has also spud Y-3 well in June 2016. Similarly, based on the area estimate of the Yessen Prospect (Y-3), it is assumed that if it is successfully discovered, the EUR will be approximately similar to the Yessen Field's Best Estimate EUR of 9.4 MMstb. The Y-3 will be located on the eastern side of the Yessen Field within which the Y-1 and Y-2 discovery wells have been on pilot oil production since 2013 (currently shut-in). The well will be located on a gentle saddle on the NW plunging monocline

Approvals from authorities have been obtained for the drilling of both wells and the Capex has been allocated. The results of the evaluation are presented in **Table 2**.

#### Borly Structure

The Borly Structure had already been drilled by two wells (Borly-2 and Borly-2ST1). The Borly-2 reportedly encountered some hydrocarbon shows in the Triassic reservoirs between the interval of 2916.7 – 2994.6 m MDKB. The Operator re-entered the Borly-2 well in 2012 and sidetracked this well as Borly-2ST1. The Triassic reservoirs were tested but did not flow any commercial hydrocarbon to surface despite being acid-frac and Nitrogen gas lifted. Therefore, RPS did not book any reserves in the Borly structure but instead used Chapmans 7.8 MMstb. Probable Reserve estimate as the undiscounted volume in the evaluation. Again, the results of the evaluation are presented in **Table 2**.

#### Prospect Inventory

As described in the Independent Valuation Report, the Operator has identified several prospects (**Figure 9**). The prospects include areas within the current production permits (Aksaz, Dolinnoe, Emir and Kariman) as well as the areas outside the production licences (Borly, Begesh, East Saura North Aidai, and Tanirbergen) within the exploration permit. Chapman has estimated the prospective resources volumes in its report and these are included in **Table 15** below. RPS has not evaluated any of the aforementioned

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



**INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT**  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

prospects and RPS recommends that these prospects be evaluated more thoroughly after the complete dataset has been provided by the Operator.

**Table 15 – Emir-Oil Concession Block Unrisked Gross 100% Licence Interest Prospective Resources Summary (from Chapman Report)**

Chapman Estimates as of January 1, 2016 <sup>1</sup>						
ADEK Block and NW Areas		Single Estimate	Unrisked Prospective Resources			
Prospective Area	Prospective Zones <sup>2</sup>	STOIIP (MMstb) <sup>3</sup>	Low (MMstb)	Best (MMstb)	High (MMstb)	GCOS (%) <sup>4</sup>
<b>ADEK Block</b>						
Aksaz	Combined Triassic	41.700	6.255	8.340	10.425	34%
Borly	Combined Triassic	257.931	38.690	51.586	64.483	24%
Dolinnoe	Combined Triassic	133.110	19.967	26.622	33.278	34%
Emir	Combined Triassic	116.601	17.490	23.320	29.150	22%
Kariman	Combined Triassic	221.419	33.213	44.284	55.355	34%
	Total	770.762	115.614	154.152	192.691	
<b>NW Areas</b>						
Begesh	Combined Triassic	49.423	7.413	9.885	12.356	21%
East Saura	Combined Triassic	41.834	6.275	8.367	10.458	21%
Aidai (AD-A1, AD-A2)	Combined Triassic	314.063	47.109	62.813	78.516	21%
Tanirbergen	Combined Triassic	102.610	15.392	20.522	25.653	21%
	Total	507.931	76.190	101.586	126.982	
	<b>Grand Total <sup>5</sup></b>	1,278.693	191.804	255.738	319.673	

**Notes:**

- 1) As reported in Appendix A "Evaluation of Reserve and Prospective Resources Oil and Gas Properties, ADEK Block (Licence Area), Mangistau Oblast, Republic of Kazakhstan for MIE Holdings Corporation, December 31, 2015 (January 1, 2016)", Chapman Petroleum Engineering Ltd.
- 2) The "Combined Triassic" prospective zones include multiple prospective reservoir layers.
- 3) Chapman only provide a single estimate STOIIP volume for each prospect, for all the Low, Best and High Estimates cases combined with a constant 15%, 20% and 25% recovery factor for the Low, Best and High scenarios, respectively.
- 4) GCOS means "Geological Chance of Success".
- 5) Arithmetic total from sums of all of the above identified prospects.

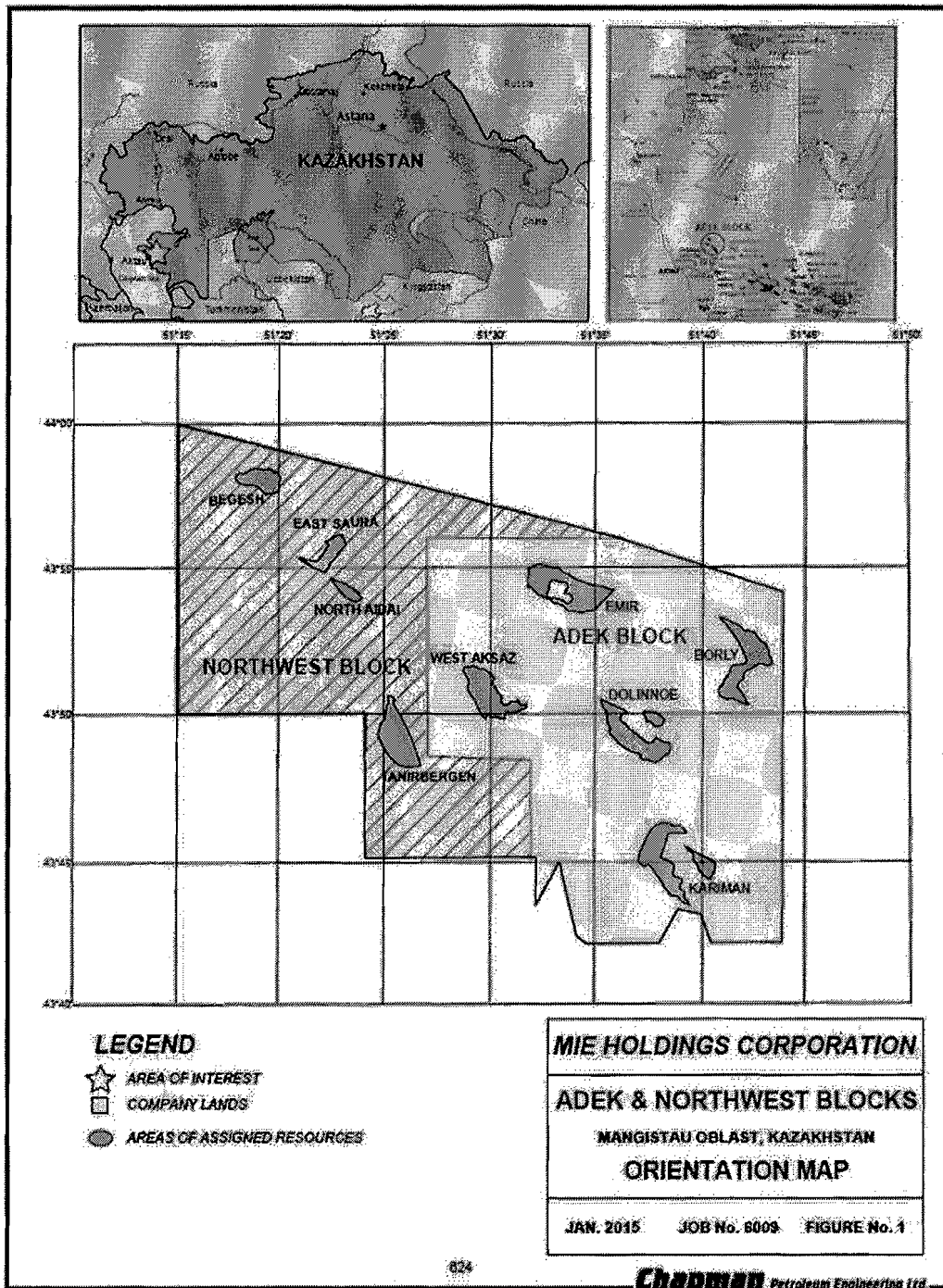
The economic worth of all the prospects was estimated using a net back approach. The Base case evaluation used in the Independent Valuation Report results in a \$7.2/stb of Net Present Value ("NPV") at 10%; this was then multiplied by the Best case Prospective Resources for each prospect and then multiplied by a 10% risk factor to arrive at an NPV for each prospect. The Internal Rate of Return ("IRR") was interpolated based on the NPV and IRR of the Base case and the resulting total NPV value for the prospects. Again, the results of the evaluation are presented in **Table 2**.

INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



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EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

Figure 9 – Location Map of Prospects Identified by Chapman and the Operator



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**INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)**

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**INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT**  
**EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016****QUALIFICATIONS**

RPS is an independent consultancy specializing in petroleum reservoir evaluation and economic analysis, with notable experience in the evaluation of oil and gas properties. Except for the provision of professional services on a fee basis, RPS does not have a commercial arrangement with any other person or company involved in the Asset that is the subject of this report.

The lead professionals involved in this work are RPS Employees and hold degrees in geology, geophysics, petroleum engineering and related subjects; and have relevant experience in the practice of geology, geophysics or petroleum engineering.

Mr Gordon Taylor, Managing Director, Consulting for RPS Energy, has reviewed this report. He holds a B.Sc. Geological Sciences and M.Sc. Geotechnical Engineering from Birmingham University, United Kingdom. Mr Taylor is a Chartered Geologist and Chartered Engineer with over 35 years experience in the upstream oil and gas sector, working in the UK and internationally. At RPS, Mr Taylor has been involved in projects ranging from basin-scale exploration through to field development, reserves reporting, valuations and mergers and acquisition ("M&A") advisory, in the North Sea, India, Southeast Asia and other parts of the world including North and South Americas, and the Atlantic Margin. Mr Taylor is a Fellow of The Geological Society and Chartered Geologist ("C.Geol"), Member and Chartered Engineer ("C.Eng") of the Institute of Materials, Mining and Metallurgy, Member of the American Association of Petroleum Geologists ("AAPG"), Certified Petroleum Geologist ("CPG") of the Professional Affairs Division of the AAPG, and Member of the Society of Petroleum Engineers.

In preparing this report, RPS relied upon factual information including ownership, technical, well and seismic data, contracts, and other relevant data supplied by REB. The work was undertaken by a team of professional petroleum engineers, geoscientists and petroleum economists. We have used standard petroleum engineering techniques in estimating the Reserves. These techniques combine geological and production data with detailed information concerning fluid characteristics and reservoir pressures. We have estimated the degree of uncertainty inherent in the measurements and interpretation of the data, and have calculated a range of Reserves. We have taken the working interest that MIE has in the Asset as presented by MIE. We have not investigated, nor do we make any warranty as to the MIE's interest in the Asset.

**BASIS OF OPINION**

The evaluation presented in this report reflects our informed judgment, based on accepted standards of professional investigation, but is subject to generally recognized uncertainties associated with the interpretation of geological, geophysical and engineering data. The evaluation has been conducted within our understanding of petroleum legislation, taxation and other regulations that currently apply to the Asset. However, RPS is not in a position to attest to the Asset title, financial interest relationships or encumbrances related to the Asset. Our estimates of Reserves and Resources are based on data made available to us for this purpose. We have accepted, without independent verification, the accuracy and completeness of these data.

The report represents RPS's best professional judgment and should not be considered a guarantee, or prediction of results. It should be understood that any evaluation, particularly one involving future performance and development activities may be subject to significant variations over short periods of time as new information becomes available. This report relates specifically and solely to the subject Asset and is conditional upon various assumptions that are described herein. This report must, therefore, be read in its entirety. This report was provided for the sole use of REB, its advisors and the Securities Commission Malaysia ("SCM") on a fee basis.



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**INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)**

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**INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT**  
**EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016**

RPS has given its written consent to the issue of this document with its name included within it; and with inclusion of the results presented therein and references thereto in submissions by REB to the SCM, and inclusion of this report in the circular to the shareholders of REB. Prior to the issuance of this report or sections of this report to a third party, RPS requests that we are able to view the said release in order to check its wording and context. Specifically, excerpts may only be reproduced or published (as required for regulated securities reporting purposes) with the express written permission of RPS.

RPS accepts responsibility for the interpretations and professional opinions contained in this report, as set out in this part of this document; and to the best of our knowledge and belief RPS has taken all reasonable care to ensure that such is the case. The information contained in this report is in accordance with the facts and does not omit anything likely to affect the importance of such information.

Yours faithfully,

**RPS Energy Consultants Limited**

A handwritten signature in black ink, appearing to read 'Gordon R Taylor'.

Gordon R Taylor, *CEng, CGeol*

**Managing Director, Consulting**

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INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)

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# APPENDIX I

## GLOSSARY OF TECHNICAL TERMS

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INDEPENDENT UPSIDE SUMMARY REPORT *(Cont'd)*

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EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

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EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**APPENDIX - GLOSSARY OF TECHNICAL TERMS**

1C	Low Estimate Contingent Resources
2C	Best Estimate Contingent Resources
3C	High Estimate Contingent Resources
1P	Proved Reserves
2P	Proved plus Probable Reserves
3P	Proved plus Probable plus Possible Reserve
Acre	Area in acre
AOF	Absolute Open Flow
API	American Petroleum Institute
B	billion
bbl	barrels
bbl/d	barrels per day
BBTUD	Billions of British Thermal Units per Day
bcpd	barrels of condensate per day
BOE	barrel of oil equivalent
$B_g$	gas formation volume factor
$B_{gi}$	gas formation volume factor (initial)
$B_o$	oil formation volume factor
$B_{oi}$	oil formation volume factor (initial)
$B_w$	water volume factor
bcpd	barrels of condensate per day
bopd	barrels of oil per day
BTU	British Thermal Unit
Bscf	billions of standard cubic feet
bwpd	barrels of water per day
°C	Temperature in Centigrade
cc	cubic centimetre
CGR	condensate gas ratio
cP	Viscosity in centiPoise
DCQ	daily contracted quantity direct
DST	Drill Stem Test
Entitlement Volumes	the volumes of oil and/or gas which a Contractor receives under the terms of a PSC
ELT	Economics Limit Test

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**APPENDIX - GLOSSARY OF TECHNICAL TERMS**

EUR	Estimated Ultimate Recovery
°F	Temperature in Fahrenheit
FBHP	flowing bottom hole pressure
FTHP	flowing tubing head pressure
FTHT	flowing tubing head temperature
ft	Length in feet
ft <sup>3</sup>	Volume in cubic feet
ftSS	depth in feet below sea level
GEF	Gas Expansion Factor
GIP	Gas in Place
GIIP	Gas Initially in Place
gm	Weight in grams
gm/cc	Density in grams per cubic centimetre
GOR	gas/oil ratio
GRV	gross rock volume
GSA	Gas Sales Agreement
GWC	gas water contact
lb	Weight in pounds
lb/cuft	Density in pounds per cubic feet
KB	Kelly Bushing
km	Length in kilometres
km <sup>2</sup>	Area in square kilometres
km <sup>3</sup>	Volume in cubic kilometres
m	Length in meter
MM	million
MM\$	million US dollars
MD	measured depth
mD	permeability in millidarcies
MDT	Modular Formation Dynamics Tester
m <sup>3</sup>	cubic metres
m <sup>3</sup> /d	cubic metres per day
MMscf/d	millions of standard cubic feet per day
Money of the Day	Cash values calculated to include the effect of inflation
NTG	net to gross ratio

## INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**APPENDIX - GLOSSARY OF TECHNICAL TERMS**

NPV	Net Present Value
OWC	oil water contact
P1	Proved Reserves
P2	Probable Reserves
P3	Possible Reserves
P <sub>10</sub>	Probability of 10% chance the value would be larger than the reported and considered high value
P <sub>50</sub>	Probability of 50% chance the value would be larger than the reported and considered best value
P <sub>90</sub>	Probability of 90% chance the value would be larger than the reported and considered low value
P <sub>b</sub>	bubble point pressure
P <sub>c</sub>	capillary pressure
petroleum	deposits of oil and/or gas
phi	porosity fraction
phie	Effective porosity fraction
P <sub>i</sub>	initial reservoir pressure
PRMS	Petroleum Resources Management System (SPE Terminology)
PSC	Production Sharing Contract
psi	pounds per square inch
psia	pounds per square inch absolute
psig	pounds per square inch gauge
rcf	Volume in reservoir cubic feet
Real	Cash values calculated to exclude the effects of inflation
scf	standard cubic feet measured at 14.7 pounds per square inch and 60°F
scfd	standard cubic feet per day
scf/stb	standard cubic feet per stock tank barrel
stb	stock tank barrels measured at 14.7 pounds per square inch and 60°F
stb/d	stock tank barrels per day
stb/MMscf	stock tank barrels per million standard cubic feet measured at 14.7 pounds per square inch and 60°F
STOIP	stock tank oil initially in place
S <sub>w</sub>	water saturation
US\$	United States Dollars
TAC	Technical Assistance Contract

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**INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)**

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**INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT**  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016**APPENDIX - GLOSSARY OF TECHNICAL TERMS**

TAN	Total Acid Number (of oil)
Tscf	trillion standard cubic feet
TVDSS	true vertical depth (sub-sea)
TVT	true vertical thickness
TWT	two-way time
US\$	United States Dollar
V <sub>sh</sub>	shale volume
WI	Working Interest
WC	water cut
WHP	Well Head Pressure
$\phi$	porosity





INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

## **APPENDIX II**

# **RESERVES AND RESOURCES DEFINITIONS AND GUIDELINES**

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INDEPENDENT UPSIDE SUMMARY REPORT *(Cont'd)*

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INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016



## INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT

EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

### RESERVES AND RESOURCES DEFINITIONS AND GUIDELINES

Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association

of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (PRMS)

Definitions and Guidelines (10)

#### Preamble

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be-discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

International efforts to standardize the definition of petroleum resources and how they are estimated began in the 1930s. Early guidance focused on Proved Reserves. Building on work initiated by the Society of Petroleum Evaluation Engineers (SPEE), SPE published definitions for all Reserves categories in 1987. In the same year, the World Petroleum Council (WPC, then known as the World Petroleum Congress), working independently, published Reserves definitions that were strikingly similar. In 1997, the two organizations jointly released a single set of definitions for Reserves that could be used worldwide. In 2000, the American Association of Petroleum Geologists (AAPG), SPE and WPC jointly developed a classification system for all petroleum resources. This was followed by additional supporting documents: supplemental application evaluation guidelines (2001) and a glossary of terms utilized in Resources definitions (2005). SPE also published standards for estimating and auditing Reserves information (revised 2007).

These definitions and the related classification system are now in common use internationally within the petroleum industry. They provide a measure of comparability and reduce the subjective nature of resources estimation. However, the technologies employed in petroleum exploration, development, production and processing continue to evolve and improve. The SPE Oil and Gas Reserves Committee works closely with other organizations to maintain the definitions and issues periodic revisions to keep current with evolving technologies and changing commercial opportunities.

The SPE PRMS document consolidates, builds on, and replaces guidance previously contained in the 1997 Petroleum Reserves Definitions, the 2000 Petroleum Resources Classification and Definitions publications, and the 2001 "Guidelines for the Evaluation of Petroleum Reserves and Resources"; the latter document remains a valuable source of more detailed background information.

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources. It is expected that SPE PRMS will be supplemented with industry education programs and application guides addressing their implementation in a wide spectrum of technical and/or commercial settings.

It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should

<sup>10</sup> These Definitions and Guidelines are extracted from the Society of Petroleum Engineers / World Petroleum Council / American Association of Petroleum Geologists / Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) Petroleum Resources Management System document ("SPE PRMS"), approved in March 2007, and available, free and in full, at: [www.spe.org/spe-app/spe/industry/reserves/index.htm](http://www.spe.org/spe-app/spe/industry/reserves/index.htm)

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 INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)
 

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## INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT

EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

be clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

**RESERVES**

***Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.***

Reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status. To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented. To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

**Proved Reserves**

*Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.*

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. The area of the reservoir considered as Proved includes:

- the area delineated by drilling and defined by fluid contacts, if any, and
- adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.

In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved Reserves (see "2001 Supplemental Guidelines," Chapter 8). Reserves in undeveloped locations may be classified as Proved provided that the locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive. Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations. For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogues and sound engineering judgment considering the characteristics of the Proved area and the applied development program.

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**INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)**

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**INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT**  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016**Probable Reserves**

*Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.*

It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate. Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.

**Possible Reserves**

*Possible Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves*

The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate. Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.

**Probable and Possible Reserves**

(See above for separate criteria for Probable Reserves and Possible Reserves.)

The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects. In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area. Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources. In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.

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**INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)**

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**INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT**

EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**CONTINGENT RESOURCES**

*Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.*

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

**PROSPECTIVE RESOURCES**

*Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.*

Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analogue developments in the earlier phases of exploration.

**Prospect-** A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.

Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.

**Lead-** A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.

Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.

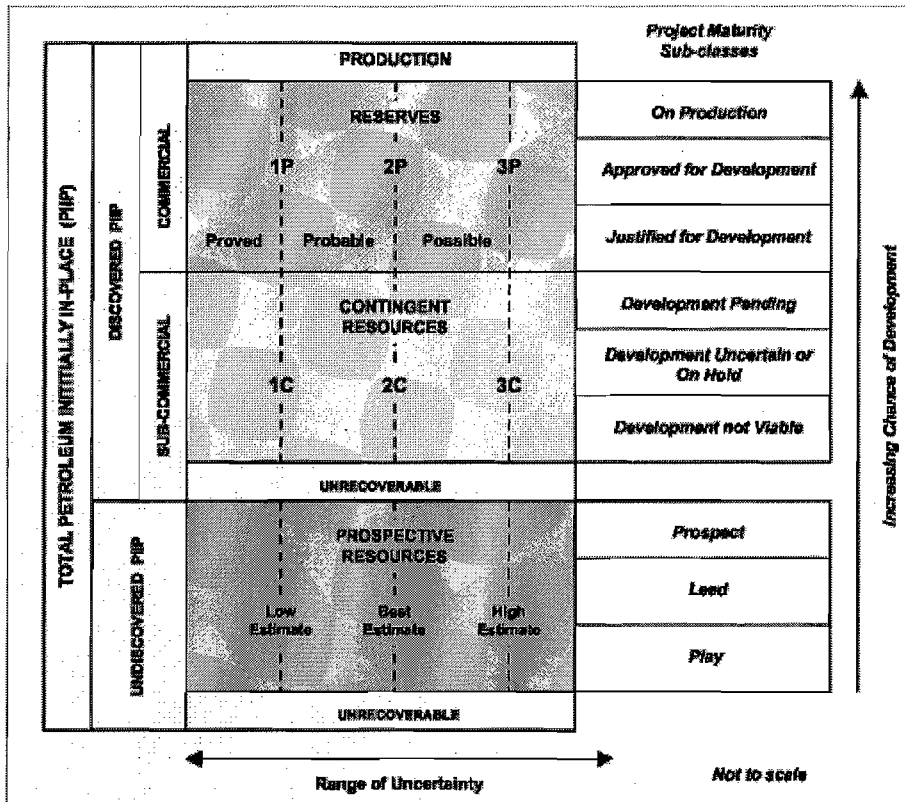
**Play-** A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.

Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)



INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
 EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016



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INDEPENDENT UPSIDE SUMMARY REPORT (Cont'd)

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INDEPENDENT UPSIDE POTENTIAL SUMMARY REPORT  
EMIR-OIL CONCESSION BLOCK, ONSHORE KAZAKHSTAN AS OF JULY 1, 2016

**End of Document**



## FAIRNESS OPINION LETTER

**Ferrier  
Hodgson**

CORPORATE FINANCE

Date: 10 October 2016

The Board of Directors  
**REACH ENERGY BERHAD**  
D3-5-8, Block D3  
Solaris Dutamas  
No. 1, Jalan Dutamas 1,  
50480 Kuala Lumpur

Dear Sirs

**PROPOSED ACQUISITION BY REACH ENERGY VENTURES SDN BHD, A WHOLLY-OWNED SUBSIDIARY OF REACH ENERGY BERHAD ("REACH ENERGY"), OF**

- (A) 60% EQUITY INTEREST IN PALAEONTOL B.V., A WHOLLY-OWNED SUBSIDIARY OF PALAEONTOL COOPERATIEF U.A. WHICH IN TURN IS AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF MIE HOLDINGS CORPORATION ("MIEH"); AND
- (B) 60% OF THE SHAREHOLDER LOANS IN PALAEONTOL B.V. FROM MIEH
- FOR A TOTAL CASH CONSIDERATION OF USD154,889,000, SUBJECT TO ADJUSTMENTS.**

Strictly Private &amp; Confidential

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## 1.0 INTRODUCTION

FHCA has been appointed by the Board on 31 March 2016 as an Independent Expert to provide a fairness opinion report ("Report") pursuant to Chapter 10, Appendix 10B, Part F, item 4 of the Main Market Listing Requirements of Bursa Securities. Our Report opines on the fairness of the Purchase Consideration.

An extract of the summarised opinion is presented and tabulated in this letter ("Letter"). Readers are advised to refer to our Report dated 10 October 2016. This Letter is prepared for inclusion in the Circular and should be read in conjunction with the same. All definitions used in this Letter shall have the same meaning as the words and expressions provided in the definitions section of the Circular, except where the context otherwise requires or where otherwise defined herein.

## 2.0 BACKGROUND INFORMATION ON PALAEONTOL B.V.

Palaeontol B.V. is an investment holding company and is the sole interest holder of Emir-Oil which holds the entire subsoil use rights (100% working interest) in the Emir-Oil Concession Block. The Emir-Oil Concession Block is located onshore in the Mangystau Oblast (situated in the southwestern region of the Kazakhstan), about 40 km northeast of the City of Aktau which is Kazakhstan's largest sea-port in the Caspian Sea coast. The Emir-Oil Concession Block has a total contract area of approximately 850.3 km<sup>2</sup> and comprises the following:

- i) four (4) Producing Fields (namely, Aksaz condensate-rich gas field, Dolinnoe oil field, Emir oil field and Kariman oil field) with a total contract area of approximately 45.5 km<sup>2</sup>; and
- ii) an Exploration Area with a total contract area of approximately 804.8 km<sup>2</sup>. The following discovered fields and prospects are included in the Exploration Area:
  - a) two Development Fields (namely, the North Kariman oil field and Yessen oil field) which have been under pilot production since June 2012 and April 2013, respectively. Emir-Oil has initiated the regulatory process for the North Kariman Application and Yessen Application which could potentially increase the contract area of the Producing Fields.



**BAKER TILLY  
MONTEIRO HENG**

Ferrier Hodgson is an affiliation of independent partnerships/entities

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KUALA LUMPUR  
SINGAPORE  
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Affiliated through:  
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CARIBBEAN  
UNITED KINGDOM  
UNITED STATES  
KLC Kennic Lui & Co.  
CHINA  
HONG KONG

## FAIRNESS OPINION LETTER (Cont'd)

# Ferrier Hodgson

CORPORATE FINANCE

As at the LPD, Emir-Oil has submitted the North Kariman Application and Yessen Application to the Geological Department (Western Region) of the Committee of Geological & Subsoil Use, Ministry of Investment & Development, Kazakhstan in February 2016 and July 2016, respectively.

- b) six Prospects (namely, Borly, Aidai, Begesh, East Saura, North Aidai, and Tanirbergen) which have been identified outside the Producing Fields for future exploration, appraisal, development and production. Additionally, four Prospects have been identified which are within and surrounding the Producing Fields (namely, Aksaz condensate-rich gas field, Dolinnoe oil field, Emir oil field and Kariman oil field).

On 16 June 2016, the Company has been notified by MIEH that the first exploration well located in the Aidai block, namely Aidai-1 yielded positive results during the initial testing phase.

### 3.0 TERMS OF REFERENCE

#### Sources of Information

The sources of information which we have used to form our opinion on the fairness of the Purchase Consideration are as follows:-

- (i) Reach Energy's announcement dated 5 March 2016;
- (ii) the financial and tax due diligence report on Emir-Oil and Palaeontol B.V. prepared by KPMG Tax & Advisory LLC, Kazakhstan;
- (iii) the Accountants' Report prepared by PricewaterhouseCoopers;
- (iv) Tax structuring report prepared by KPMG Tax & Advisory LLC, Kazakhstan;
- (v) Tax implication report prepared by BDO Tax Services Sdn Bhd;
- (vi) Legal due diligence report on Palaeontol B.V. prepared by Houthoff Buruma;
- (vii) Legal due diligence report on Emir-Oil prepared by Signum Law Firm;
- (viii) Independent Market Research report prepared by Frost & Sullivan;
- (ix) SPA, SPA Amendment No. 1 and SPA Amendment No. 2;
- (x) SHA;
- (xi) the financial forecast and projections of the Palaeontol B.V. Group for FYE 31 December 2016 to 2036 provided by the directors and management of Reach Energy;
- (xii) the Independent Technical Expert and Valuation Report;
- (xiii) the Independent Technical Review report prepared by Energy Quest Sdn Bhd ("Energy Quest");
- (xiv) the Exploration Contract;
- (xv) the Production Contracts;
- (xvi) Representation and explanation by the directors and management of Reach Energy; and
- (xvii) Other publicly available information in respect of the industry that Reach Energy and the Palaeontol B.V. Group are involved in.

We have made all reasonable enquiries and conducted our own reviews, where possible, with regards to the information provided to us. We have also relied on the Board and management of Reach Energy to exercise due care to ensure that all information and documents provided to us and that all relevant facts, information and representations necessary for our evaluation of the Proposed Acquisition have been disclosed to us and that such information is accurate, valid and there is no omission of material facts, which would make any information provided to us incomplete, misleading or inaccurate. We have appointed Energy Quest to undertake an independent technical review of the Independent Technical Expert and Valuation Report and they are of the opinion that the petroleum resources assessment conducted by RPS is fair, and within the reasonableness of industry approach; and the CAPEX and OPEX are fair estimates.

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**FAIRNESS OPINION LETTER (Cont'd)**

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**Ferrier  
Hodgson**

CORPORATE FINANCE

Based on the reviews and enquiries made by us and taking into consideration the technical review conducted by Energy Quest, we are satisfied that the information and documents provided by Reach Energy to us are sufficient, the bases and assumptions used for the financial forecast and projections are reasonable and we have no reason to believe that any such information provided to us is untrue, inaccurate or misleading or the disclosure of which might reasonably affect our evaluation and opinion as set out in this Letter. We have also assumed that the Proposed Acquisition will be implemented based on the terms as set out in the SPA without material waiver or modification.

It should be noted that the valuation in itself is highly dependent on, amongst others, the amount of reserves located therein, the ability to extract and sell the O&G extracted, the market price and risk associated therein, the achievability of the financial forecast and projections as well as the materialisation of the bases and assumptions used therein. It should also be highlighted that the valuation may be materially or adversely affected should the actual results or events differ from any of the bases and assumptions upon which the relevant reports and financial forecast and projections were based. As such, the adoption of such assumptions and projections does not imply that we warrant their validity or achievability. It is also based on prevailing economic, market and other conditions that may change significantly over a relatively short period of time.

**Date of Opinion**

The date of our opinion is 30 August 2016 (herein also referred to as the "Date of Opinion").

**Scope and Limitation of Review**

FHCA was not involved in the formulation of the Proposed Acquisition or any deliberation and negotiation on the terms and conditions of the Proposed Acquisition. Our role as the Independent Expert does not extend to expressing an opinion on the commercial merits of the Proposed Acquisition. The assessment of the commercial merits of the Proposed Acquisition is solely the responsibility of the Board, although we may draw upon their views in arriving at our opinion. As such, where comments or points of consideration are included on matters, which may be commercially oriented, these are incidental to our overall evaluation and concern matters, which we may deem material for disclosure. Further, our terms of reference does not include us rendering an expert opinion on legal, accounting and taxation issues relating to the Proposed Acquisition.

The directors and management of Reach Energy are responsible to make available to us all relevant information pertaining to the above evaluation exercise, including informing us of any material changes in the subject matters which may have an impact on our opinion.

Our work includes holding discussions and making enquiries from the directors and management of Reach Energy regarding representations made on the Palaeontol B.V. Group. We rely on the directors and management's oral and written representations and in no event shall we, our partners, principals, directors, shareholders, agents or employees be liable for any misrepresentations by the directors and management of Reach Energy.

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**FAIRNESS OPINION LETTER (Cont'd)**

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**Ferrier  
Hodgson**

CORPORATE FINANCE

Our procedures and inquiries did not include any verification work that constitutes an audit on the information that we have relied upon in preparing this Letter. Further, certain information relied upon are only representation of the directors and management of Reach Energy, as well as reliance on third party experts as explained in the relevant sections of this Letter. Based on Energy Quest's review of the methodologies and assumptions used in the Independent Technical Expert and Valuation Report; and after making all reasonable enquiries and to the best of our knowledge, we are satisfied that the bases and assumptions used for the financial forecast and projections are reasonable.

FHCA is satisfied with the review undertaken and opinion provided by Energy Quest and we have no reason to believe that any information and/or documents provided by Energy Quest is untrue, inaccurate or misleading or the disclosure of which might reasonably affect our evaluation and opinion as set out in this Report.

The preparation of the Report is based upon market, economy, industry and other conditions prevailing as at the Date of Opinion, as well as publicly available information and information provided to us by Reach Energy. Such conditions may change significantly over a relatively short period of time. No representation or warranty, whether expressed or implied, is given by FHCA that the information and documents provided will remain unaltered subsequent to the issuance of the Letter or Report. However, should FHCA become aware of any significant change affecting the information contained in this Letter or Report; being informed of any material changes in the subject matters which may have an impact on FHCA's opinion or have reasonable grounds to believe that any statement in this Letter or the Report is misleading or deceptive that there are material omission in this Letter or the Report, we will immediately notify the Board. If circumstances require, a supplementary Letter and Report will be issued to the Board.

We have obtained a responsibility statement from the Directors and management of Reach Energy that all material facts, financial and other information essential to our evaluation have been disclosed to us and that they have seen this Letter and the Report and they, individually and collectively, accept full responsibility for the accuracy of such information contained in this Letter and the Report, and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein false or misleading.

**4.0 VALUATION METHOD****Basis and Method Used to Form an Opinion on Valuation**

From a strategic standpoint, we take note that the Proposed Acquisition represents the Qualifying Acquisition for Reach Energy, marking its entry into the E&P business via a producing hydrocarbon asset.

In establishing our opinion on the valuation of the equity interest in Palaeontol B.V. which is the subject of the Proposed Acquisition, FHCA has considered various methodologies, which are commonly used for valuation, to arrive at its opinion on the fairness of the Purchase Consideration, taking into consideration Palaeontol B.V. Group's future earnings generating capabilities, projected future cash flows, its sustainability as well as various business considerations and risk factors affecting its business.

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**FAIRNESS OPINION LETTER (Cont'd)**

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**Ferrier  
Hodgson**

CORPORATE FINANCE

E&P companies are generally very capital intensive and rely heavily on their existing reserves, their ability to replace depleting reserves and the price of natural resources, which are depleting and subject to commodity price risk. In this instance, we have not considered Palaeontol B.V.'s ability to source for new oilfields in the region. It is always extremely difficult to predict the future prospects for any company or industry, and the oil and gas sector can be especially challenging. Pending government regulations or an incident exclusive to a specific region or company, can negatively impact the entire industry. Alternatively, a new discovery or advancements in production technology can ultimately lead to higher valuations due to optimism about potential future earnings.

Based on the above, FHCA had used the Discounted Free Cash Flows to Equity ("FCFE") Methodology as the primary methodology to assess the fairness of the Purchase Consideration. FHCA had also taken into consideration the Comparable Transaction Analysis ("CTA") and Adjusted Revalued Net Asset Valuation ("RNAV") Methodology as the secondary and tertiary methodology respectively to assess the fairness of the Purchase Consideration.

Further, FHCA has also considered the Relative Valuation Analysis ("RVA") and has concluded that this methodology is not suitable in the determination of the fairness of the Purchase Consideration as the RVA method seeks to compare a company's implied trading multiple to that of comparable companies to determine the firm's financial worth. Under the RVA, reference will be made to the valuation statistics of publicly listed companies with principal activities that we consider broadly comparable to the business of the Palaeontol B.V. Group to get an indication of the current market expectation with regards to the implied value of the Palaeontol B.V. Group. Palaeontol B.V. Group's only asset is the Emir-Oil Concession Block. E&P companies are commodity businesses which have no control over the prices they receive. They may vary their production and CAPEX based on current and future price expectations and can hedge their reserves by utilizing the futures market and as such the RVA may not accurately reflect the potential of the Palaeontol B.V. Group.

**Discounted FCFE Methodology**

Discounted FCFE Methodology is a valuation method used based on discounted cash flow, involving the application of an appropriately selected discount rate applied on the projected future cash flows to be earned by the equity holders of a company. FCFE is the free cash flow available to be paid to the equity shareholders of the company after all expenses, reinvestment and debt repayment.

For the purposes of the Discounted FCFE Methodology, reference was made to the valuation of companies listed on stock exchanges with principal activities that we consider broadly comparable to the Palaeontol B.V. Group ("Comparable Companies"). In arriving at the appropriate discount rate for Palaeontol B.V., we have applied the prevailing risk free rate, market risk premium and betas of available Comparable Companies with relevant adjustments made taking into consideration the gearing, the profile and other risk factors that may affect Palaeontol B.V..

All information obtained were sourced from S&P Capital IQ as at the Date of Opinion.

The projected FCFE as determined annually based on the Palaeontol B.V. Group's financial forecast and projection which shall be discounted using the equity discount rate adjusted based on the gearing level of Palaeontol B.V., if any.

## FAIRNESS OPINION LETTER (Cont'd)

# Ferrier Hodgson

CORPORATE FINANCE

The cost of equity takes into account a combination of risk factors associated with the industry in which the Palaeontol B.V. Group is involved in, namely, the systematic risk, i.e. the inherent market risk such as interest rate fluctuation, and the financing mix, i.e. the financing risk. These risks are translated into the required rate of return as determined below, which is built upon the Capital Asset Pricing Model ("CAPM"). For the purpose of determining the equity value of Palaeontol B.V., Comparable Companies' betas are adjusted (de-gearred) for their individual gearing ratio, and the median is then re-gearred based on the targeted gearing level of Palaeontol B.V. of 100% equity.

We have evaluated various companies which are involved in oil and gas industry in Malaysia and other than Sumatec Resources Berhad ("Sumatec") which has an O&G asset in Kazakhstan; and have concluded that they are not suitable comparable companies to Reach Energy due to the revenue segmentations as well as location of assets of these companies.

To determine the inputs for the CAPM, we have considered publicly listed companies which have more than fifty-one percent (51%) of its revenues are derived from O&G activities located in Kazakhstan, which will be similar to that of the Palaeontol B.V. Group's principal activities.

The Comparable Companies and the input parameters for CAPM as at the Date of Opinion, as extracted from S&P Capital IQ, are as follows:-

Comparable Company	Market Cap (RM million)	Levered Beta	Debt/Equity %	Unlevered Beta
Sumatec	367.28	0.72	6.06%	0.69
JSC Kazmunaigas Exploration Production	12,015.25	0.80	NIL	0.80
Tethys Petroleum Limited	37.18	1.32	196.43%	0.45
Nostrum Oil & Gas Plc	2,885.12	0.99	117.80%	0.53
Roxi Petroleum Plc	497.30	2.31	NIL	2.31
Jupiter Energy Limited	116.72	0.93	102.15%	0.54
Geo-Jade Petroleum Corporation	10,826.68	0.76	25.34%	0.64
<b>Median</b>				<b>0.64</b>

(Source: S&P Capital IQ as at the Date of Opinion)

In the evaluation of the equity interest in Palaeontol B.V., and based on the Discounted FCFE Methodology using inputs from the Comparable Companies, the following were noted:

CAPM Inputs	Data	Basis
Expected Debt/Equity Ratio of Palaeontol B.V.	NIL	Based on the targeted debt/equity ratio of the Palaeontol B.V. Group of 100% equity.
Equity Risk Premium	6.25%	Based on the equity risk premium for Unites States of America ("USA") <sup>(1)</sup> . The equity risk premium for USA is applied on the basis that the Comparable Companies selected are international, hence they are benchmarked against the equity risk premium of a mature. Subsequently, a country risk premium is applied as disclosed under Kazakhstan country risk premium.

## FAIRNESS OPINION LETTER (Cont'd)

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CAPM Inputs	Data	Basis
Risk-Free Rate	1.91%	Based on the USA Treasury yield for 20 years as extracted from the US Department of the Treasury as at the Date of Opinion. We have selected the twenty-year treasury rates to provide a better comparison for the length of the cash flows and the associated risk-free rate.
Kazakhstan Country Risk Premium	3.46%	Based on the country risk premium for Kazakhstan <sup>(1)</sup> as the Palaeontol B.V. Group's revenue is derived solely from Kazakhstan.
Re-gearred Beta	0.64	Re-gearred based on the targeted debt/equity ratio of the Palaeontol B.V. Group of 100% equity.
Discount rate derived using CAPM	9.36%	Computed based on the inputs above
Value of 60% equity interest in Palaeontol B.V. derived therefrom	USD235.15 million <sup>(3)</sup> and USD205.76 million <sup>(3)</sup>	Basis used for the computation of the valuation of the equity interest in Palaeontol B.V. includes the net future cash flow from operating, investing and financing activities (without taking into consideration any non-recurring cash flows) being discounted by the discount rate derived from the CAPM <sup>(2)</sup> followed by an illiquidity discount of 20% and 30%.

## Notes:

- (1) As extracted from <http://pages.stern.nyu.edu/~adamodar/> as at the Date of Opinion.
- (2) The gross cash flow from operating activities is dependent on the projected O&G production and prices (Palaeontol B.V.'s management estimation based on actual and forward prices, forward curve and/or contract).
- (3) An illiquidity discount of 20% and 30% had been applied to the discounted cash flows to derive the valuation of Palaeontol B.V.. As extracted from <http://people.stern.edu/adamodar/pdfiles/country/illiquidity.pdf>, illiquidity discount generally range from 20% to 30% to account for the unsystematic risks associated with private companies.

Bases used for the computation of the valuation of the equity interest in Palaeontol B.V. includes the Discounted FCFE Methodology based on financial forecast and projections over the duration of the Production Contracts. Premised on the above, the valuation of the 60% equity interest in Palaeontol B.V. based on the Discounted FCFE Methodology with an illiquidity discount of 20% and 30% is approximately USD235.15 million and USD205.76 million respectively with a midpoint of USD220.46 million. Based on the above,

- (i) The Purchase Consideration represents a discount of 34.13% and 24.72% based on the valuation of 60% equity interest in Palaeontol B.V. with an illiquidity discount of 20% and 30% respectively;
- (ii) The Adjusted Purchase Consideration (Maximum) represents a discount of 25.20% and 14.52% based on the valuation of 60% equity interest in Palaeontol B.V. with an illiquidity discount of 20% and 30% respectively.

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**FAIRNESS OPINION LETTER (Cont'd)**


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In undertaking the sensitivity analysis, we have identified three (3) key independent parameters, namely forecasted and projected oil prices, CAPEX and discount rates as these assumptions have significant impact on the cash flows of the Palaeontol B.V. Group. In addition, we had also performed sensitivity tests on other aspects of the cash flows such as the OPEX which could potentially be affected by currency exchange risks (including KZT against USD). However, the results were insignificant. We have stress tested the cash flows by varying the values adopted in the forecasted and projected oil prices, CAPEX and discount rate used on a 5% and 1% upward and downward variance respectively on the midpoint of the valuation range of USD220.46 million to arrive at a range of valuation of the Palaeontol B.V. Group's business and operations as shown below:

Sensitivity tested	Parameters	Low range of values USD' million	High range of values USD' million
Movement in oil prices	±5%	202.35	238.23
Movement in CAPEX	±5%	215.62	225.26
Movement in discount rate	±1%	205.49	236.85

Premised on the above, FHCA is of the opinion that the valuation of 60% equity interest in Palaeontol B.V. Group ranges from USD202.35 million to USD238.23 million.

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## FAIRNESS OPINION LETTER (Cont'd)

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## CTA

CTA is a valuation method whereby it seeks to compare the Purchase Consideration against other recent comparable transactions undertaken by O&G companies that had entered into proposed acquisitions of oilfields in Kazakhstan. FHCA has considered the valuation of the reserves as derived by RPS in its Independent Technical Expert and Valuation Report and compared the valuation therein to recently announced transactions involving the acquisition of oilfields in Kazakhstan. In selecting the comparable transactions, FHCA had extracted a list of completed oilfield acquisitions within the Kazakhstan region from S&P Capital IQ, then further narrowed it down to the following transactions where FHCA was able to derive publicly available information on:-

Date	Asset	Acquirer	Seller	Deal Size USD' million	2P reserves /MMboe	% acquired	Price/boe USD <sup>(10)</sup>	Average price/barrel for the month of acquisition (USD)	Geography of oilfield	Adjusted price/boe (USD) <sup>(11)</sup>	Crude Type
13-Jul	Kashagan Consortium	Kazmunaigas JSC <sup>(1)</sup>	Conocophillips	5,400	18,100.0 <sup>(2)</sup>	8.40%	3.55	107.9	Offshore	1.51	Light
13-Apr	Kara-ana, Eastern Kokarna and Matin	Geo-Jade <sup>(3)</sup>	JSC Maten Petroleum	525.8	73	95%	7.58	102.2	Onshore	3.40	Light
14-Apr	Caspian Investment	China Petroleum and Chemical Corporation <sup>(4)</sup>	Lukoil PJSC	1,087	63.0 <sup>(4)</sup>	50%	17.25	107.8	Offshore	7.34	Light
14-May	Kozhan Oil field	Geo-Jade <sup>(5)</sup>	International Mineral Resources II B.V.	340.5	110.9 <sup>(4)</sup>	100%	3.07	109.5	Onshore	1.28	Light
15-Jan	Karaturun Morskoi and Karaturun Vostochinyi fields	Sumatec <sup>(6)</sup>	Borneo Energy Oil and Gas Sdn Bhd	265.9	68.8	100%	3.86	47.8	Offshore	3.71	Light
15-Oct	Kashagan Consortium	National Welfare Fund Samruk-Kazyna <sup>(7)</sup>	Kazmunaigas JSC	4,700	18,100.0 <sup>(2)</sup>	8.40%	3.09	48.4	Offshore	2.92	Light
			Simple average							2.80 <sup>(12)</sup>	
			Median							3.40 <sup>(12)</sup>	
16-Mar	Emir-Oil Concession Block	Reach Energy	MIEH	154.9 <sup>(8)</sup>	89.4	60%	2.89		Onshore		Light
16-Mar	Emir-Oil Concession Block	Reach Energy	MIEH	175.89 <sup>(9)</sup>	89.4	60%	3.28				

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**FAIRNESS OPINION LETTER (Cont'd)**


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*Notes:*

1. *Extracted from Conocophillips' website (<http://www.conocophillips.com/newsroom/pages/news-releases.aspx?docid=1950002>)*
2. *This is an assumption made based on the 18.1 billion boe estimated recoverable oil in Kashagan field. Information was extracted from Oil & Gas Journal's website (<http://www.ogj.com/articles/print/volume-112/issue-2/exploration-development/giant-fields-retain-dominance-in-reserves-growth.html>)*
3. *Extracted from DongXing Securities Analyst Report on Geo-Jade Petroleum.*
4. *Extracted from Moody's website ([https://www.moody.com/research/Moodys-LUKOILs-sale-of-Caspian-Investment-Resources-to-Sinopec-is--PR\\_297358](https://www.moody.com/research/Moodys-LUKOILs-sale-of-Caspian-Investment-Resources-to-Sinopec-is--PR_297358)).*  
*The 63 million boe refers to Lukoil's portion only. In April 2014, China Petroleum and Chemical Corporation ("Sinopec") had offered to acquire the remaining 50% stake in the Caspian Investment for USD1.2 billion, which had failed to complete. Lukoil had then filed a suit against Sinopec in February 2015 seeking damages for non-completion of the deal which resulted in the deal closing at slightly lower price of USD1.087 billion. Extracted from Reuters (<https://www.rt.com/business/231039-lukoil-sinopec-london-court/>). We have not considered this transaction to be an outlier despite the price/boe of USD7.48 because this completed transaction was still conducted under a willing-buyer and willing-seller basis.*
5. *Extracted from Geo-Jade's public announcement dated 13 August 2015. The aforesaid announcement did not disclose if the reserves are based on 2P or 3P.*
6. *Extracted from Sumatec's circular dated 20 May 2015. The deal size have been adjusted to include the payment for ancillary assets (such as the oil wells, processing facilities, road, artificial islands, buildings, construction, machinery, equipment and vehicles).*
7. *Extracted from Kashagan Today's website (<http://kashagan.today/?p=8270>).*
8. *Based on the Purchase Consideration, before any adjustments thereon.*
9. *Based on the Adjusted Purchase Consideration (Maximum), calculated based on the Purchase Consideration plus the agreed maximum amount of the Net Contribution Amount of USD21.0 million.*
10. *Price/boe was calculated based on the respective acquisition price/ (2P reserves x% acquired).*
11. *Adjusted price/boe was arrived at based on the following formula:  
 Formula = (price/boe x average price/barrel in August 2016)(i.e. being the full month of the Date of Opinion) / Average price/barrel in the month of acquisition.  
 Average price/barrel for the month of August 2016 is USD45.84. Data for the historical Brent spot price/barrel was acquired from EIA's website (<http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=rbrte&f=D>). The purpose for the adjustment is to take into consideration the fluctuation in oil prices during the years when the comparable transactions were undertaken and to consider the impact of the prevailing oil prices on the different transactions had they been undertaken under current market conditions. A similar adjustment was not made to the price/boe of the Proposed Acquisition as the transaction is current and the price/boe of the Proposed Acquisition is based on the terms of the SPA.*
12. *For the purpose of computing the average and median price/boe of the recent comparable transactions, we have excluded the inputs from the acquisition of the Kashagan Consortium as the percentage of acquisition was too small and the 2P reserves are significantly larger than the other asset acquisitions in the CTA table; and the input from the acquisition of Caspian Investment as the adjusted price per boe was significantly higher compared to other acquisitions in the CTA table. As such, the computation of the average and median are made up of the remaining three (3) asset acquisitions in the CTA table.*

Based on the above analysis, the adjusted price per boe of 2P Reserves of recent transactions ranges from USD1.28 to USD7.34 per boe whilst the simple average and median are USD2.80 per boe and USD3.40 per boe respectively, excluding the inputs from the acquisition of the Kashagan Consortium as the percentage of acquisition was too small and the 2P reserves are significantly larger than the other asset acquisitions in the CTA table; and the input from the acquisition of Caspian Investment as the adjusted price per boe was significantly higher compared to other acquisitions in the CTA table. Based on the Purchase Consideration and the Adjusted Purchase Consideration (Maximum) divided by the effective interest in the Emir-Oil Concession Block's 2P Reserves, the Purchase Consideration and the Adjusted Purchase Consideration (Maximum) of USD2.89 and USD3.28 per boe respectively are within the range of recently completed comparable transactions, higher than the simple average but lower than the median of recent comparable transactions.

## FAIRNESS OPINION LETTER (Cont'd)

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## Adjusted RNAV Methodology

The RNAV Methodology seeks to adjust the NA value of a company to take into consideration the revaluation of assets of a company, which in this instance relates to its 2P Reserves. It is computed in the following manner:-

RNAV = Current NA value - contingent liabilities - tax shield on accumulated losses + net revaluation of its assets.

The RNAV is then adjusted to take into consideration the terms of the SPA wherein the Purchase Consideration comprises the Shareholder Loans at the Relevant Percentage.

Computation to determine the Adjusted RNAV is as follows:-

	USD' million
NA of the Palaeontol B.V. Group as at 31 December 2015 <sup>(1)</sup>	19.16
Revaluation of 2P Reserves <sup>(2)</sup>	65.46
RNAV of Palaeontol B.V. Group <sup>(3)(4)(5)</sup>	84.62
Add: Book value of the Shareholder Loan <sup>(1)</sup>	308.74
Adjusted RNAV of the Palaeontol B.V. Group @ 60% attributed to Reach Energy	393.36 236.02

Notes:

- (1) Based on the Accountants' Report.
- (2) Based on the indicative 2P Reserves of the Emir-Oil Concession Block estimated at 70.0 MMstb of oil reserves and 116.3 Bscf of gas reserves by RPS and the NPV valuation based on a discount rate of 13% and 17% of between USD315 million and USD412 million as assessed by RPS. Hence, the mid-point of the said NPV valuation, USD363.50 million is taken into consideration less the exploration and evaluation assets and oil and gas properties under property, plant and equipment of USD25.22 million and USD245.73 million respectively; and amount recognised as mining rights under intangible assets of USD27.09 million.
- (3) Other than the adjustments as set out in Note 2 above, no other adjustment has been made to property, plant and equipment as no revaluation was carried out on the remaining assets which only make up 1.0% of the total PPE.
- (4) Based on the Accountants' Report, there are no contingent liabilities or accumulated losses in the Palaeontol B.V. Group. The computation of RNAV is after taxation.
- (5) There are no other applicable taxes affecting the Palaeontol B.V. Group holding level aside from withholding taxes. Other relevant taxes have already been accounted for at the Emir-Oil level.

Based on the above analysis, the Purchase Consideration and the Adjusted Purchase Consideration (Maximum) are at a 34.37% and 25.48% discount respectively to the Adjusted RNAV of the Palaeontol B.V. Group.

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**FAIRNESS OPINION LETTER (Cont'd)**

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**5.0 LIMITATIONS**

The primary assets of oil and gas companies are their entitlements to future production from reserves, and one of the distinct features of the industry is its depleting asset base and need for replacement through drilling and acquisition. The physical attributes of the asset class - located miles under the ground in rocks with variable properties and uncertain boundaries, relying on indirect measurements that are expensive to perform - means that reserves estimates and deliverability are uncertain, and because future production is subject to variable production rates, unknown prices and cost, and is impacted by regulatory and fiscal uncertainty, the value of reserves are uncertain. Investments in E&P companies are essentially commodity plays. Their market prices are highly correlated to the price expectations of the commodities they sell. The analysis therefore is based heavily on reserve life and the ability to extract the O&G.

It should be noted that the valuation in itself is highly dependent on, amongst others, the amount of reserves located therein, oil price assumptions, the ability to extract (production performance) and sell the O&G extracted, the market price and risk associated therein, the achievability of the financial forecast and projection as well as the materialisation of the bases and assumptions used therein. It should also be highlighted that the valuation may be materially or adversely affected should the actual results or events differ from any of the bases and assumptions upon which the relevant reports and financial forecast and projection were based.

One should also recognise that there is no publicly listed company which may be considered to be identical to the Palaeontol B.V. Group in terms of, inter-alia, composition of business activities, scale of business operations, production capacity, risk profile, asset base, accounting and tax policies, track record, future prospects, competitive environment, financial positions and that such business may have fundamentally different profitability objectives. One should also note that any comparisons made with respect to the Comparable Companies and comparable transactions are merely to provide a comparison to the implied valuation of the Palaeontol B.V. Group and the selection of Comparable Companies and comparable transactions and adjustments made are highly subjective and judgmental and the selected companies may not be entirely comparable due to various factors.

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**FAIRNESS OPINION LETTER (Cont'd)**

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**6.0 CONCLUSION**

It should be recognised that the valuation of any entity is always subject to a great deal of uncertainty and involves a high degree of subjectivity and element of judgement. Because of the susceptibility of valuations to inputs of the model applied, valuations can change quite quickly in response to market changes or changes in the surrounding circumstances, including the market outlook (whether in general or relating to the industry itself).

In establishing our opinion on the valuation of the equity interest in the Palaeontol B.V. Group which is the subject of the Proposed Acquisition, FHCA has considered various valuation methodologies, which are commonly used for valuation, to arrive at its opinion on the fairness of the Purchase Consideration, taking into consideration the Palaeontol B.V. Group's future earnings generating capabilities, projected future cash flows and its sustainability as well as various business considerations and risk factors affecting its business.

FHCA had used the Discounted FCFE Methodology as the primary methodology to assess the fairness of the Purchase Consideration. FHCA had also taken into consideration the CTA and the Adjusted RNAV Methodology as the secondary and tertiary methodology respectively, to assess the fairness of the Purchase Consideration and has considered the following:-

- (i) Based on the Discounted FCFE Methodology:
  - a) The Purchase Consideration represents a discount of 34.13% and 24.72% based on the valuation of 60% equity interest in Palaeontol B.V. of USD235.15 million and USD205.76 million with an illiquidity discount of 20% and 30% respectively;
  - b) The Adjusted Purchase Consideration (Maximum) represents a discount of 25.20% and 14.52% based on the valuation of 60% equity interest in Palaeontol B.V. of USD235.15 million and USD205.76 million with an illiquidity discount of 20% and 30% respectively.
- (ii) Based on the sensitivity analysis conducted on three (3) key independent parameters namely forecast and projected oil prices, CAPEX and discount rates which have significant impact on the cash flows of the Palaeontol B.V. Group, the valuation of 60% equity interest in the Palaeontol B.V. Group ranges from USD202.35 million to USD238.23 million. Both the Purchase Consideration and Adjusted Purchase Consideration (Maximum) are lower than the range of values derived from the said sensitivity analysis.
- (iii) Based on the CTA, the adjusted price per boe of 2P Reserves, with adjustments made to price per boe after taking into consideration the fluctuation in oil prices throughout the years and to consider the impact of the price sensitivity of the different transactions if they were conducted in the current market environment, of recent completed comparable transactions involving Kazakhstan O&G companies range from USD1.28 to USD7.34 per boe whilst the simple average and median are USD2.80 per boe and USD3.40 per boe respectively, excluding the inputs from the acquisition of the Kashagan Consortium as the percentage of acquisition was too small and the 2P reserves are significantly larger than the other asset acquisitions in the CTA table; and the input from the acquisition of Caspian Investment as the adjusted price per boe was significantly higher compared to other acquisitions in the CTA table. The Purchase Consideration per boe of 2P Reserves of USD2.89 per boe and the Adjusted Purchase Consideration (Maximum) per boe of USD3.28 per boe are within the range of recent comparable transactions, higher than the simple average but lower than the median of recent completed comparable transactions.

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**FAIRNESS OPINION LETTER (Cont'd)**

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- (iv) Based on the Adjusted RNAV Methodology, the Purchase Consideration and Adjusted Purchase Consideration (Maximum) are at a 34.37% and 25.48% discount respectively to the Adjusted RNAV.
- (v) The Emir-Oil Concession Block currently comprises actively producing oil fields with established infrastructure, logistics and facilities in place. Therefore, the development risks associated with the Emir-Oil Concession Block are mitigated to an extent.

Premised on the above, FHCA is of the opinion that the Purchase Consideration is FAIR.

**7.0 RESTRICTIONS**

Save for the purpose stated herein, this Letter cannot be relied upon by any party other than Reach Energy. Accordingly, we are not responsible or liable for any form of losses however occasioned to any third party as a result of the circulation, publication, reproduction or use of, or reliance on this Letter, in whole or in part. We are not required to give testimony or to be in attendance in court with reference to the opinion herein provided. Neither FHCA nor any of its members or employees undertakes responsibilities arising in any way whatsoever to any person in respect of this Letter, including any error or omission therein, however caused, as a result of the unauthorised circulation, publication, reproduction or use of this Letter, or any part hereof.

Should FHCA become aware of any significant change affecting the information contained in this Letter or Report or have reasonable grounds to believe that any statement in this Letter or the Report is misleading or deceptive or have reasonable grounds to believe that there is material omission in this Letter or the Report, we will immediately notify the Board. If circumstances require, a supplementary Letter and Report will be issued to the Board

Yours faithfully  
FHMH CORPORATE ADVISORY SDN BHD



ANDREW HENG  
Partner



NARIMAH MOHD PERAI  
Executive Director

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PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT  
29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON

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The Board of Directors  
Reach Energy Berhad  
D3-5-8, Block D3  
Solaris Dutamas  
No. 1, Jalan Dutamas 1  
50480 Kuala Lumpur  
Malaysia

10 October 2016

PwC/NAL/WYS/FJ/VC/nm/0227C

Dear Sirs,

**Reach Energy Berhad**  
**Report on the Compilation of Pro Forma Consolidated Statements of Financial Position**  
**as at 29 February 2016**

- 1 We have completed our assurance engagement to report on the compilation of the Pro Forma Consolidated Statements of Financial Position as at 29 February 2016 of Reach Energy Berhad (“REB” or “the Company”). The Pro Forma Consolidated Statements of Financial Position which is set out in the Appendix (which we have stamped for the purpose of identification), have been compiled by the Directors of the Company for the inclusion in the Circular to Shareholders in connection with the proposed acquisition of equity shares and shareholders loan in Palaeontol B.V. and the proposed placement of new shares by the Company (“Proposals”).
- 2 The applicable criteria on the basis of which the Directors have compiled the Pro Forma Consolidated Statements of Financial Position are described in the Notes of the Appendix and are specified in the Prospectus Guidelines issued by the Securities Commission (“Prospectus Guidelines”).
- 3 The Pro Forma Consolidated Statements of Financial Position have been compiled by the Directors, for illustrative purposes only, to show the effects of the Proposals on the Consolidated Statements of Financial Position presented had the Proposals been effected at the date stated. As part of this process, information about the Company’s financial position has been extracted by the Directors from the Company’s audited statement of financial position as at 29 February 2016.

**The Directors’ Responsibility for the Pro Forma Consolidated Statements of Financial Position**

- 4 The Directors are responsible for compiling the Pro Forma Consolidated Statements of Financial Position on the basis set out in Note 2 to Note 4 of the Appendix and in accordance with the requirements of the Prospectus Guidelines.

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*PricewaterhouseCoopers (AF 1146), Chartered Accountants,  
Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia  
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, [www.pwc.com/my](http://www.pwc.com/my)*

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PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT  
29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON  
(Cont'd)

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**The Board of Directors**  
**Reach Energy Berhad**  
**PwC/NAL/WYS/FJ/VC/nm/0227C**  
**10 October 2016**

### **Our Responsibilities**

- 5 Our responsibility is to express an opinion as required by the Prospectus Guidelines, about whether the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, by the Directors on the basis set out in Note 2 to Note 4 of the Appendix.
- 6 We conducted our engagement in accordance with International Standards on Assurance Engagements (“ISAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus”, issued by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the Pro Forma Consolidated Statements of Financial Position on the basis set out in Note 2 to Note 4 of the Appendix.
- 7 For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any financial information used in compiling the Pro Forma Consolidated Statements of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Consolidated Statements of Financial Positions. In providing this opinion, we do not accept any responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.
- 8 The purpose of the Pro Forma Consolidated Statements of Financial Position to be included in the Circular to Shareholders is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 29 February 2016 would have been as presented.
- 9 A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statements of Financial Position have been compiled in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Consolidated Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:
- The related pro forma adjustments give appropriate effect to those criteria; and
  - The Pro Forma Consolidated Statements of Financial Position reflect the proper application of those adjustments to the unadjusted financial information.



PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT  
29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON  
(Cont'd)



**The Board of Directors**  
**Reach Energy Berhad**  
PwC/NAL/WYS/FJ/VC/nm/0227C  
10 October 2016

**Our Responsibilities (continued)**

- 10 The procedures selected depend on our judgment, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Pro Forma Consolidated Statements of Financial Positions have been compiled, and other relevant engagement circumstances. The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statement of Financial Position.
- 11 We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Our Opinion**

- 12 In our opinion, the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis set out in Note 2 to Note 4 of the Appendix.

**Other Matters**

- 13 This report is addressed to the Board of Directors of Reach Energy Berhad for inclusion in the Circular to Shareholders in connection with the Proposals and should not be used or relied upon for any other purposes. Our report is not to be disseminated to any third party in whole or in part. Accordingly, we will not accept any liability or responsibility to any other party to whom our report is shown or into whose hands it may come.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Nurul A'in Binti Abdul Latif', written in a cursive style.

NURUL A'IN BINTI ABDUL LATIF  
(No. 2910/02/17 (J))  
Chartered Accountant

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**REACH ENERGY BERHAD**

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 29 FEBRUARY 2016**

The Pro Forma Consolidated Statements of Financial Position of Reach Energy Berhad ("REB" or "the Company") as set out below have been prepared, solely for illustrative purposes, to show the effects on the audited statement of financial position of the Company as at 29 February 2016, of the Proposals set out in Note 2, had all been effected on that date, and should be read in conjunction with the notes thereon.

**Minimum Scenario**

	Audited 29.2.2016 RM'000	Proposals	
		Pro Forma I After adjustments for Proposed Acquisition RM'000	Pro Forma II After Pro Forma I and Proposed Placement RM'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	264	1,491,951	1,491,951
Intangible assets	-	705	705
Prepayments and other receivables	-	4,577	4,577
Restricted cash	-	5,924	5,924
	<u>264</u>	<u>1,503,157</u>	<u>1,503,157</u>
<b>CURRENT ASSETS</b>			
Inventories	-	5,443	5,443
Trade receivables	-	24,100	24,100
Other receivables, deposits and prepayment	4,735	31,851	31,851
Deposits, cash and bank balances	778,082	67,173	241,173
	<u>782,817</u>	<u>128,567</u>	<u>302,567</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	-	101,671	101,671
Other payables and accruals	2,022	238,530	238,530
Current tax liability	11,690	11,690	11,690
Amount due to related parties	-	61,117	61,117
	<u>13,712</u>	<u>413,008</u>	<u>413,008</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>	<u>769,105</u>	<u>(284,441)</u>	<u>(110,441)</u>

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**REACH ENERGY BERHAD**

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 29 FEBRUARY 2016 (CONTINUED)**

**Minimum Scenario (continued)**

	Audited 29.2.2016 RM'000	<b>Proposals</b>	
		<b>Pro Forma I</b> After adjustments for Proposed <u>Acquisition</u> RM'000	<b>Pro Forma II</b> After Pro Forma and Proposed <u>Placement</u> RM'000
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	-	44,903	44,903
Amount due to related parties	-	529,094	529,094
Provisions	-	20,784	20,784
Other payables and accruals	-	20,967	20,967
Financial liability component of the Public Issue Shares	744,799	-	-
	<u>744,799</u>	<u>615,748</u>	<u>615,748</u>
	<u>24,570</u>	<u>602,968</u>	<u>776,968</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
Share capital	22,035	442,103	646,611
Capital redemption reserve	-	446	446
Other reserves	45,772	183,878	183,878
Accumulated losses	(43,237)	(8,342)	(38,850)
	<u>24,570</u>	<u>618,085</u>	<u>792,085</u>
<b>NON-CONTROLLING INTEREST</b>	-	(15,117)	(15,117)
<b>TOTAL EQUITY</b>	<u>24,570</u>	<u>602,968</u>	<u>776,968</u>
Number of shares ('000 unit)	1,277,822	1,028,008	1,333,092
Net assets (RM'000)	24,570	618,085	792,085
Net assets per ordinary share (RM)	0.02	0.60	0.59

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**REACH ENERGY BERHAD**

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 29 FEBRUARY 2016 (CONTINUED)**

Maximum Scenario

	Audited 29.2.2016 RM'000	Proposals		Assumptions
		Pro Forma I After adjustments for Proposed Acquisition RM'000	Pro Forma II After Pro Forma I and Proposed Placement RM'000	Pro Forma III After Pro Forma II and full Exercise of Warrants RM'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	264	1,491,951	1,491,951	1,491,951
Intangible assets	-	705	705	705
Prepayments and other receivables	-	4,577	4,577	4,577
Restricted cash	-	5,924	5,924	5,924
	<u>264</u>	<u>1,503,157</u>	<u>1,503,157</u>	<u>1,503,157</u>
<b>CURRENT ASSETS</b>				
Inventories	-	5,443	5,443	5,443
Trade receivables	-	24,100	24,100	24,100
Other receivables, deposits and prepayment	4,735	31,851	31,851	31,851
Deposits, cash and bank balances	778,082	164,747	229,747	1,188,114
	<u>782,817</u>	<u>226,141</u>	<u>291,141</u>	<u>1,249,508</u>
<b>CURRENT LIABILITIES</b>				
Trade payables	-	101,671	101,671	101,671
Other payables and accruals	2,022	147,278	147,278	147,278
Current tax liability	11,690	11,690	11,690	11,690
Amount due to related party	-	61,117	61,117	61,117
	<u>13,712</u>	<u>321,756</u>	<u>321,756</u>	<u>321,756</u>
<b>NET CURRENT ASSETS/ (LIABILITIES)</b>	<u>769,105</u>	<u>(95,615)</u>	<u>(30,615)</u>	<u>927,752</u>

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**REACH ENERGY BERHAD**

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 29 FEBRUARY 2016 (CONTINUED)**

**Maximum Scenario (continued)**

	Audited 29.2.2016 RM'000	<b>Proposals</b>		<b>Assumptions</b>
		<b>Pro Forma I</b>	<b>Pro Forma II</b>	<b>Pro Forma III</b>
		After adjustments for Proposed <u>Acquisition</u> RM'000	After Pro Forma I and Proposed <u>Placement</u> RM'000	After Pro Forma II and full Exercise of Warrants RM'000
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities	-	44,903	44,903	44,903
Amount due to related parties	-	529,094	529,094	529,094
Provisions	-	20,784	20,784	20,784
Other payables and accruals	-	20,967	20,967	20,967
Financial liability component of the Public Issue Shares	744,799	-	-	-
	<u>744,799</u>	<u>615,748</u>	<u>615,748</u>	<u>615,748</u>
	<u>24,570</u>	<u>791,794</u>	<u>856,794</u>	<u>1,815,161</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>				
Share capital	22,035	582,698	659,223	1,847,498
Other reserves	45,772	229,908	229,908	-
Accumulated losses	(43,237)	(5,695)	(17,220)	(17,220)
	<u>24,570</u>	<u>806,911</u>	<u>871,911</u>	<u>1,830,278</u>
<b>NON-CONTROLLING INTEREST</b>	-	(15,117)	(15,117)	(15,117)
<b>TOTAL EQUITY</b>	<u>24,570</u>	<u>791,794</u>	<u>856,794</u>	<u>1,815,161</u>
Number of shares ('000 unit)	1,277,822	1,277,822	1,393,077	2,670,899
Net assets (RM'000)	24,570	806,911	871,911	1,830,278
Net assets per ordinary share (RM)	0.02	0.63	0.63	0.69

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**REACH ENERGY BERHAD  
NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS  
AT 29 FEBRUARY 2016**

**1 INTRODUCTION**

The Pro Forma Consolidated Statements of Financial Position of Reach Energy Berhad ("REB" or the "Company") for which the Directors of the Company are solely responsible, has been prepared for illustrative purposes only, for the purpose of inclusion in the Circular to Shareholders in connection with the proposed acquisition of equity shares and shareholders loan in Palaeontol B.V. and the proposed placement as set out in Note 2.

The Pro Forma Consolidated Statements of Financial Position have been prepared for illustrative purposes only to show the effects on the audited statement of financial position of REB as at 29 February 2016, of the Proposals set out in Note 2 had all been effected on that date.

The Pro Forma Consolidated Statements of Financial Position, because of its nature, does not give a true picture of the effect of the Proposals and Assumptions on the financial position of the Company had the transactions occurred on 29 February 2016. Furthermore, such information does not purport to predict the future financial position of the Company.

**2 PROPOSALS AND ASSUMPTIONS**

**Proposals**

**2.1 Proposed acquisition of equity shares and shareholders loan in Palaeontol B.V. ("Proposed Acquisition")**

2.1.1 The Company had on 5 March 2016 entered into a tri-partite conditional Sale and Purchase Agreement with Palaeontol Cooperatief U.A. ("Palaeontol COOP") and MIE Holdings Corporation ("MIEH") (collectively referred to as "Vendors") for the Proposed Acquisition ("SPA"). The acquisition will be done via a special purpose vehicle of the Company, Reach Energy Ventures Sdn Bhd ("REVSB").

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

- (i) deed of transfer between REVSB, 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 REVSB on the date of completion of the SPA ("Completion Date");
- (ii) deed of assignment of debt between REVSB, MIEH and Palaeontol B.V. whereby MIEH will assign to REVSB 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 REVSB. As at 30 September 2015, the total outstanding Shareholder Loans is USD288.5 million; and
- (iii) shareholders' agreement between REB, REVSB, 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 REVSB is duly incorporated and shall be no later than the Completion Date.

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**REACH ENERGY BERHAD  
NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 29 FEBRUARY 2016**

**2 PROPOSALS AND ASSUMPTIONS (CONTINUED)**

**Proposals (continued)**

**2.1 Proposed acquisition of equity shares and shareholders loan in Palaeontol B.V. ("Proposed Acquisition") (continued)**

2.1.3 The consideration for the Proposed Acquisition ("Purchase Consideration") is USD154,889,000.

At Completion Date, the Purchase Consideration shall be adjusted taking into account certain considerations stipulated in the SPA ("Adjusted Purchase Consideration"), provided always that the Adjusted Purchase Consideration shall not be greater than USD175,889,000 (unless mutually agreed).

The Purchase Consideration shall be adjusted as follows:

- (i) either as:
  - a. increased by an amount equal to the Net Contribution Amounts made by MIEH or its affiliates to the Palaeontol B.V. Group or received by MIEH or its affiliates from the Palaeontol B.V. Group respectively from the Effective Date (30 September 2015) 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.
- (ii) increased by the Relevant Percentage of any amounts recovered from Aral Petroleum Capital LLP ("Aral Petroleum") prior to the Completion Date in connection with the receivables related to the loans provided by Emir-Oil to Aral Petroleum which has a total principal amount of KZT241,000,000.

2.1.4 At Completion Date, 85% of the Adjusted Purchase Consideration shall be due ("Upfront Consideration") and the remaining 15% of the Adjusted Purchase Consideration ("Deferred Consideration") shall be paid to MIEH within twenty-four (24) months after the Completion Date. The payment of the Deferred Consideration is subject to varying interest charges depending on the period of repayment.

In the event that there are shareholders who vote against the Proposed Acquisition at the extraordinary general meeting ("EGM") of the Company and require the Company to repurchase their ordinary shares ("Dissenting Shareholders"), the Company has the right to defer part payment of the Upfront Consideration, subject to varying interest charges six (6) months after the Completion Date.

**2.2 Proposed Placement of New Ordinary Shares ("Proposed Placement")**

Depending on the level of Dissenting Shareholders, the Company is proposing to undertake the following funding exercise in order to raise funds to finance REB's operation post Completion Date:

- 2.2.1 Placement of new ordinary shares of RM0.01 each to raise gross proceeds of up to RM68,000,000 where it is assumed that there are no Dissenting Shareholders; or
- 2.2.2 Placement of new ordinary shares of RM0.01 each to raise gross proceeds of up to RM180,000,000 where it is assumed that there is 25% Dissenting Shareholders.

The price set will be at not more than 15% discount to the 5 days volume weighted average market price prior to the price fixing date.

2.3 The Proposed Placement is conditional upon the Proposed Acquisition but not vice versa.

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PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON  
(Cont'd)

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REACH ENERGY BERHAD  
NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS  
AT 29 FEBRUARY 2016

**2 PROPOSALS AND ASSUMPTIONS (CONTINUED)**

- 2.4 For the purpose of the Pro Forma Consolidated Statement of Financial Position, the Proposals are assumed to have satisfied the conditions precedent, and have obtained the necessary approval from regulatory bodies, if any, and shareholders from Vendor and the Company, and/or its parent companies in accordance with the requirements of the applicable jurisdiction.

**Assumptions**

- 2.5 In the maximum scenario, it is assumed that all 1,277,822,225 warrants existing as at 29 February 2016 will be exercised at the exercise price of RM0.75 per share.

**3 BASIS OF PREPARATION**

- 3.1 The Pro Forma Consolidated Statements of Financial Position, for which the Directors of the Company are solely responsible, have been prepared based on the audited financial statements of the Company for the period ended 29 February 2016 in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards, and in a manner consistent with both the format of the financial statements and current accounting policies adopted by the Company, except for the adoption of the accounting policies as set in Table 2 of this Appendix.
- 3.2 The Pro Forma Consolidated Statements of Financial Position have been compiled using the audited financial statements of Reach Energy Berhad as at 29 February 2016 and the audited consolidated financial statements of Palaeontol B.V. as at 30 June 2016.
- 3.3 The financial information of Palaeontol B.V. is translated at USD1:RM 4.2195, the closing rate as at 29 February 2016.



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**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

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**REACH ENERGY BERHAD  
NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS  
AT 29 FEBRUARY 2016****4 EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

The Pro Forma Consolidated Statements of Financial Position have been presented based on two (2) scenarios as follows:

- Minimum Scenario where there are 25% Dissenting Shareholders
- Maximum Scenario where there are no Dissenting Shareholders

**4.1 Minimum Scenario where there are 25% Dissenting Shareholders****4.1.1 Pro Forma I - Effects of Proposed Acquisition**

Pro Forma I incorporates the effects of the completion of the Proposed Acquisition, being fulfillment of all conditions precedent set out in the SPA. The Proposed Acquisition has been accounted for as an acquisition of a business. It is assumed that there will be 25% Dissenting Shareholders.

**Purchase consideration**

The Adjusted Purchase Consideration is assessed to be USD166.6 million and comprise an 85% Upfront Consideration of USD141.6 million and Deferred Consideration of USD25.0 million. The Deferred Consideration is not subject to interest on the first year of acquisition and is subject to 10% interest on the second year subsequent to the Completion Date.

The Purchase Consideration has been adjusted by USD11.7 million representing the net proportionate increase in the Net Contribution Amount by MIEH to Palaeontol B.V. Group as at 30 June 2016 from the Effective Date of 30 September 2015.

For the purpose of the Pro Forma Consolidated Statements of Financial Position, the Adjusted Purchase Consideration is assumed to be paid in the following stages:

- USD120.0 million paid on the Completion Date;
- USD21.6 million paid six (6) months after Completion Date; and
- USD25.0 million paid between six (6) months and twelve (12) months after the Completion Date.

The impact of discounting is immaterial.

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**REACH ENERGY BERHAD  
NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 29 FEBRUARY 2016**

**4 EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

**4.1 Minimum Scenario where there are 25% Dissenting Shareholders (continued)**

**4.1.1 Pro Forma I - Effects of Proposed Acquisition (continued)**

Assets acquired and liabilities assumed

The provisional fair value of the identifiable assets and liabilities of Palaeontol B.V. Group as at 29 February 2016 are as follows:

<b>Assets/(Liabilities)</b>	<b>Provisional fair value on acquisition RM'000</b>
Property and equipment	1,491,687
Intangibles	705
Inventories	5,443
Prepayments and other receivables	31,693
Trade receivables	24,100
Cash and bank balances	8,181
Trade payables	(101,671)
Accruals and other payables	(60,765)
Provisions	(20,784)
Deferred tax liabilities	(44,903)
Amount due to related parties	(590,211)
	<hr/>
Total identifiable assets and liabilities at fair value	743,475
Non-controlling interest	15,117
Negative goodwill arising from acquisition*	(55,542)
	<hr/>
Adjusted purchase consideration	703,050
	<hr/>

**Table 1: Assumed Fair Value on acquisition**

\* The fair value of the oil and gas reserves, included as part of PPE, is based on the Company's preliminary valuation. The other identifiable assets and liabilities are assumed to approximate the carrying amount of the assets and liabilities shown in the audited financial statements of Palaeontol B.V. as at 30 June 2016.

The exercise to allocate the cost of business combination to the assets acquired and liabilities assumed will be performed at a later stage and hence the identification and measurement of the various components of business combination could be materially different from the amounts shown in the Pro Forma Consolidated Statements of Financial Position.

Acquisition-related costs

Transactions costs incurred in relation to the Proposed Acquisition estimated at RM18.0 million has been charged to profit or loss.

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**REACH ENERGY BERHAD**

**NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 29 FEBRUARY 2016**

**4 EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

**4.1 Minimum Scenario where there are 25% Dissenting Shareholders (continued)**

**4.1.1 Pro Forma I - Effects of Proposed Acquisition (continued)**

Reclassification of financial liability component

As a consequence of the fulfillment of the SC Guidelines outlining the required treatment and mechanism of proceeds from its Initial Public Offering (“IPO”), the following will apply:

- (i) In respect of the 75% non-Dissenting Shareholders, the financial liability component of the Public Issue Share will be classified as equity and recognised through the share capital account and warrants reserve account as the Company has no further obligation to refund the IPO Trust Proceeds held in the Islamic Trust Account.
- (ii) The amount allocated to share capital account and warrants reserve account, based on the relative fair value of the respective instrument, is as follows:

	<b>Total Allocation RM'000</b>
Amount allocated to share capital account	420,514
Amount allocated to warrants reserve	138,106
	<hr/>
Financial liability component of Public Issue Shares on the day of the IPO	558,620

- (iii) In respect of the 25% Dissenting Shareholders, the financial liability component of the Public Issue Shares including the interest accrued, will be refunded back to the Dissenting Shareholders from the IPO Trust Proceeds held in the Islamic Trust Account. The shares will be cancelled.

Upon the cancellation of the shares, in accordance with the Companies Act, 1965, the issued share capital will be transferred to the Capital Redemption Reserves.

RM188.8 million is assumed to be paid to the dissenting shareholders. The loss on settlement of the financial liability of RM2.6 million is recognised in the profit or loss.

**4.1.2 Pro Forma II - Effects of Pro Forma I and the Proposed Placement**

Pro Forma II incorporates the effects of Pro Forma I and the placement of 305,084,746 new ordinary shares of RM0.01 each in the Company at an illustrative issue price of RM0.59 per share amounting to RM180,000,000.

The illustrative issue price is assumed at an approximately 15% discount to the 5 days volume weighted average market price up to and including 6 May 2016, being the latest practicable date of the announcement of the Proposed Placement of RM0.69. The difference between the issue price and market price on 305,084,746 ordinary shares at 6 May 2016 amounting to RM30.5 million is taken to profit or loss in accordance with MFRS 2 “Share based Payment”.

Transaction costs incurred in relation to the Proposed Placement estimated at RM6.0 million has been recorded as a reduction in share capital.

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**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

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**REACH ENERGY BERHAD  
NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS  
AT 29 FEBRUARY 2016**

**4 EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(CONTINUED)**

**4.2 Maximum Scenario where there are no Dissenting Shareholders**

**4.2.1 Pro Forma I - Effects of Proposed Acquisition**

Pro Forma I incorporates the effects of the completion of the Proposed Acquisition, being fulfillment of all condition precedent set out in the SPA. The Proposed Acquisition has been accounted for as an acquisition of a business.

It is assumed that there are no Dissenting Shareholders.

Purchase consideration

The Adjusted Purchase Consideration is assessed to be USD166.6 million and comprise an 85% Upfront Consideration of USD141.6 million and Deferred Consideration of USD25.0 million. The Deferred Consideration is not subject to interest on the first year of acquisition and is subject to 10% interest on the second year subsequent to the Completion Date.

The Purchase Consideration has been adjusted by USD11.7 million representing the net proportionate increase in the Net Contribution Amount by MIEH to Palaeontol B.V. Group as at 30 June 2016.

For the purpose of the Pro Forma Consolidated Statements of Financial Position, the Adjusted Purchase Consideration is assumed to be paid in the following stages:

- (i) USD141.6 million paid on the Completion Date; and
- (ii) USD25.0 million paid within twelve (12) months after the Completion Date.

The impact of discounting is not material.

Assets acquired and liabilities assumed

The provisional fair value of the identifiable assets and liabilities of Palaeontol B.V. Group as at 29 February 2016 is as disclosed in Table 1 in para 4.1.1.

Acquisition-related costs

Transactions costs incurred in relation to the Proposed Acquisition of RM18.0 million has been charged to profit or loss.

Reclassification of financial liability component

As a consequence of the fulfillment of the SC Guidelines outlining the required treatment and mechanism of proceeds from its Initial Public Offering ("IPO"), the financial liability component of the Public Issue Share will be classified as equity and recognised through the share capital account and warrants reserve account as the Company has no further obligation to refund the IPO Trust Proceeds held in the Islamic Trust Account.

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**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

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**REACH ENERGY BERHAD  
NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS  
AT 29 FEBRUARY 2016**

**4 EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(CONTINUED)**

**4.2 Maximum Scenario where there are no Dissenting Shareholders (continued)**

**4.2.1 Pro Forma I - Effects of Proposed Acquisition (continued)**

Reclassification of financial liability component (continued)

The amount allocated to share capital account and warrants reserve account, based on the relative fair value of the respective instrument, is as follows:

	<b>Total Allocation RM'000</b>
Amount allocated to share capital account	560,663
Amount allocated to warrants reserve	184,136
	<hr/>
Financial liability component of	
Public Issue Shares on the day of the IPO	744,799
	<hr/>

**4.2.2 Pro Forma II - Effects of Pro Forma I and the Proposed Placement**

Pro Forma II incorporates the effects of Pro Forma I and the subscription of 115,254,237 new ordinary shares of RM0.01 each in the Company at an illustrative issue price of RM0.59 per share amounting to RM68,000,000.

The illustrative issue price is assumed at an approximately 15% discount to the 5 days volume weighted average market price up to and including 6 May 2016, being the latest practicable date of the announcement of the Proposed Placement of RM0.69. The difference between the issue price and market price on 115,254,237 ordinary shares at 6 May 2016 amounting to RM11.5 million is taken to profit or loss in accordance with MFRS 2 "Share based payment".

Transaction costs are incurred in relation to the Proposed placement estimated at RM3.0 million has been recorded as reduction in share capital.

**4.2.3 Pro Forma III - Effects of Pro Forma I, Pro Forma II and full Exercise of Warrants**

Pro Forma III incorporates the effects of Pro Forma II and the assumption of the full exercise of all 1,277,822,225 warrants existing as at 29 February 2016 at the exercise price of RM0.75 per share amounting to RM958,366,669.

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**REACH ENERGY BERHAD  
NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS  
AT 29 FEBRUARY 2016**

**4 EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(CONTINUED)**

**4.3 Effect of the Proposals and Assumptions on reserves**

The overall effect of the Proposals and Assumptions on reserves is as follows:

**Minimum Scenario**

	Share Capital RM'000	Capital Redemption Reserves RM'000	Other Reserves RM'000	(Accumulated Losses)/ Retained Earnings RM'000
<b>As at 29 February 2016</b>	<b>22,035</b>	<b>-</b>	<b>45,772</b>	<b>(43,237)</b>
Effects of Proforma I				
Negative goodwill on acquisition	-	-	-	55,542
Cancellation of shares on 25% dissenting shareholders	(446)	446	-	(2,647)
Payment on transaction costs	-	-	-	(18,000)
Reclassification of financial liability component of the Public Issue Share	420,514	-	138,106	-
<b>As per Proforma I</b>	<b>442,103</b>	<b>446</b>	<b>183,878</b>	<b>(8,342)</b>
Effect of Proforma II				
Placement of ordinary shares	210,508	-	-	(30,508)
Payment on transaction costs	(6,000)	-	-	-
<b>As per proforma II</b>	<b>646,611</b>	<b>446</b>	<b>183,878</b>	<b>(38,850)</b>

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**REACH ENERGY BERHAD  
NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 29 FEBRUARY 2016**

**4 EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

**4.3 Effect of the Proposals and Assumptions on reserves (continued)**

The overall effect of the Proposals and Assumptions on reserves is as follows:

**Maximum Scenario**

	Share Capital RM'000	Capital Redemption Reserves RM'000	Other Reserves RM'000	(Accumulated Losses)/ Retained Earnings RM'000
<b>As at 29 February 2016</b>	<b>22,035</b>	-	<b>45,772</b>	<b>(43,237)</b>
Effects of Proforma I				
Negative goodwill on acquisition	-	-	-	55,542
Payment on transaction costs	-	-	-	(18,000)
Reclassification of financial liability component of the Public Issue Share	560,663	-	184,136	-
<b>As per Proforma I</b>	<b>582,698</b>	-	<b>229,908</b>	<b>(5,695)</b>
Effect of Proforma II				
Placement of ordinary shares	79,525	-	-	(11,525)
Payment on transaction costs	(3,000)	-	-	-
<b>As per proforma II</b>	<b>659,223</b>	-	<b>229,908</b>	<b>(17,220)</b>
Effect of Proforma III				
Full exercise of warrants	1,188,275	-	(229,908)	-
<b>As per proforma III</b>	<b>1,847,498</b>	-	-	<b>(17,220)</b>

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PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT  
29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON  
(Cont'd)

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**REACH ENERGY BERHAD**  
**NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS**  
**AT 29 FEBRUARY 2016**

Approved on behalf of the Board of Directors of Reach Energy Berhad in accordance with a resolution of the Board of Directors dated 5 September 2016.



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Name: Ir. Shahul Hamid Bin Mohd Ismail  
Designation: Managing Director / CEO



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**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

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**Table 2 Accounting policies adopted by Reach Energy Berhad on the Completion Date of the Proposed Acquisition****(i) Consolidation and subsidiaries****(a) Consolidation**

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

**(b) Business combination**

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

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 "Financial Instruments" either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

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**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

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**Table 2 Accounting policies adopted by Reach Energy Berhad on the Completion Date of the Proposed Acquisition (continued)**

(i) Consolidation and subsidiaries (continued)

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

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

(ii) Foreign currency translation – Group companies

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

- (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- (b) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised in other comprehensive income.

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

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**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

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**Table 2 Accounting policies adopted by Reach Energy Berhad on the Completion Date of the Proposed Acquisition (continued)**

(iii) Property, plant and equipment – Oil & Gas Properties

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

(iv) Exploration and evaluation expenditure

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

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

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

(v) Intangible Assets

Intangible assets represent computer software and mining rights.

(a) Computer software

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

(b) Mining rights

Mineral extraction rights and mining rights are amortised based on the unit of production method.

Unit of production rates are based on oil and gas proved and probable reserves estimated to be recoverable from existing facilities based on the current terms of the respective production agreements.

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**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR COMPANY AS AT 29 FEBRUARY 2016 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

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**Table 2 Accounting policies adopted by Reach Energy Berhad on the Completion Date of the Proposed Acquisition (continued)****(vi) Inventories**

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

**(vii) Provisions – Asset Retirement Obligations**

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

**(viii) Revenue Recognition**

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

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

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

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP**

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The Board of Directors  
Reach Energy Berhad  
D3-5-8, Block D3  
Solaris Dutamas  
No. 1, Jalan Dutamas 1  
50480 Kuala Lumpur  
Malaysia

10 October 2016

PwC/NAL/VC/nm/0228C

Dear Sirs,

**Reach Energy Berhad**  
**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**  
**Report on the consolidated financial statements**

We have audited the consolidated financial statements of Palaeontol B.V. and its subsidiary (the "Group") on pages 1 to 49, which comprise the consolidated statements of financial position as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the financial years ended 31 December 2013, 31 December 2014, 31 December 2015 and six months financial period ended 30 June 2016, and a summary of significant accounting policies and other explanatory information, as set out on Notes 1 to 26.

**Directors' responsibility**

The Directors of Reach Energy Berhad and Palaeontol B.V. are responsible for the preparation of the consolidated financial statements for the financial years ended 31 December 2013, 31 December 2014 and 31 December 2015 contained in the Accountants' Report so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards and the consolidated interim financial statements for the six months period ended 30 June 2016 in accordance with Malaysian Financial Reporting Standard 134 "Interim Financial Reporting" and International Accounting Standard 34 "Interim Financial Reporting". The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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*PricewaterhouseCoopers (AF 1146), Chartered Accountants,  
Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia  
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, [www.pwc.com/my](http://www.pwc.com/my)*

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**The Board of Directors  
Reach Energy Berhad  
PwC/NA/VC/nm/0203C  
10 October 2016**

**Report on the consolidated financial statements (continued)****Auditors' responsibility**

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the financial position as at 31 December 2013, 31 December 2014 and 31 December 2015, and of the financial performance and cash flows for each of the financial years then ended, in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards, and of the financial position as of 30 June 2016 and of its financial performance and cash flows for the six months period ended 30 June 2016 in accordance with Malaysian Financial Reporting Standard 134 "Interim Financial Reporting" and International Accounting Standard 34 "Interim Financial Reporting".

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**ACCOUNTANTS' REPORT ON THE PALAEOINTOL B.V. GROUP (Cont'd)**

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**The Board of Directors  
Reach Energy Berhad  
PwC/NA/VC/nm/0203C  
10 October 2016**

**Other matters**

The comparative information for the consolidated statement of financial position is based on audited consolidated financial statements as at 31 December 2015. The comparative information for the consolidated statement of comprehensive income, statement of changes in equity, statement of cash flows and the related explanatory notes, for the period ended 30 June 2015 has not been audited or reviewed.

In accordance with 13.04 of Chapter 13, Division 1 – Equity of the Prospectus Guidelines issued by the Securities Commission Malaysia, there is no significant subsequent event since the last audited consolidated interim financial statements for the six months financial period ended 30 June 2016 to the date of this report.

This report has been prepared solely to comply with the Main Market Listing Requirements issued by Bursa Malaysia Securities Berhad and for inclusion in the Circular to Shareholders in connection with the Proposals as set out in the Circular to Shareholders. Our work had been carried out in accordance with the approved standards on auditing in Malaysia and accordingly should not be relied upon for any other purposes. Our report is not to be disseminated to any third party in whole or in part. Accordingly, we will not accept any liability or responsibility to any other party to whom our report is shown or into whose hands it may come.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

A handwritten signature in black ink that reads 'Nurul A'in Binti Abdul Latif'.

NURUL A'IN BINTI ABDUL LATIF  
(No. 2910/02/17 (J))  
Chartered Accountant

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**ACCOUNTANTS' REPORT ON THE PALAEOINTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Consolidated Statements of Comprehensive Income**

	Note	Year ended 31 December			6 months period ended 30 June	
		2013	2014	2015	2015 Unaudited	2016
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue	5	126,443	121,452	49,767	29,989	23,831
Operating expenses						
Taxes other than income taxes	18	(51,611)	(54,019)	(20,936)	(12,259)	(5,560)
Purchases, services and other direct costs		(18,019)	(15,887)	(7,806)	(4,811)	(2,599)
Assets impairment loss	6, 7	-	-	(42,859)	-	(44,293)
Depreciation, depletion and amortisation		(15,094)	(15,988)	(21,172)	(6,516)	(12,520)
Geological and geophysical expenses		(3,632)	(3,262)	-	-	-
Distribution expense		(1,524)	(1,412)	(11,045)	(5,076)	(6,107)
Employee compensation costs	19	(8,173)	(8,145)	(4,097)	(2,290)	(1,168)
General and administrative expenses		(2,931)	(4,197)	(2,915)	(954)	(522)
Other operating (expenses)/ income - net	20	(3,467)	9,299	20,514	62	(424)
Total operating expenses		(104,451)	(93,611)	(90,316)	(31,844)	(73,193)
Profit/(Loss) from operations		21,992	27,841	(40,549)	(1,855)	(49,362)
Finance income	21	385	265	142	73	58
Finance costs	21	(8,276)	(13,527)	(15,519)	(6,828)	(7,447)
Finance costs - net	21	(7,891)	(13,262)	(15,377)	(6,755)	(7,389)
Profit/(Loss) before income tax		14,101	14,579	(55,926)	(8,610)	(56,751)
Income tax credit/(expense)	22	4,653	(3,380)	9,775	1,464	7,401
Profit/(Loss) for the financial year/period		18,754	11,199	(46,151)	(7,146)	(49,350)
Total comprehensive income/(loss) for the financial year/period		18,754	11,199	(46,151)	(7,146)	(49,350)



## ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)

## Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.

## Consolidated Statements of Financial Position

	Note	As at 31 December			As at
		2013	2014	2015	30 June
		US\$'000	US\$'000	US\$'000	2016
					US\$'000
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	6	324,334	371,822	392,914	361,589
Intangible assets	7	80,811	79,193	47,557	27,260
Prepayments and other receivables	8	2,441	2,007	1,083	1,085
Restricted cash	10	1,949	2,117	1,308	1,404
		<u>409,535</u>	<u>455,139</u>	<u>442,862</u>	<u>391,338</u>
<b>CURRENT ASSETS</b>					
Inventories		1,205	1,234	3,194	1,283
Prepayments and other receivables	8	13,574	17,852	10,569	6,426
Trade receivables	9	3,544	541	981	5,712
Cash and cash equivalents	11	7,207	6,916	4,702	535
		<u>25,530</u>	<u>26,543</u>	<u>19,446</u>	<u>13,956</u>
<b>TOTAL ASSETS</b>		<u>435,065</u>	<u>481,682</u>	<u>462,308</u>	<u>405,294</u>
<b>EQUITY AND LIABILITIES</b>					
<b>EQUITY ATTRIBUTABLE TO OWNER OF THE COMPANY</b>					
Share capital	12	25	19,454	19,454	19,454
Other reserve	13	534	656	723	741
Retained earnings		83,271	94,470	48,319	(1,031)
<b>Total equity</b>		<u>83,830</u>	<u>114,580</u>	<u>68,496</u>	<u>19,164</u>
<b>NON CURRENT LIABILITIES</b>					
Deferred tax liabilities	14	32,562	35,822	25,220	17,674
Amounts due to related parties	25	203,324	240,169	276,716	291,376
Accruals and other payables	16	3,128	2,388	4,227	4,969
Provisions	17	6,511	6,613	4,877	4,926
		<u>245,525</u>	<u>284,992</u>	<u>311,040</u>	<u>318,945</u>
<b>CURRENT LIABILITIES</b>					
Trade payables	15	47,745	50,195	38,863	24,096
Amounts due to related parties	25	40,626	22,160	28,561	33,657
Accruals and other payables	16	17,339	9,755	15,348	9,432
		<u>105,710</u>	<u>82,110</u>	<u>82,772</u>	<u>67,185</u>
<b>TOTAL LIABILITIES</b>		<u>351,235</u>	<u>367,102</u>	<u>393,812</u>	<u>386,130</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>435,065</u>	<u>481,682</u>	<u>462,308</u>	<u>405,294</u>

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Consolidated Statements of Changes in Equity**

	<u>Note</u>	Share capital US\$'000	Other reserves US\$'000	Retained earnings US\$'000	Total equity US\$'000
As at 1 January 2013		25	612	64,517	65,154
Total comprehensive income for the financial year		-	-	18,754	18,754
<u>Transaction with shareholder</u> Employee stock option scheme of the holding company - value of employee services	13(a)	-	(78)	-	(78)
As at 31 December 2013		25	534	83,271	83,830
<u>Comprehensive income for the financial year</u>					
Total comprehensive income for the financial year		-	-	11,199	11,199
<u>Transactions with shareholder</u> Employee stock option scheme of the holding company - value of employee services	13(a)	-	122	-	122
Conversion of amounts due to related parties	12	19,429	-	-	19,429
As at 31 December 2014		19,454	656	94,470	114,580
<u>Comprehensive income for the financial year</u>					
Total comprehensive loss for the financial year		-	-	(46,151)	(46,151)
<u>Transaction with shareholder</u> Employee stock option scheme of the holding company - value of employee services	13(a)	-	67	-	67
As at 31 December 2015		19,454	723	48,319	68,496
Total comprehensive income for the financial period		-	-	(49,350)	(49,350)
<u>Transaction with shareholder</u> Employee stock option scheme of the holding company - value of employee services	13(a)	-	18	-	18
As at 30 June 2016		19,454	741	(1,031)	19,164

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**ACCOUNTANTS' REPORT ON THE PALAEOINTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Consolidated Statements Of Cash Flows**

Note	Year ended 31 December			6 months period ended 30 June	
	2013	2014	2015	2015 Unaudited	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Profit/(Loss) before income tax	14,101	14,579	(55,926)	(8,610)	(56,751)
Adjustments for:					
Depreciation, depletion and amortisation	15,094	15,988	21,172	6,516	12,520
Assets impairment loss	-	-	42,859	-	44,293
Foreign exchange (gain)/loss	(406)	(9,299)	(20,514)	(62)	174
Finance costs	8,276	13,527	15,519	6,828	7,447
Share based payments	(78)	122	67	43	18
Allowance/(Reversal) for impairment of trade and other receivables	345	178	356	(1)	(1)
Changes in working capital:					
(Increase)/Decrease in inventories	(354)	(147)	(29)	(7,724)	1,911
(Increase)/Decrease in trade and other receivables	9,143	3,000	7,386	(2,260)	(844)
Increase/(Decrease) in trade and other payables	16,406	(8,053)	18,938	(5,272)	(7,274)
<b>CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>62,527</b>	<b>29,895</b>	<b>29,828</b>	<b>(10,542)</b>	<b>1,493</b>
Interest paid	(2,965)	(4,050)	(1,422)	(1,422)	-
Income tax paid	(8,272)	(1,644)	(240)	(689)	(93)
Net cash generated from/(used in) operating activities	51,290	24,201	28,166	(12,653)	1,400
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchases of property, plant and equipment	(69,995)	(56,873)	(63,356)	(10,445)	(18,020)
(Increase)/Decrease in restricted cash	(408)	(168)	809	26	(96)
Net cash used in investing activities	(70,403)	(57,041)	(62,547)	(10,419)	(18,116)

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Consolidated Statements Of Cash Flows (Continued)**

	Note	Year ended 31 December			6 months period ended 30 June	
		2013	2014	2015	2015 Unaudited	2016
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Loan from penultimate holding company		24,000	34,000	32,450	20,950	12,550
Repayment of loan from penultimate holding company		-	(1,150)	-	-	-
Net cash generated from financing activities		<u>24,000</u>	<u>32,850</u>	<u>32,450</u>	<u>20,950</u>	<u>12,550</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		4,887	10	(1,931)	(2,122)	(4,166)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD</b>		2,351	7,207	6,916	6,916	4,702
<b>EXCHANGE LOSSES ON CASH AND CASH EQUIVALENTS</b>		<u>(31)</u>	<u>(301)</u>	<u>(283)</u>	<u>(8)</u>	<u>(1)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD</b>	11	<u><u>7,207</u></u>	<u><u>6,916</u></u>	<u><u>4,702</u></u>	<u><u>4,786</u></u>	<u><u>535</u></u>

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****1 General information**

Palaeontol B.V. (the "Company") and its subsidiary, Emir Oil LLP, (together, the "Group") are principally engaged in the explorations, development, production and sale of crude oil and other petroleum products in the Republic of Kazakhstan (the "Kazakhstan"). The principal activity of the Company is that of investment holding. There have been no significant changes in the nature of these principal activities during the financial years/period.

The Company is a limited liability company incorporated in the Netherlands. The registered address is Strawinskylaan 411 Twr. A 4th floor, 1077XX, Amsterdam, the Netherlands.

The comparative information for the statement comprehensive income, statement of changes in equity and statement of cash flows are not prepared based on the previously reported year-to-date information to be in line with MFRS 134 "Interim Financial Reporting" and International Accounting Standard 34 "Interim Financial Reporting" requirement to include the comparative disclosures for the comparable interim periods of the immediately preceding financial year.

The consolidated financial statements are presented in United States Dollars ("US\$") unless otherwise stated. These consolidated financial statements have been approved for issue by the Directors of the Company on 5 September 2016.

**2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of preparation**

The consolidated financial statements of the Group for the financial years ended 31 December 2013, 31 December 2014 and 31 December 2015 have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS") and the consolidated interim financial statements for the six months period ended 30 June 2016 have been prepared in accordance with Malaysian Financial Reporting Standard 134 "Interim Financial Reporting" and International Accounting Standard 34 "Interim Financial Reporting". The consolidated financial statements have been prepared under the historical cost convention, except as otherwise stated in the accounting policies below.

The preparation of consolidated financial statements in conformity with MFRS and IFRS requires the use of certain critical accounting estimates. It also requires Director to exercise their judgement in the process of applying the Group's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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**ACCOUNTANTS' REPORT ON THE PALAEOINTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**2 Summary of significant accounting policies (continued)**
**2.1 Basis of preparation (continued)**
**2.1.1 Going concern**

As at 30 June 2016, the Group's current liabilities exceeded its current assets by US\$53,229,000 (2015: US\$63,326,000, 2014: US\$55,567,000, 2013: US\$80,180,000). The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as they fall due are dependent upon the continuing support from its holding company. The Company's penultimate holding company, MIE Holdings Corporation ("MIEH"), a limited liability company incorporated in Cayman Islands and listed on the Stock Exchange of Hong Kong Limited. MIEH and its subsidiaries are collectively referred as the "MIEH Group".

MIEH has confirmed the provision of financial support for the continuing operations of the Company in the next twelve months from the date of these consolidated financial statements so long as the Group remains its subsidiary. As disclosed in Note 26, MIE and Reach Energy Berhad have also confirmed to provide financial support for the continuing operations of the Group on completion of the proposed acquisition to the extent of their proportionate ownership in the Group. The consolidated financial statements have therefore been prepared on a going concern basis.

**2.1.2 Changes in accounting policy**

The accounting policies adopted by the Group are consistent throughout the financial years other than the adoption of new and amended MFRS and IC Interpretations mandatory for the respective financial years/period. The effect of the adoption of these new and amended MFRS and IC Interpretations have been reflected and applied in these consolidated financial statements in accordance with the respective pronouncements, including any transitional provisions set out.

**2.1.3 MFRS, Amendments to MFRS and IC Interpretations issued and effective to the Group.**

The Group has adopted the following MFRS, Amendments to MFRS and IC Interpretations for the first time for the following financial years.

<u>MFRSs, Amendments to MFRSs and IC Interpretations</u>	<u>Effective for annual periods beginning on or after</u>
Amendment to MFRS 7: Financial Instruments: Disclosures	1 January 2013
MFRS 3: Business combinations	1 January 2013
MFRS 10: Consolidated financial statements	1 January 2013
MFRS 12: Disclosures of interests in other entities	1 January 2013
MFRS 13: Fair Value Measurement	1 January 2013
Amendment to MFRS 119: Employee benefits	1 January 2013
MFRS 127: Consolidated and Separate Financial Statements	1 January 2013
Annual improvements 2009 - 2011 Cycle	
Amendment to MFRS 101: Comparative information	1 January 2013

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**ACCOUNTANTS' REPORT ON THE PALAEOINTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**2 Summary of significant accounting policies (continued)**
**2.1 Basis of preparation (continued)**
**2.1.3 MFRS, Amendments to MFRS and IC Interpretations issued and effective to the Group. (continued)**

The Group has adopted the following MFRS, Amendments to MFRS and IC Interpretations for the first time for the following financial years. (continued)

<u>MFRSs, Amendments to MFRSs and IC Interpretations</u>	<u>Effective for annual periods beginning on or after</u>
Annual improvements 2009 - 2011 Cycle Amendment to MFRS 116: Servicing equipment	1 January 2013
Annual improvements 2009 - 2011 Cycle Amendment to MFRS 132: Tax effect of distribution to holders of equity instruments	1 January 2013
Amendment to MFRS 132: Financial Instruments: Presentation	1 January 2014
Amendment to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Annual Improvements to MFRSs 2010-2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011-2013 Cycle	1 July 2014
Amendments to MFRS 119: Defined Benefits Plans Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2012 – 2014 cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016

**2.1.4 MFRS, Amendments to MFRS and IC Interpretation issued but not yet effective to the Group.**

New standards, amendments and interpretations issued but not effective up to the date of the issuance of the Group's consolidated financial statements are disclosed below.

The Group intends to adopt these standards, if applicable, when they become effective.

<u>MFRSs, Amendments to MFRSs and IC Interpretations</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to MFRS 107: Disclosure initiative	1 January 2017
MFRS 15: Revenue from Contracts with Customers	1 January 2018
MFRS 15: Clarification to MFRS 15	1 January 2018
MFRS 9: Financial Instruments	1 January 2018
MFRS 16: Leases	1 January 2019

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**ACCOUNTANTS' REPORT ON THE PALAEOONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****2 Summary of significant accounting policies (continued)****2.1 Basis of preparation (continued)**

The Group has commenced the assessment of the impact of adopting MFRS 9, MFRS 15 and MFRS 16. At the time of preparing these consolidated financial statements, the impact from the adoption of these standards has yet to be fully quantified.

There are no other standards, amendments to published standards or IC Interpretations that are not yet effective that would be expected to have a material impact on the Group.

**2.2 Consolidation and subsidiaries****(a) Consolidation**

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

**(b) Business combination**

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

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 "Financial Instruments" either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.



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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****2 Summary of significant accounting policies (continued)****2.2 Consolidation and subsidiaries (continued)****(b) Business combination (continued)**

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**(d) Disposal of subsidiaries**

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

**2.3 Segment reporting**

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

During the financial year ended 31 December 2013, 31 December 2014, 31 December 2015 and financial period ended 30 June 2016, the Group has one single operating segment, which operates the exploration, development, production and sales of oil and other petroleum products in the Kazakhstan. Therefore, no segment information is presented.

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****2 Summary of significant accounting policies (continued)****2.4 Foreign currency translation****(a) Functional and presentation currency**

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

**(b) Transactions and balances**

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

**(c) Group companies**

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

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

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

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**ACCOUNTANTS' REPORT ON THE PALAEOINTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**2 Summary of significant accounting policies (continued)**
**2.5 Property, plant and equipment**

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

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

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

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

Office equipment	up to 15 years
Motor vehicles	5 to 7 years
Production equipment	up to 10 years
Buildings	up to 12 years

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

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

**2.6 Exploration and evaluation expenditure**

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

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**ACCOUNTANTS' REPORT ON THE PALAEOINTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****2 Summary of significant accounting policies (continued)****2.6 Exploration and evaluation expenditure (continued)**

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

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

**2.7 Intangible assets**

Intangible assets represent computer software and mining rights.

**(a) Computer software**

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

**(b) Mining rights**

Mineral extraction rights and mining rights are amortised based on the unit of production method.

Unit of production rates are based on oil and gas proved and probable reserves estimated to be recoverable from existing facilities based on the current terms of the respective production agreements.

**2.8 Impairment of non-financial assets**

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

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**ACCOUNTANTS' REPORT ON THE PALAEOINTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****2 Summary of significant accounting policies (continued)****2.9 Financial assets****(a) Classification**

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. At 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, the Group has only loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'other receivables', 'restricted cash' and 'cash and cash equivalents' in the consolidated statement of financial position.

**(b) Recognition and measurement**

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

**2.10 Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****2 Summary of significant accounting policies (continued)****2.10 Impairment of financial assets (continued)**

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

**2.11 Financial liabilities**

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

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

The Group's other financial liabilities comprise 'trade payables', 'other payables' and 'amounts due to related parties' in the consolidated statements of financial position. Financial liabilities are classified as current liabilities unless payment is not due within 12 months after the reporting period. If not, they are classified as non-current liabilities.

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

**2.12 Offsetting financial instruments**

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

**2.13 Inventories**

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

**2.14 Trade and other receivables**

Trade receivables are amounts due from customers for oil and gas and other petroleum products sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****2 Summary of significant accounting policies (continued)****2.15 Cash and cash equivalents**

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks or other short-term highly liquid investments with original maturities of three months or less.

**2.16 Share capital**

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

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

**2.17 Current and deferred income tax**

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

**(a) Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date in the countries where the Group operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**(b) Deferred income tax**

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

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****2 Summary of significant accounting policies (continued)****2.17 Current and deferred income tax (continued)****(b) Deferred income tax (continued)**

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

**(c) Offsetting**

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

**2.18 Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**2.19 Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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



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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****2 Summary of significant accounting policies (continued)****2.19 Provisions (continued)**

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

Asset retirement obligations (including future decommissioning and restoration) which meet the criteria of provisions are recognised as provisions and the amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements, while a corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depleted as part of the costs of the oil and gas properties. Interest expenses from the assets retirement obligations for each period are recognised based on the effective interest method during the useful life of the related oil and gas properties.

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

**2.20 Employee benefits****(a) Termination benefits**

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

**(b) Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the consolidated statement of financial position date.

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****2 Summary of significant accounting policies (continued)****2.21 Share-based payments****(a) Equity-settled share-based payment transactions**

MIEH operates a number of equity-settled, share-based compensation plans that are available for the Directors and employees of the Group. By participation in these plans, the Group receives services from its employees as consideration for equity instruments (options) of the MIEH which are recharged to the Group as additional investment by MIEH.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

At the end of each reporting period, the penultimate holding company revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****2 Summary of significant accounting policies (continued)****2.22 Revenue recognition**

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

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

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

**2.23 Interest income**

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

**2.24 Operating leases**

Leases where the Group is a lessee in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the term of the lease.

**2.25 Dividend distributions**

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

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**ACCOUNTANTS' REPORT ON THE PALAEOINTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****3 Financial risk management****3.1 Financial risk factors**

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

Risk management is carried out by the management on a regular basis under the direction of MIEH and its policies approved by the Board of Directors of MIEH. The management identifies, evaluates and hedges financial risks in close co-operation with MIEH.

**(a) Market risk****(i) Foreign exchange risk**

The majority of the Group's transactions with group companies and sales are denominated in US dollars, while production and other expenses are transacted in Kazakhstan Tenge ("KZT"). The KZT is not a freely convertible currency. Limitation in foreign exchange transactions could cause future exchange rates to vary significantly from current or historical exchange rates. Management is not in a position to anticipate changes in the foreign exchange regulations and as such is unable to reasonably anticipate the impacts on the Group's results of operations or financial position arising from future changes in exchange rates. The Group may enter into forward foreign exchange contracts to manage the risk of unfavourable fluctuations in the foreign exchange rate.

On 11 February 2014, Kazakhstan's Central Bank decided to stop supporting the KZT exchange rate and decrease currency interventions and the exchange rate of KZT depreciated to KZT182 for US\$1. On 20 August 2015, Kazakhstan's Central Bank implemented the free-floating regime which resulted a further depreciation of the exchange rate to KZT345 for US\$1. On 30 June 2016 and 30 June 2015, exchange rate was KZT339 and KZT186 for US\$1 respectively. If the KZT had weakened/strengthened by 1% against the US dollars with all other variables held constant, the Group's profit before income tax for the financial period would have been US\$295,000 and US\$571,000 (2015: 485,000, 2014: US\$433,000, 2013: US\$505,000) higher/lower on 30 June 2016 and 30 June 2015 respectively, mainly as a result of net foreign exchange gains/losses on translation of KZT-denominated other receivables, trade and other payable and bank deposits.

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****3 Financial risk management (continued)****3.1 Financial risk factors (continued)****(a) Market risk (continued)****(ii) Cash flow interest rate risk**

The Group has no significant interest bearing cash assets. The Group's income and operating cash flows are substantially independent of the changes in market rates as all interest rates arising from intra-group loans are fixed. A detailed analysis of the Group's loan, together with their respective effective interest rates and maturity dates, are included in Note 25.

**(iii) Price risk**

The Group is not subject to significant price risk.

**(b) Credit risk**

As the majority of the cash at bank balance is placed with state-owned banks and financial institutions, the corresponding credit risk is relatively low. Therefore, credit risk arises primarily from trade and other receivables. The Group has controls in place to assess the credit quality of its customers. The carrying amounts of cash and cash equivalents, restricted cash and trade and other receivables included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk.

The Group has no significant concentration of credit risk for its cash and cash equivalents. The Group has one customer which in aggregate accounts for more than 80% of the Group's revenue and as such, has concentration of credit risk for its trade and other receivables. However, the Group regards it as low risk as the customer is Euro-Asian Oil SA (formerly known as Titan Oil Trading GmbH) ("Euro-Asian Oil"), one of the largest trading companies in Mangistau region of Western Kazakhstan.

**(c) Liquidity risk**

The Group's liquidity risk management involves maintaining sufficient cash and cash equivalents and availability of funding through an adequate amount of committed credit facilities.

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by maintaining availability under committed credit facilities. When required, financial support from the penultimate holding company is obtained.

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**3 Financial risk management (continued)**
**3.1 Financial risk factors (continued)**
**(c) Liquidity risk (continued)**

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

	Less than 1 year US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000
<u>At 31 December 2013</u>				
Trade payables	47,745	-	-	-
Accruals and other payables (excluding statutory liabilities)	3,640	3,128	-	-
Amounts due to related parties	40,626	-	61,150	150,198
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<u>At 31 December 2014</u>				
Trade payables	50,195	-	-	-
Accruals and other payables (excluding statutory liabilities)	2,220	2,388	-	-
Amounts due to related parties	22,160	-	94,000	155,356
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<u>At 31 December 2015</u>				
Trade payables	38,863	-	-	-
Accruals and other payables (excluding statutory liabilities)	400	4,227	-	-
Amounts due to related parties	28,561	37,000	84,449	160,447
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<u>At 30 June 2016</u>				
Trade payables	24,096	-	-	-
Accruals and other payables (excluding statutory liabilities)	376	4,969	-	-
Amounts due to related parties	33,657	139,000	-	163,012
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****3 Financial risk management (continued)****3.2 Fair value estimation**

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

	<u>Carrying amount</u> US\$'000	<u>Fair Value</u> US\$'000
<b>At 31 December 2013</b>		
Amount due to related parties	<u>243,950</u>	<u>131,446</u>
<b>At 31 December 2014</b>		
Amount due to related parties	<u>262,329</u>	<u>159,469</u>
<b>At 31 December 2015</b>		
Amount due to related parties	<u>305,277</u>	<u>201,237</u>
<b>At 30 June 2016</b>		
Amount due to related parties	<u>325,033</u>	<u>355,403</u>

The fair value of financial instruments were estimated by discounting the estimated future cash flows using the prevailing market rates for similar credit risks and remaining year of maturity (Level 2 hierarchy).

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**3 Financial risk management (continued)**
**3.3 Capital risk management**

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

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

The Debt over EBITDA ratios at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016 were as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000
Total intra-group borrowings	206,300	244,649	288,760	308,739
Profit/(Loss) before income tax	14,101	14,579	(55,926)	(113,502)
Finance income	(385)	(265)	(142)	(116)
Finance cost	8,276	13,527	15,519	14,894
Depreciation, depletion and amortisation	15,094	15,988	21,172	25,040
Assets impairment loss	-	-	42,859	88,586
<b>EBITDA</b>	<b>37,086</b>	<b>43,829</b>	<b>23,482</b>	<b>14,902*</b>
<b>Debt over EBITDA ratio</b>	<b>5.56</b>	<b>5.58</b>	<b>12.30</b>	<b>20.72</b>

\*EBITDA as at 30 June 2016 is based on annualised performance results.



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**ACCOUNTANTS' REPORT ON THE PALAEOINTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****4 Critical accounting estimates and judgements**

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

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

**(a) Estimation of proved and probable oil reserves**

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

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

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

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

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****4 Critical accounting estimates and judgements (continued)****(a) Estimation of proved and probable oil reserves (continued)**

Changes to the Group's estimates of proved and probable developed reserves affect prospectively the amounts of depreciation, depletion and amortisation charged and, consequently, the carrying amounts of oil and gas properties and intangible assets. Information about the carrying amounts of these assets and the amounts charged to profit or loss, including depreciation, depletion and amortisation is presented in Note 6 and Note 7.

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

In addition to the depletion, depreciation and amortisation of oil and gas properties using the unit of production method (Note 2.5) based on the estimated reserves as disclosed in Note 4 (a), the Group determines the estimated useful lives and related depreciation and amortisation charges for other property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions, or based on value-in-use calculations or market valuations according to the estimated periods that the Group intends to derive future economic benefits from the use of intangible assets.

Management will adjust the estimated useful lives where useful lives vary from previously estimated useful lives. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require material adjustments to the carrying amount of property, plant and equipment and intangible assets.

**(c) Estimated impairment of property, plant and equipment**

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Determination as to whether and how much an asset is impaired involve management estimates and judgements such as future prices of crude oil and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets, whereas unfavourable changes may cause the assets to become impaired.

**(d) Exploration and evaluation expenditure**

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. In making decisions about whether to continue capitalising the exploration costs, it is necessary to make judgments about the economic viability of the exploratory wells. If there is a change in one of these judgments in a subsequent period, then the related capitalised exploration costs would be expensed in that period, resulting in a charge to the profit or loss.

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****4 Critical accounting estimates and judgements (continued)****(e) Provision for remediation and restoration**

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

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

**(f) Current and deferred income tax**

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

**5 Revenue**

For the financial years ended 31 December 2013, 31 December 2014, 31 December 2015 and financial period ended 30 June 2016, the Group's revenue represented the sales of crude oil and gas in Kazakhstan, and substantially all were from the sales to Euro-Asian Oil, a company incorporated in Switzerland with operating activities in Kazakhstan.

## ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)

## Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.

## Notes to the financial statements

## 6 Property, plant and equipment

	Exploration and evaluation assets US\$'000	Oil and gas properties US\$'000	Buildings and improvements US\$'000	Vehicles, office and other production equipment US\$'000	Construction in progress US\$'000	Total US\$'000
<b>2013</b>						
<b>Cost</b>						
At 1 January	13,972	319,287	2,089	5,631	6,739	347,718
Additions	-	-	-	876	81,920	82,796
Transfers	(1,432)	80,371	316	-	(79,255)	-
At 31 December	<u>12,540</u>	<u>399,658</u>	<u>2,405</u>	<u>6,507</u>	<u>9,404</u>	<u>430,514</u>
<b>Accumulated depreciation</b>						
At 1 January	-	(88,969)	(561)	(2,760)	-	(92,290)
Charge for the financial year	-	(12,883)	(313)	(694)	-	(13,890)
At 31 December	<u>-</u>	<u>(101,852)</u>	<u>(874)</u>	<u>(3,454)</u>	<u>-</u>	<u>(106,180)</u>
<b>Net book value</b>						
At 31 December	<u>12,540</u>	<u>297,806</u>	<u>1,531</u>	<u>3,053</u>	<u>9,404</u>	<u>324,334</u>
<b>2014</b>						
<b>Cost</b>						
At 1 January	12,540	399,658	2,405	6,507	9,404	430,514
Additions	-	-	-	716	60,950	61,666
Transfers	10,757	9,611	1,389	-	(21,757)	-
At 31 December	<u>23,297</u>	<u>409,269</u>	<u>3,794</u>	<u>7,223</u>	<u>48,597</u>	<u>492,180</u>
<b>Accumulated depreciation</b>						
At 1 January	-	(101,852)	(874)	(3,454)	-	(106,180)
Charge for the financial year	-	(13,128)	(488)	(562)	-	(14,178)
At 31 December	<u>-</u>	<u>(114,980)</u>	<u>(1,362)</u>	<u>(4,016)</u>	<u>-</u>	<u>(120,358)</u>
<b>Net book value</b>						
At 31 December	<u>23,297</u>	<u>294,289</u>	<u>2,432</u>	<u>3,207</u>	<u>48,597</u>	<u>371,822</u>

## ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)

## Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.

## Notes to the financial statements

## 6 Property, plant and equipment (continued)

	Exploration and evaluation assets US\$'000	Oil and gas properties US\$'000	Buildings and improvements US\$'000	Vehicles, office and other production equipment US\$'000	Construction in progress US\$'000	Total US\$'000
<b>2015</b>						
<u>Cost</u>						
At 1 January	23,297	409,269	3,794	7,223	48,597	492,180
Additions	6,427	2,137	112	100	47,144	55,920
Disposals	-	-	(160)	(2,324)	-	(2,484)
Transfers	(15,779)	25,448	-	-	(9,669)	-
At 31 December	13,945	436,854	3,746	4,999	86,072	545,616
<u>Accumulated depreciation</u>						
At 1 January	-	(114,980)	(1,362)	(4,016)	-	(120,358)
Charge for the financial year	-	(20,877)	(389)	(698)	-	(21,964)
Disposal	-	-	3	1,909	-	1,912
At 31 December	-	(135,857)	(1,748)	(2,805)	-	(140,410)
<u>Accumulated impairment</u>						
At 1 January	-	-	-	-	-	-
Charge for the financial year	-	(8,497)	-	-	(3,795)	(12,292)
At 31 December	-	(8,497)	-	-	(3,795)	(12,292)
<u>Net book value</u>						
At 31 December	13,945	292,500	1,998	2,194	82,277	392,914
<b>2016</b>						
<u>Cost</u>						
At 1 January	13,945	436,854	3,746	4,999	86,072	545,616
Additions	464	97	24	14	2,978	3,577
Disposals	-	-	(1)	(258)	-	(259)
Reclassification	10,807	(12,421)	-	-	1,614	-
At 30 June	25,216	424,530	3,769	4,755	90,664	548,934
<u>Accumulated depreciation</u>						
At 1 January	-	(135,857)	(1,748)	(2,805)	-	(140,410)
Charge for the financial period	-	(10,079)	(190)	(244)	-	(10,513)
Disposal	-	-	1	240	-	241
At 30 June	-	(145,936)	(1,937)	(2,809)	-	(150,682)

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**6 Property, plant and equipment (continued)**

	Exploration and evaluation assets <u>US\$'000</u>	Oil and gas properties <u>US\$'000</u>	Buildings and improvements <u>US\$'000</u>	Vehicles, office and other production equipment <u>US\$'000</u>	Construction in progress <u>US\$'000</u>	<u>Total</u> <u>US\$'000</u>
<u>Accumulated impairment</u>						
At 1 January	-	(8,497)	-	-	(3,795)	(12,292)
Charge for the financial period	-	(24,371)	-	-	-	(24,371)
At 30 June	<u>-</u>	<u>(32,868)</u>	<u>-</u>	<u>-</u>	<u>(3,795)</u>	<u>(36,663)</u>
<u>Net book value</u>						
At 30 June	<u>25,216</u>	<u>245,726</u>	<u>1,832</u>	<u>1,946</u>	<u>86,869</u>	<u>361,589</u>

At 30 June 2016, Constructions in Progress includes spare parts with a net book value of US\$5,842,546 (2015: US\$4,314,842, 2014: US\$7,965,558, 2013: US\$8,658,077).

The additions of oil and gas properties of the Group for the financial period ended 30 June 2016 included US\$198,000 (2015: US\$1,036,000, 2014: US\$752,000, 2013: US\$1,517,000) relating to the assets retirement obligations (Note 17) recognised.

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**6 Property, plant and equipment (continued)**

During the financial period ended 30 June 2016, following the continuous declining global oil prices and resulting losses incurred, the Group performed an assessment of the recoverability of the Group's oil and gas properties and its related intangible assets. The recoverable amount is determined based on fair value less cost of disposal ("FVLCD"). The fair value measurement is performed based on Level 3 hierarchy. The key assumptions used in determining the recoverable amount is as follows:

	<u>As at 30 June 2016</u>	<u>As at 31 December 2015</u>
Period of projection	2016 – 2036	2016 – 2036
Selling price	US\$46 – US\$84 (at end of projection period)	US\$46 – US\$109 (at end of projection period)
Reserve volume	95,550 MSTB	96,151 MSTB
Inflation rate (US\$)	2.0%	2.0%
Inflation rate (KZT)	4.4%	6.2%
Capital expenditure	US\$ 253,060,000 (over the projection period)	US\$ 255,106,000 (over the projection period)

During the financial period ended 30 June 2016, the Group recorded an impairment of US\$24,371,000, (2015: US\$8,497,000, 2014: nil, 2013: nil) for oil and gas properties and US\$19,922,000, (2015: US\$30,567,000, 2014: nil, 2013: nil) for the related intangible assets (Note 7) due to a shortfall between the carrying value of the oil and gas properties and intangible assets and the present value of cash flows expected to be generated from proved and probable developed reserves of certain oil fields, being the determined cash generating unit ("CGU"), discounted at 12% (2015: 12%). During the financial period, there is no impairment on spare parts recorded by the Group (2015: US\$3,795,000, 2014: nil, 2013: nil).

Depreciation charge during the financial year/period is analysed as follows:

	<u>Year ended 31 December</u>			<u>Period ended</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>30 June</u>
	US\$'000	US\$'000	US\$'000	2016 US\$'000
Charged to profit or loss	13,485	13,891	19,745	9,890
Capitalised into oil in tank	405	287	2,219	623
	<u>13,890</u>	<u>14,178</u>	<u>21,964</u>	<u>10,513</u>

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**7 Intangible assets**

	<u>Software</u> US\$'000	<u>Mining rights</u> US\$'000	<u>Total</u> US\$'000
<u>2013</u>			
<u>Cost</u>			
At 1 January	118	90,844	90,962
Additions	16	-	16
At 31 December	<u>134</u>	<u>90,844</u>	<u>90,978</u>
<u>Accumulated amortisation</u>			
At 1 January	(111)	(8,447)	(8,558)
Amortisation	(4)	(1,605)	(1,609)
At 31 December	<u>(115)</u>	<u>(10,052)</u>	<u>(10,167)</u>
<u>Net book value</u>			
At 31 December	<u>19</u>	<u>80,792</u>	<u>80,811</u>
<u>2014</u>			
<u>Cost</u>			
At 1 January	134	90,844	90,978
Additions	74	-	74
At 31 December	<u>208</u>	<u>90,844</u>	<u>91,052</u>
<u>Accumulated amortisation</u>			
At 1 January	(115)	(10,052)	(10,167)
Amortisation	(8)	(1,684)	(1,692)
At 31 December	<u>(123)</u>	<u>(11,736)</u>	<u>(11,859)</u>
<u>Net book value</u>			
At 31 December	<u>85</u>	<u>79,108</u>	<u>79,193</u>



## ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)

## Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.

## Notes to the financial statements

## 7 Intangible assets (continued)

	Software US\$'000	Mining rights US\$'000	Total US\$'000
<u>2015</u>			
<u>Cost</u>			
At 1 January	208	90,844	91,052
Additions	71	-	71
At 31 December	<u>279</u>	<u>90,844</u>	<u>91,123</u>
<u>Accumulated amortisation</u>			
At 1 January	(123)	(11,736)	(11,859)
Amortisation	(15)	(1,125)	(1,140)
At 31 December	<u>(138)</u>	<u>(12,861)</u>	<u>(12,999)</u>
<u>Accumulated impairment</u>			
At 1 January	-	-	-
Charge for the financial year	-	(30,567)	(30,567)
At 31 December	<u>-</u>	<u>(30,567)</u>	<u>(30,567)</u>
<u>Net book value</u>			
At 31 December	<u>141</u>	<u>47,416</u>	<u>47,557</u>
<u>2016</u>			
<u>Cost</u>			
At 1 January	279	90,844	91,123
Additions	36	-	36
At 30 June	<u>315</u>	<u>90,844</u>	<u>91,159</u>
<u>Accumulated amortisation</u>			
At 1 January	(138)	(12,861)	(12,999)
Amortisation	(10)	(401)	(411)
At 30 June	<u>(148)</u>	<u>(13,262)</u>	<u>(13,410)</u>
<u>Accumulated impairment</u>			
At 1 January	-	(30,567)	(30,567)
Charge for the financial period	-	(19,922)	(19,922)
At 30 June	<u>-</u>	<u>(50,489)</u>	<u>(50,489)</u>
<u>Net book value</u>			
At 30 June	<u>167</u>	<u>27,093</u>	<u>27,260</u>

As disclosed in Note 6, during the financial period ended 30 June 2016, the Group recorded an impairment of US\$19,922,000, (2015: US\$30,567,000, 2014: nil, 2013: nil) for mining rights.

## ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)

## Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.

## Notes to the financial statements

## 8 Prepayments and other receivables

	As at 31 December			As at
	2013	2014	2015	30 June
	US\$'000	US\$'000	US\$'000	2016
				US\$'000
Advances to external parties	2,189	4,348	3,418	1,796
Advances to employees	107	34	3	1
Value-added tax recoverable	10,188	11,621	5,614	4,883
Tax recoverable	1,509	3,033	-	-
Total prepayments	13,993	19,036	9,035	6,680
Less: allowance for impairment of advances to suppliers	(345)	(178)	(341)	(342)
Total prepayments - net	13,648	18,858	8,694	6,338
Other receivables	2,367	1,001	2,958	1,173
Total prepayments and other receivables	16,015	19,859	11,652	7,511
Represent:				
Current	13,574	17,852	10,569	6,426
Non-current	2,441	2,007	1,083	1,085
	16,015	19,859	11,652	7,511

As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, substantially all other receivables are denominated in KZT. All other receivables are unsecured, interest-free and have no fixed term of repayment. The fair value of other receivables approximates their carrying amounts.

## Movement in allowance for impairment:

	As at 31 December			As at
	2013	2014	2015	30 June
	US\$'000	US\$'000	US\$'000	2016
				US\$'000
At 1 January	178	345	178	341
Impairment loss recognised	167	-	163	1
Impairment loss write-off	-	(167)	-	-
At 31 December/30 June	345	178	341	342

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

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**9 Trade receivables**

	As at 31 December			As at 30 June
	2013 US\$'000	2014 US\$'000	2015 US\$'000	2016 US\$'000
Trade receivables	3,544	541	996	5,712
Less: allowance for impairment of trade receivables	-	-	(15)	-
Trade receivables - net	3,544	541	981	5,712

The fair value of trade receivables approximates their carrying amount.

The aging analysis of trade receivables were as follows:

	As at 31 December			As at 30 June
	2013 US\$'000	2014 US\$'000	2015 US\$'000	2016 US\$'000
0 - 30 days	3,539	509	783	5,092
31 - 180 days	5	32	198	596
Over 180 days	-	-	-	24
	3,544	541	981	5,712

Movement in allowance for impairment:

	As at 31 December			As at 30 June
	2013 US\$'000	2014 US\$'000	2015 US\$'000	2016 US\$'000
At 1 January	-	-	-	15
Impairment loss recognised	-	-	15	-
Impairment loss reversed	-	-	-	(15)
At 31 December/30 June	-	-	15	-

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

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****9 Trade receivables (continued)**

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

	As at 31 December			As at
	2013	2014	2015	30 June
	US\$'000	US\$'000	US\$'000	2016
				US\$'000
US\$	3,022	-	-	5,516
KZT	522	541	981	196
	<u>3,544</u>	<u>541</u>	<u>981</u>	<u>5,712</u>

The Group's trade receivables have credit terms of between 30 days to 180 days. As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, there were no trade receivables past due which are impaired. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables. The Group does not hold any collateral as security.

**10 Restricted cash**

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

At 30 June 2016, restricted cash set aside for this purpose amounted to US\$1,404,000 (2015: US\$1,308,000, 2014: US\$2,117,000, 2013: US\$1,949,000).

**11 Cash and cash equivalents**

	As at 31 December			As at
	2013	2014	2015	30 June
	US\$'000	US\$'000	US\$'000	2016
				US\$'000
Cash in hand	7	6	18	2
Cash at bank	7,200	6,910	4,684	533
	<u>7,207</u>	<u>6,916</u>	<u>4,702</u>	<u>535</u>

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December			As at
	2013	2014	2015	30 June
	US\$'000	US\$'000	US\$'000	2016
				US\$'000
US\$	2,401	5,070	4,656	338
KZT	4,797	1,835	45	196
Euro	9	11	1	1
	<u>7,207</u>	<u>6,916</u>	<u>4,702</u>	<u>535</u>

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**12 Share capital**

	<u>As at 31 December</u>			<u>As at</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>30 June</u>
	US\$'000	US\$'000	US\$'000	2016
				US\$'000
Authorised:				
90,000 ordinary shares of 1 Euro per share				
At 1 January/31 December/30 June	<u>125</u>	<u>125</u>	<u>125</u>	<u>125</u>
Issued and fully paid:				
18,000 ordinary shares of 1 Euro per share				
At 1 January	25	25	19,454	19,454
Conversion of amounts due to related parties (Note 25)	-	19,429	-	-
At 31 December/30 June	<u>25</u>	<u>19,454</u>	<u>19,454</u>	<u>19,454</u>

**Note:**

On 1 January 2014, US\$19,429,341 of amount payable to the intermediate holding company was assigned to Palaeontol Cooperatief U.A., the immediate holding company. Under the Debt Conversion – Share Premium Agreement, on 1 January 2014, this amount was converted as contribution to the capital of the Company as a non-stipulated share premium contribution without any additional shares being issued.

**13 Other reserve**

	<u>Share based</u>
	<u>payment</u>
	<u>reserve</u>
	US\$'000
At 1 January 2013	612
Employees stock option scheme - value of employee services (Note (a))	(78)
At 31 December 2013	<u>534</u>
At 1 January 2014	534
Employees stock option scheme - value of employee services (Note (a))	122
At 31 December 2014	<u>656</u>
At 1 January 2015	656
Employees stock option scheme - value of employee services (Note (a))	67
At 31 December 2015	<u>723</u>
At 1 January 2016	723
Employees stock option scheme - value of employee services (Note (a))	18
At 30 June 2016	<u>741</u>

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****13 Other reserve (continued)****(a) Share option scheme under Chapter 17 of the Listing Rules**

Other reserve represent fair value of employee's services received in respect of share-based payment granted under the Stock Incentive Compensation Plan and share option scheme of MIEH. MIEH operates a share option scheme (the "2011 MIEH scheme") in accordance with Chapter 17 of the Listing Rules. As of 30 June 2016, all awards granted under the 2011 MIEH scheme were all granted to the Directors and employees of the Group for their services rendered to the Group.

The subscription price for shares under the 2011 MIEH scheme shall be a price determined by the Directors of MIEH, but shall be the highest of

- (i) the closing price of shares as stated in the Stock Exchange's daily quotations on the Offer Date;
- (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the Offer Date; and
- (iii) the nominal value of the shares. A nominal consideration of HK\$1.00 is payable on acceptance of the grant of an option.

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option. An option may be exercised in whole or in part in accordance with the terms of the 2011 MIEH scheme at any time during a period to be notified by the Directors to each grantee, which period may commence on the date upon which the offer for the grant of options is made ("Offer Date") but shall expire on the day immediately preceding the tenth anniversary of the Offer Date.

The impact of the share option scheme to the Group is not significant.

## ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)

## Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.

## Notes to the financial statements

## 14 Deferred tax liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December			As at
	2013 US\$'000	2014 US\$'000	2015 US\$'000	30 June 2016 US\$'000
Deferred tax assets:				
Deferred tax assets to be recovered within 12 months	2,553	1,297	44	33
Deferred tax assets to be recovered after more than 12 months	14,907	16,158	38,031	34,794
	<u>17,460</u>	<u>17,455</u>	<u>38,075</u>	<u>34,827</u>
Deferred tax liabilities:				
Deferred tax liabilities to be settled after more than 12 months	(50,022)	(53,277)	(63,295)	(52,501)
Total - Deferred income tax liabilities - net	<u>(32,562)</u>	<u>(35,822)</u>	<u>(25,220)</u>	<u>(17,674)</u>

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

	As at 31 December			As at
	2013 US\$'000	2014 US\$'000	2015 US\$'000	30 June 2016 US\$'000
At 1 January	(44,010)	(32,562)	(35,822)	(25,220)
Credited/(Charged) to profit or loss: (Note 22)				
- tax losses	2,184	1,582	22,700	(1,075)
- provisions	6,669	(1,587)	(2,080)	(2,173)
- property, plant and equipment	2,300	(3,579)	(16,346)	6,735
- intangible assets	295	324	6,328	4,059
	<u>11,448</u>	<u>(3,260)</u>	<u>10,602</u>	<u>7,546</u>
At 31 December/30 June	<u>(32,562)</u>	<u>(35,822)</u>	<u>(25,220)</u>	<u>(17,674)</u>

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**14 Deferred tax liabilities (continued)**

	As at 31 December			As at
	2013	2014	2015	30 June
	US\$'000	US\$'000	US\$'000	US\$'000
Subject to income tax				
Deferred tax assets (before offsetting):				
- tax losses	9,381	10,963	33,663	32,588
- provisions	8,079	6,492	4,412	2,239
	17,460	17,455	38,075	34,827
Offsetting	(17,460)	(17,455)	(38,075)	(34,827)
Deferred tax assets (after offsetting)	-	-	-	-
Deferred tax liabilities (before offsetting):				
- property, plant and equipment	(33,859)	(37,438)	(53,784)	(47,049)
- intangible assets	(16,163)	(15,839)	(9,511)	(5,452)
	(50,022)	(53,277)	(63,295)	(52,501)
Offsetting	17,460	17,455	38,075	34,827
Deferred tax liabilities (after offsetting)	(32,562)	(35,822)	(25,220)	(17,674)

**15 Trade payables**

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

	As at 31 December			As at
	2013	2014	2015	30 June
	US\$'000	US\$'000	US\$'000	US\$'000
KZT	47,666	49,202	38,863	12,914
US\$	79	993	-	11,182
	47,745	50,195	38,863	24,096

The fair values of trade and notes payables approximate their carrying amounts.



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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**16 Accruals and other payables**

	As at 31 December			As at
	2013	2014	2015	30 June
	US\$'000	US\$'000	US\$'000	2016
				US\$'000
Withholding and other tax payable	12,512	6,121	6	1,197
Salary and welfare payable	1,187	1,414	323	260
Accruals and other payables	6,768	4,608	19,246	12,944
	20,467	12,143	19,575	14,401
Less: non-current portion of				
- Other payables	3,128	2,388	4,227	4,969
Current	17,339	9,755	15,348	9,432

**17 Provisions**

	As at 31 December			As at
	2013	2014	2015	30 June
	US\$'000	US\$'000	US\$'000	2016
				US\$'000
Asset retirement obligations	6,511	6,613	4,877	4,926

Movements of asset retirement obligations are as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	US\$'000	US\$'000	US\$'000	2016
				US\$'000
At 1 January	4,843	6,511	6,613	4,877
Additional provision	1,518	752	1,036	198
Accretion expenses (Note 21)	150	784	461	183
Exchange differences	-	(1,434)	(3,233)	(332)
At 31 December	6,511	6,613	4,877	4,926

## ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)

## Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.

## Notes to the financial statements

## 18 Taxes other than income taxes

	Year ended 31 December			Period ended 30 June	
	2013	2014	2015	2015 Unaudited	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Rent export tax	30,001	28,727	5,657	3,691	794
Rent export duty expenditure	9,205	14,211	9,087	5,094	2,634
Mineral extraction tax	7,324	7,256	2,971	1,556	1,169
Property tax	5,081	3,825	3,221	1,918	963
	<u>51,611</u>	<u>54,019</u>	<u>20,936</u>	<u>12,259</u>	<u>5,560</u>

## 19 Employee compensation costs

	Year ended 31 December			Period ended 30 June	
	2013	2014	2015	2015 Unaudited	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Wages, salaries and allowances	6,210	7,302	3,524	1,887	793
Welfare and other expenses	2,041	721	506	360	357
Share options - value of employee services (Note 13)	(78)	122	67	43	18
	<u>8,173</u>	<u>8,145</u>	<u>4,097</u>	<u>2,290</u>	<u>1,168</u>

## 20 Other operating (expenses)/income - net

	Year ended 31 December			Period ended 30 June	
	2013	2014	2015	2015 Unaudited	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Accident indemnity	(4,065)	-	-	-	(250)
Others	192	-	-	-	-
Foreign exchange gain/(expense) on operation - net	406	9,299	20,514	62	(174)
	<u>(3,467)</u>	<u>9,299</u>	<u>20,514</u>	<u>62</u>	<u>(424)</u>

During the financial year ended 31 December 2013, the Group accrued provisions amounting to US\$4.1 million for indemnities resulting from a traffic accident involving oil tanks in Kazakhstan, which is finalised in 2016.

As disclosed in Note 21, foreign exchange arising from purchases and services procured are classified as part of operating expenditure.

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**21 Finance costs - net**

	<u>Year ended 31 December</u>			<u>Period ended 30 June</u>	
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>	<u>2016</u>
	US\$'000	US\$'000	US\$'000	Unaudited US\$'000	US\$'000
<u>Finance income</u>					
Interest income on deposits	(385)	(265)	(142)	(73)	(58)
<u>Finance costs</u>					
Interest expenses of loan from penultimate holding company (Note 25)	7,720	9,549	13,083	6,286	7,188
Accretion expenses of asset retirement obligations (Note 17)	150	784	461	192	183
Other fees	352	431	662	285	70
	<u>8,222</u>	<u>10,764</u>	<u>14,206</u>	<u>6,763</u>	<u>7,441</u>
Exchange loss, net	54	2,763	1,313	65	6
	<u>8,276</u>	<u>13,527</u>	<u>15,519</u>	<u>6,828</u>	<u>7,447</u>
Finance costs, net	<u>7,891</u>	<u>13,262</u>	<u>15,377</u>	<u>6,755</u>	<u>7,389</u>

Foreign exchange arising from cash balance is classified as part of finance cost-net. Foreign exchange arising from purchases and services procured are classified as part of operating expenditure.

**22 Income tax credit/(expense)**

	<u>Year ended 31 December</u>			<u>Period ended 30 June</u>	
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>	<u>2016</u>
	US\$'000	US\$'000	US\$'000	Unaudited US\$'000	US\$'000
Current income tax	(6,795)	(120)	(827)	(689)	(145)
Deferred income tax (Note 14)	11,448	(3,260)	10,602	2,153	7,546
	<u>4,653</u>	<u>(3,380)</u>	<u>9,775</u>	<u>1,464</u>	<u>7,401</u>

Taxation has been calculated on the estimated assessable profit for the financial year/period at the rates of taxation prevailing in Kazakhstan.

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**22 Income tax credit/(expense) (continued)**

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

	<u>Year ended 31 December</u>			<u>Period ended 30 June</u>	
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u> Unaudited	<u>2016</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Profit/(Loss) before income tax	14,101	14,579	(55,926)	(8,610)	(56,751)
Tax calculated at the statutory tax rates of 20% (2015: 20%, 2014: 20%, 2013: 20%)	(2,820)	(2,916)	11,185	1,722	11,350
Tax effects of:					
- Expenses not deductible for tax purposes	(601)	(306)	(4,009)	(1,483)	(681)
- Change in tax laws	-	-	-	-	(2,879)
- Difference in tax base for revenue	(1,744)	(3,618)	(47)	(38)	(177)
- Re-measurement of deferred tax due to change in the tax rate	8,160	2,392	(691)	-	336
- Adjustments to deferred tax due to currency exchange rate movements	1,658	1,068	3,337	1,263	(471)
- Under/ (Over) accrual in prior year	-	-	-	-	(77)
Income tax credit/(expense)	4,653	(3,380)	9,775	1,464	7,401

The weighted average effective tax rate was 13% and 17% for the period ended 30 June 2016 and 30 June 2015 respectively (2015: 17%, 2014: 23%, 2013: -33%).

Deferred tax in Kazakhstan has been re-measured to reflect the changes in excess profit tax rate of Kazakhstan will be applied in the future, which is mainly caused by changes in management forecast of future capital expenditures and other tax rates.

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

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****23 Commitments**

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

	As at 31 December			As at
	2013	2014	2015	30 June
	US\$'000	US\$'000	US\$'000	2016
				US\$'000
Authorised by the Director but not contracted for	161,570	40,936	66,654	46,481
Contracted but not provided for	698	38,634	4,832	22,226
	<u>162,268</u>	<u>79,570</u>	<u>71,486</u>	<u>68,707</u>

- (ii) Operating lease commitments

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

	As at 31 December			As at
	2013	2014	2015	30 June
	US\$'000	US\$'000	US\$'000	2016
				US\$'000
<1 year	989	1,108	444	452
1-2 years	-	554	452	452
2-5 years	-	-	452	236
>5 years	-	-	8	-
	<u>989</u>	<u>1,662</u>	<u>1,356</u>	<u>1,140</u>

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

	As at 31 December			As at
	2013	2014	2015	30 June
	US\$'000	US\$'000	US\$'000	2016
				US\$'000
<1 year	67,155	94,527	87,976	84,461
1-2 years	71,326	87,976	80,946	78,876
2-5 years	234,453	231,995	222,778	219,472
>5 years	883,820	809,578	737,848	702,751
	<u>1,256,754</u>	<u>1,224,076</u>	<u>1,129,548</u>	<u>1,085,560</u>

The minimum work program includes capital expenditure of US\$279 million (2015: US\$295 million, 2014: US\$360 million, 2013: US\$355 million) to be incurred over the life of the production contracts expiring in 2036. Other commitments represent mainly other direct operation and maintenance costs of wells and related facilities.

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**24 Financial instruments by category**

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

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

	<u>As at 31 December</u>			<u>As at</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>30 June</u>
	US\$'000	US\$'000	US\$'000	2016
				US\$'000
<b>Loans and receivables</b>				
Restricted cash	1,949	2,117	1,308	1,404
Trade receivables	3,544	541	981	5,712
Other receivables	2,367	1,001	2,958	1,173
Cash and cash equivalents	7,207	6,916	4,702	535
	<u>15,067</u>	<u>10,575</u>	<u>9,949</u>	<u>8,824</u>
<b>Other financial liabilities</b>				
Trade payables	47,745	50,195	38,863	24,096
Accruals and other payables (excluding statutory liabilities)	6,768	4,608	4,627	5,345
Amounts due to related parties	243,950	262,329	305,277	325,033
	<u>298,463</u>	<u>317,132</u>	<u>348,767</u>	<u>354,474</u>

**25 Significant related party disclosures**

The Company is a wholly owned subsidiary of MIEH.

At 30 June 2016, the Director of the Company regards Far East Energy Limited as the Company's ultimate holding company.

- (a) The related parties and their relationship with the Company were as follows;

<u>Companies</u>	<u>Relationship</u>
Far East Energy Limited ("FEEL")	Ultimate holding company
MIE Holdings Corporation ("MIEH")	Penultimate holding company
MIE New Ventures Corporation ("MIEN")	Intermediate holding company
Palaeontol Cooperatief U.A.	Immediate holding company

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**ACCOUNTANTS' REPORT ON THE PALAEOINTOL B.V. GROUP (Cont'd)**


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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.**
**Notes to the financial statements**
**25 Significant related party disclosures (continued)**

- (b) Details of significant transactions arising during the year with the penultimate holding company are as follows:

	<u>Financial year ended 31 December</u>			<u>Period ended 30 June</u>	
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>	<u>2016</u>
	US\$'000	US\$'000	US\$'000	Unaudited US\$'000	US\$'000
Loan advanced during the year/period	24,000	34,000	32,450	20,950	12,550
Loan repayments paid	-	(1,150)	-	-	-
Interest charged	7,720	9,459	13,083	6,286	7,188
Interest repayment paid	(2,965)	(4,050)	(1,422)	(1,422)	-
Payment on behalf	(604)	(540)	(1,162)	(1,233)	18
Conversion to equity	-	(19,429)	-	-	-

- (c) Significant net year end balances owing from/(to) related parties are as follows:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>30 June</u>
	US\$'000	US\$'000	US\$'000	2016 US\$'000
Loan from penultimate holding company	206,300	244,649	288,760	308,739
Amounts due to penultimate holding company	36,890	16,919	15,757	15,455

Except for loans from the penultimate holding company ("Shareholders loan") amounting to US\$106,242,000 and US\$139,000,000 (2015: US\$106,242,000 and US\$126,450,000, FY2014: US\$106,242,000 and US\$94,000,000; FY2013: US\$106,242,000 and US\$61,000,000) are due and payable in 2036 and 2018, respectively, and bearing interest ranging from 4.855% to 11.855%, the remaining amounts due to related parties are unsecured, interest-free and have no fixed term of repayment.

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**ACCOUNTANTS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Accountants' Report on the Consolidated Financial Statements of Palaeontol B.V.****Notes to the financial statements****26 Significant events during the reporting periods**

A tri-partite conditional Sale and Purchase Agreement ("SPA") was entered into on 5 March 2016 between Palaeontol COOP, MIEH and Reach Energy Berhad for the proposed acquisition of 60% equity interest in Palaeontol B.V. by Reach Energy Berhad and 60% of the shareholder loans in Palaeontol B.V. from MIEH for a total purchase consideration of US\$154.889 million, subject to adjustments based on agreed parameters ("Proposed Acquisition"). The adjusted purchase consideration shall not be greater than US\$175.889 million (unless mutually agreed).

MIE and Reach Energy Berhad have confirmed to provide financial support for the continuing operations of the Group on completion of the Proposed Acquisition to the extent of their proportionate ownership in the Group.



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOONTOL B.V. GROUP**
**1. SELECTED HISTORICAL FINANCIAL DATA**

The following selected historical financial data has been extracted from the audited consolidated financial statements of Palaeontol B.V. for the past three FYEs 31 December 2013 to 2015 and the FPE 30 June 2016 and the unaudited consolidated financial statements of Palaeontol B.V. for the FPE 30 June 2015. The audited consolidated financial statements of Palaeontol B.V. for the past three FYEs 31 December 2013 to 2015 and the FPE 30 June 2016 and the unaudited consolidated financial statements of Palaeontol B.V. for the FPE 30 June 2015 are prepared in accordance with MFRS and IFRS.

The following selected historical financial data should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition, Results of Operations and Prospects" in Section 2 of Appendix XI of this Circular and the Accountants' Report on the Palaeontol B.V. Group in Appendix X of this Circular.

	<----- Audited ----->			Unaudited	Audited
	FYE 31 December			FPE 30 June	
	2013	2014	2015	2015	2016
	USD'000	USD'000	USD'000	USD'000	USD'000
Revenue	126,443	121,452	49,767	29,989	23,831
Operating expenses:					
Taxes other than income taxes	(51,611)	(54,019)	(20,936)	(12,259)	(5,560)
Purchases, services and other direct costs	(18,019)	(15,887)	(7,806)	(4,811)	(2,599)
Assets impairment loss	-	-	(42,859)	-	(44,293)
Depreciation, depletion and amortisation	(15,094)	(15,988)	(21,172)	(6,516)	(12,520)
Geological and geophysical expenses	(3,632)	(3,262)	-	-	-
Distribution expenses	(1,524)	(1,412)	(11,045)	(5,076)	(6,107)
Employee compensation costs	(8,173)	(8,145)	(4,097)	(2,290)	(1,168)
General and administrative expenses	(2,931)	(4,197)	(2,915)	(954)	(522)
Other operating (expenses)/income-net	(3,467)	9,299	20,514	62	(424)
Total operating expenses	(104,451)	(93,611)	(90,316)	(31,844)	(73,193)
<b>Profit/ (Loss) from operations</b>	<b>21,992</b>	<b>27,841</b>	<b>(40,549)</b>	<b>(1,855)</b>	<b>(49,362)</b>
Finance income	385	265	142	73	58
Finance costs	(8,276)	(13,527)	(15,519)	(6,828)	(7,447)
<b>Profit before tax ("PBT")/(Loss before tax) ("LBT")</b>	<b>14,101</b>	<b>14,579</b>	<b>(55,926)</b>	<b>(8,610)</b>	<b>(56,751)</b>
Income tax (expense)/credit	4,653	(3,380)	9,775	1,464	7,401
<b>Profit after tax ("PAT")/(Loss after tax) ("LAT"), representing total comprehensive income/(loss) for the year</b>	<b>18,754</b>	<b>11,199</b>	<b>(46,151)</b>	<b>(7,146)</b>	<b>(49,350)</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOLOG B.V. GROUP (Cont'd)**

	<----- Audited ----->			Unaudited	Audited
	FYE 31 December			FPE 30 June	
	2013	2014	2015	2015	2016
	USD'000	USD'000	USD'000	USD'000	USD'000
<b>Other selected financial data:</b>					
EBITDIA <sup>(1)</sup>	37,086	43,829	23,482	4,661	7,451
Operating profit margin (%)	17.39	22.92	(81.48)	(6.19)	(207.13)
EBITDIA margin (%)	29.33	36.09	47.18	15.54	31.27
PBT/(LBT) margin (%)	11.15	12.00	(112.38)	(28.71)	(238.14)
PAT/(LAT) margin (%)	14.83	9.22	(92.73)	(23.83)	(207.08)
No. of shares in issue	18,000	18,000	18,000	18,000	18,000
Gross earnings/(loss) per share (USD) <sup>(2)</sup>	783.39	810.00	(3,107.00)	(478.33)	(3,152.83)
Net earnings/(loss) per share (USD) <sup>(3)</sup>	1,041.89	622.17	(2,563.94)	(397.00)	(2,741.67)
<b>Balance sheet-related financial data:</b>					
Total non-current assets	409,535	455,139	442,862	500,232	391,338
Total non-current liabilities	245,525	284,992	311,040	309,208	318,945
Total current assets	25,530	26,543	19,446	26,883	13,956
Total current liabilities	105,710	82,110	82,772	110,431	67,185
Total assets	435,065	481,682	462,308	527,115	405,294
Total liabilities	351,235	367,102	393,812	419,639	386,130
NA	83,830	114,580	68,496	107,476	19,164

## Notes:

- \* The average of the middle rates for RM/USD prevailing at 5.00 p.m. on the last Business Day of each month in Malaysia as published by BNM for the past three FYEs 31 December 2013 to 2015 and FPE 30 June 2016 are as follows:

FYE 31 December	Average exchange rate (RM/USD)
2013	3.1692
2014	3.2813
2015	3.9343
FPE 30 June	Average exchange rate (RM/USD)
2016	4.0543

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOONTOL B.V. GROUP (Cont'd)**

The monthly high and low middle rates for RM/USD prevailing at 5.00 p.m. as published by BNM from March 2016 to September 2016 are as follows:

	<u>High</u> <u>(RM/USD)</u>	<u>Low</u> <u>(RM/USD)</u>
<b>2016</b>		
March	4.1720	3.9020
April	3.9260	3.8690
May	4.1290	3.9305
June	4.1495	4.0185
July	4.0815	3.9475
August	4.0540	3.9945
September	4.1445	4.0395
Last middle rate as published by BNM at 5.00 p.m. as at the LPD		4.1355

(1) The table below sets out a reconciliation of PAT/(LAT) to EBITDIA:

	<u>&lt;-----Audited-----&gt;</u>			<u>Unaudited</u>	<u>Audited</u>
	<u>FYE 31 December</u>			<u>FPE 30 June</u>	
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>	<u>2016</u>
	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>
PAT/(LAT)	18,754	11,199	(46,151)	(7,146)	(49,350)
Finance income	(385)	(265)	(142)	(73)	(58)
Finance costs	8,276	13,527	15,519	6,828	7,447
Income tax expense/(credit)	(4,653)	3,380	(9,775)	(1,464)	(7,401)
Depreciation, depletion and amortisation	15,094	15,988	21,172	6,516	12,520
Asset impairment loss	-	-	42,859	-	44,293
EBITDIA	<u>37,086</u>	<u>43,829</u>	<u>23,482</u>	<u>4,661</u>	<u>7,451</u>

(2) Computed based on PBT divided by the number of shares in issue.

(3) Computed based on PAT divided by the number of shares in issue.

**2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS**

The following discussion and analysis of the Palaeontol B.V. Group's financial performance and results of operations for the past three FYEs 31 December 2013 to 2015 and for the FPE 30 June 2016 should be read in conjunction with the Accountants' Report on the Palaeontol B.V. Group in Appendix X of this Circular. The Palaeontol B.V. Board is responsible for the preparation of the historical financial information of the Palaeontol B.V. Group for the past three FYEs 31 December 2013 to 2015 and for the FPE 30 June 2016 so as to give a true and fair view in accordance with MFRS and IFRS.

This discussion and analysis contains forward-looking statements that involve risks and uncertainties. The actual results of the Palaeontol B.V. Group may differ significantly from those anticipated in these forward-looking statements. Factors that may cause future results to differ significantly from those contained in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Circular, particularly the risk factors as set out in Section 8 of this Circular.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOONTOL B.V. GROUP (Cont'd)**


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**2.1 Overview of operations**

Palaeontol B.V. is an investment holding company, while its subsidiary, Emir-Oil is principally engaged in the exploration, development, production and sale of crude oil and other petroleum products in Kazakhstan. For the financial years and period under review, the Palaeontol B.V. Group has only one operating segment.

Please refer to Section 3 of Appendix III of this Circular for further information on the Palaeontol B.V. Group.

**2.2 Significant factors affecting the financial condition and results of operations of the Palaeontol B.V. Group**

The Palaeontol B.V. Group's financial position and results of operations have been, and are expected to be affected by, amongst others, the following factors:

**(i) Crude oil prices**

The revenue of Emir-Oil is mainly derived from the sales of crude oil which in turn is dependent on crude oil prices and the volume of crude oil delivered. Crude oil price is indexed to Brent oil price. Prior to 2015, Brent oil price was used as a basis of pricing the realised oil price for Emir-Oil's crude oil export sale. In 2015, Urals crude oil was used as a basis of pricing the realised price for Emir-Oil's crude oil. Urals crude oil is traded at a discount to Brent oil price based on the inputs of traders and refiners. However, in 2016, the basis of pricing the realised oil price for Emir-Oil's crude oil reverted to Brent. The oil price is influenced by fluctuations in the price of international crude oil (i.e. Brent crude oil), which are affected by, among others, global oil supply and demand, changes in economic conditions, supply estimates from oil producing countries and other geopolitical factors, which are difficult to predict and beyond Emir-Oil's control. Any adverse movement in oil prices will reduce the profitability of Emir-Oil. The extent of reduction in profitability would depend on Emir-Oil's ability to control its operating expenses such as well and facilities maintenance costs, material costs, salaries, etc.

Any volatility in the outlook in crude oil prices also affect the planning decisions for future investments and production budget, which will impact the volume of production for future periods.

The table below sets out the average realised oil price and the sales volume of Emir-Oil for the past three FYEs 31 December 2013 to 2015 and the FPE 30 June 2015 and 2016:

	<b>Average realised oil price</b>	<b>Sales volume</b>
<b>FYE 31 December</b>	<b>(USD/bbl)</b>	<b>(bbl)</b>
2013	79.64	1,559,808
2014	63.31	1,883,235
2015	43.95	1,089,285
	<b>Average realised oil price</b>	<b>Sales volume</b>
<b>FPE 30 June</b>	<b>(USD/bbl)</b>	<b>(bbl)</b>
2015	48.76	592,177
2016	35.03	659,418

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**

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Crude oil prices also have an impact on assessment of the recoverability of the O&G properties of Emir-Oil. Lower crude oil prices may result in a reduction in the Reserves value and vice-versa. Therefore, any changes in crude oil prices may have an impact on the Reserves value which will affect the determination of carrying values of the O&G properties of Emir-Oil. Determination as to whether and how much an asset is impaired involve management estimates and judgements such as future prices of crude oil and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Palaeontol B.V. Group's business plans. Favourable changes to some assumptions may allow the Palaeontol B.V. Group to avoid the need to impair any assets, whereas unfavourable changes may cause the assets to become impaired.

**(ii) Exploration commitment**

The expenditure commitments under the Exploration Contract, including ability to apply for commercial production rights and repayment to the Government of Kazakhstan for any of its historical investments will affect Emir-Oil's results of operations.

Salient terms of the Exploration Contract are set out in Appendix IV of this Circular.

**(iii) O&G reserves**

There are uncertainties inherent in estimating the quantity of O&G reserves as the reserves assessment process is complicated and it involves many assumptions such as, among others, geological factors, reservoir factors and well productivity.

The process of estimating O&G Reserves is rigorous, requiring good understanding of geological and petroleum engineering data as well as the economic assumptions. In addition, the Reserve estimates are subject to revisions as new additional data become available during the exploration and production life of a reservoir. Any material deviations from these technical interpretations and assumptions could affect the estimated quantities of O&G Reserves reported.

As such, estimating the amount of Reserves is an iterative process, based on the results of drilling, testing and production subsequent to the date of the assessment and may result in revisions to the original assessment.

**(iv) Licensing**

The operation of the Emir-Oil Concession Block is subject to licenses, regulations and approvals for the development, construction, operation, production, marketing, pricing, transportation and storage of oil. The Palaeontol B.V. Group has to work closely with the local authorities over the granting of necessary approvals or licenses (or renewals thereof). The timing of obtaining (or renewing) such licenses or approvals and the terms on which they are granted are therefore subject to uncertainty. Consequently, the Palaeontol B.V. Group would have to present to the local authorities the detailed plans and timing of the future development of the Emir-Oil Concession Block.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEONTOL B.V. GROUP (Cont'd)**

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**(v) Operating environment**

O&G production is exposed to drilling hazards and environmental impact which could increase the cost of operations, whereas adverse field operating conditions may affect production from successful wells. The production operations of the Emir-Oil Concession Block involve risks such as oil spills and fire, each of which could result in substantial damage to oil wells, production facilities and the environment, or personal injury. In addition, political instability and changes in local legislation and taxation may also materially and adversely affect the financial condition or results of operations of the Palaeontol B.V. Group.

**(vi) Success of development activities**

Development activities are capital intensive and the success of the field's development is highly dependent on the data available during the planning. The outcome of such activities is subject to some uncertainties. In the event the development activities on the Emir-Oil Concession Block do not result in the improvement of production volumes and the decrease in production cost, the financial condition or results of operations of the Palaeontol B.V. Group could be materially and adversely affected.

**2.3 Critical accounting policies and estimates**

The Palaeontol B.V. Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates and assumptions could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The policies described below are considered to be critical in understanding the estimates and judgments that are involved in preparing the Palaeontol B.V.'s consolidated financial statements.

**(i) Estimation of proved and probable oil reserves**

Proved reserves are those quantities of petroleum that by analysis of geoscience and engineering data can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. Economic conditions include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

The Palaeontol B.V. Group classified its proved reserves into two categories: proved developed producing reserves and proved undeveloped reserves. Proved developed producing reserves are expected to be recovered from completion intervals<sup>i</sup> that are open and producing at the time of the estimate. Proved undeveloped reserves are quantities expected to be recovered through future investments: from new wells on undrilled acreage in known accumulations, from extending existing wells to a different (but known) reservoir, or from infill wells that will increase recovery. Probable reserves are additional reserves that are less certain to be recovered than proved reserves but, together with proved reserves, are likely to be recovered.

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<sup>i</sup> Completion interval is a section within a well that is set to permit production from a specific geologic formation. Wells are drilled into multiple geologic formations and completion intervals are set in certain geologic formations to allow production from such specific geologic formations.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**

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The Palaeontol B.V. Group's reserve estimates were prepared for each oilfield and include only crude oil and gas that it believes can be reasonably produced within current economic and operating conditions. Proved and probable reserves cannot be measured exactly. Reserve estimates are based on many factors related to reservoir performance that require evaluation by the engineers interpreting the available data, as well as price and economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical data, and the production performance of the reservoirs as well as engineering judgement. Consequently, reserve estimates are subject to revision as additional data become available during the producing life of a reservoir. When a commercial reservoir is discovered, proved reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance. Well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which could potentially increase the reserves beyond those envisioned during the early years of a reservoir's producing life. In general, changes in the technical maturity of reserves resulting from new information becoming available from development and production activities and change in O&G price have tended to be the most significant cause of annual revisions.

Proved and probable reserves are key elements in the Palaeontol B.V. Group's investment decision-making process. They are also an important element in testing for impairment. Proved and probable developed producing reserves is used for the calculation of unit-of-production depreciation, depletion and amortisation recorded in the consolidated financial statements for property, plant and equipment related to O&G production activities. A reduction in proved and probable developed producing reserves will increase depreciation, depletion and amortisation charges (assuming constant production) and reduce net profit.

**(ii) Exploration and evaluation expenditure**

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

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to O&G properties and subject to impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalised in exploration and evaluation assets only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes. The Palaeontol B.V. Group does not have any costs of unproved properties capitalised in O&G properties as at 30 June 2016.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**


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**(iii) Depletion, depreciation and amortisation**

The cost of O&G properties is amortised at the field level based on the unit of production method. Unit of production rates are based on proved and probable developed producing reserves estimated to be recoverable from existing facilities based on current terms of the respective production agreements. The reserves estimates represent crude oil that the management of the Palaeontol B.V. Group believes can be reasonably produced within the current terms of the production agreements.

Depreciation of other assets is calculated using the straight-line method and is calculated where the depreciable value (i.e. cost less residual value) is depreciated over the estimated useful lives as follows:

<b><u>Assets</u></b>	<b><u>Estimated useful lives</u></b>
Office equipment	up to 15 years
Motor vehicles	5 to 7 years
Production equipment	up to 10 years
Buildings	up to 12 years

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

**(iv) Estimated impairment of property, plant and equipment**

Property, plant and equipment, including O&G properties, are reviewed for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates and judgements such as future prices of crude oil and production profile. The impairment reviews and calculations are based on assumptions that are consistent with the Palaeontol B.V. Group's business plans. Favourable changes to some assumptions may allow the Palaeontol B.V. Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

**(v) Provision for remediation and restoration**

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



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEONTOL B.V. GROUP (Cont'd)**


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The Palaeontol B.V. Group currently operates mainly in Kazakhstan. The outcome of any environmental and other similar obligations under proposed or future environmental legislation cannot reasonably be estimated at present and could be material. Under existing legislation, however, the directors of Palaeontol B.V. are in their opinion that there are no probable liabilities that are in addition to amounts which have already been reflected in the consolidated financial statements that will have a materially adverse effect on the financial position of the Palaeontol B.V. Group.

**(vi) Income taxes**

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

**2.4 Results of operations**

The components of results of operations of the Palaeontol B.V. Group are as follows:

**(i) Revenue**

The revenue of the Palaeontol B.V. Group is derived from the sales of crude oil and gas produced by Emir-Oil under the Production Contracts and Exploration Contract. Revenue is recognised on the transfer of risks and rewards of ownership or in the case of gas, the time when the gas arrives at the gas pipeline. The revenue of the Palaeontol B.V. Group is denominated in USD for export sales and in KZT for domestic sales.

The breakdown of the revenue by product and geographical market for the past three FYEs 31 December 2013 to 2015 and for the FPE 30 June 2015 and 2016 is set out below:

	FYE 31 December					
	2013		2014		2015	
	USD'000	%	USD'000	%	USD'000	%
Export						
- Crude oil	112,759	89.2	101,639	83.7	46,269	93.0
	-		-		-	
Domestic						
- Crude oil	11,459	9.0	17,594	14.5	1,606	3.2
- Gas	2,225	1.8	2,219	1.8	1,892	3.8
<b>Total</b>	<b>126,443</b>	<b>100.0</b>	<b>121,452</b>	<b>100.0</b>	<b>49,767</b>	<b>100.0</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**

	FPE 30 June			
	2015		2016	
	USD'000	%	USD'000	%
Export				
- Crude oil	28,036	93.5	22,667	95.1
Domestic				
- Crude oil	841	2.8	433	1.8
- Gas	1,112	3.7	731	3.1
<b>Total</b>	<b>29,989</b>	<b>100.0</b>	<b>23,831</b>	<b>100.0</b>

Revenue for the past three FYEs 31 December 2013 to 2015 and for the FPE 30 June 2015 and 2016 for the Palaeontol B.V. Group was predominantly derived from export of crude oil. The Palaeontol B.V. Group derived almost all of its revenue from Euro-Asian Oil. The oil sales agreement with Euro-Asian Oil is renewed annually. Sales volume and price are determined each month as monthly export volume needs to be approved and verified by the Government of Kazakhstan. The realised oil price for export sales is indexed to Brent, save for 2015, when it was indexed to Urals and is calculated net of discounts such as export sales and transportation commission payable to the off-taker.

Gas produced is entirely for the domestic market and is sold to KTG. According to the 2016 gas sales contract, the buyer takes around 4.65 million cubic meter per month, about 152,000 cubic meter per day or about 5.4 MMscfd. The gas sales contract is re-negotiated on an annual basis.

**(ii) Operating expenses**

The following table sets out the operating expenses of the Palaeontol B.V. Group for the past three FYEs 31 December 2013 to 2015 and for the FPE 30 June 2015 and 2016:

	FYE 31 December					
	2013		2014		2015	
	USD'000	%	USD'000	%	USD'000	%
Taxes other than income taxes	51,611	49.4	54,019	57.7	20,936	23.2
Purchases, services and other direct costs	18,019	17.2	15,887	17.0	7,806	8.6
Asset impairment loss	-	-	-	-	42,859	47.4
Depreciation, depletion and amortisation	15,094	14.5	15,988	17.0	21,172	23.5
Geological and geophysical expenses	3,632	3.5	3,262	3.5	-	-
Distribution expense	1,524	1.5	1,412	1.5	11,045	12.2
Employee compensation costs	8,173	7.8	8,145	8.7	4,097	4.5
General and administrative expenses	2,931	2.8	4,197	4.5	2,915	3.3
Other operating (expenses)/income- net	3,467	3.3	(9,299)	(9.9)	(20,514)	(22.7)
<b>Total</b>	<b>104,451</b>	<b>100.0</b>	<b>93,611</b>	<b>100.0</b>	<b>90,316</b>	<b>100.0</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**

	FPE 30 June			
	2015		2016	
	USD'000	%	USD'000	%
Taxes other than income taxes	12,259	38.5	5,560	7.6
Purchases, services and other direct costs	4,811	15.1	2,599	3.6
Asset impairment loss	-	-	44,293	60.5
Depreciation, depletion and amortisation	6,516	20.5	12,520	17.1
Geological and geophysical expenses	-	-	-	-
Distribution expense	5,076	15.9	6,107	8.3
Employee compensation costs	2,290	7.2	1,168	1.6
General and administrative expenses	954	3.0	522	0.7
Other operating (expenses)/income- net	(62)	(0.2)	424	0.6
<b>Total</b>	<b>31,844</b>	<b>100.0</b>	<b>73,193</b>	<b>100.0</b>

On 11 February 2014, Kazakhstan's Central Bank decided to stop supporting the KZT exchange rate and reduce currency interventions and the exchange rate of KZT depreciated to KZT182 for USD1. On 20 August 2015, Kazakhstan's Central Bank implemented the free-floating regime which resulted in a further depreciation of the exchange rate to KZT345 for USD1. As the Palaeontol B.V. Group's main operations are in Kazakhstan and the production, purchases and other expenses are primarily transacted in KZT, the declining trend in the operating expenses as reported in USD for the FYEs 31 December 2014 and 2015, and FPE 30 June 2016 of the Palaeontol B.V. Group was to a large extent due to the devaluation of the KZT against the USD.

- Taxes other than income taxes. Emir-Oil is subject to oil related taxes namely rent export tax, rent export duty expenditure, mineral extraction tax and property tax. The following table sets forth the amount of taxes incurred for the past three FYEs 31 December 2013 to 2015 and for the FPE 30 June 2015 and 2016:

	FYE 31 December			FPE 30 June	
	2013	2014	2015	2015	2016
	USD'000	USD'000	USD'000	USD'000	USD'000
Rent export tax	30,001	28,727	5,657	3,691	794
Rent export duty expenditure	9,205	14,211	9,087	5,094	2,634
MET	7,324	7,256	2,971	1,556	1,169
Property tax	5,081	3,825	3,221	1,918	963
<b>Total</b>	<b>51,611</b>	<b>54,019</b>	<b>20,936</b>	<b>12,259</b>	<b>5,560</b>

- *Rent export tax*: Rent export tax is payable on export oil and is calculated based on realised export prices for crude oil. Rent export tax rate ranges from 0% if export price is less than USD40 per barrel up to 32% if export price is higher than USD180 per barrel;

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOONTOL B.V. GROUP (Cont'd)**


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- *Rent export duty expenditure:* Rent export duty expenditure is payable on barrels of oil exported. Effective 14 April 2013, rent export duty expenditure was USD60 per metric tonne ("mt")<sup>ii</sup> but the duty was increased to USD80 per mt with effect from 12 March 2014 and subsequently reduced to USD60 per mt with effect from April 2015. Effective 1 January 2016, the rent export duty expenditure has been further reduced to USD40 per mt. Effective 1 March 2016, the rent export duty expenditure are progressive and ranges from USD0 per mt when average market price of crude oil is less than USD25 per barrel up to USD236 per mt if average market price of crude oil is above USD185 per barrel;
  - *MET:* The MET is calculated based on quarterly "world price" of the relevant mineral and is then taxed at rates determined by reference to annual production volumes. The MET tax rates for crude oil and gas condensate are progressive and ranges from 5% to 18%, where 5% applies to annual production volumes below 250,000 tons and 18% applies to annual production volumes above 10,000,000 tons. The applicable tax rate can be reduced by 50% for supplies to domestic refineries under sale and purchase agreements or tolling agreements. The MET tax rate for natural gas that is exported is at flat rate of 10%. If the gas is sold to domestic market, the rate is reduced to 0.5% based on the annual gas production rate of Emir-Oil; and
  - *Property tax:* Property tax is payable on O&G assets which have been granted a production license and is at a rate of 1.5% based on average book value of the O&G properties.
- Purchases, services and other direct costs comprise of direct operating and maintenance costs of wells and related facilities, including direct material costs, fuel costs and electricity costs, safety fees, third party costs, such as oil displacement injection costs, downhole operating costs and O&G transportation costs within fields, and other direct expenses and management fees.
  - Asset impairment loss. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.
  - Depreciation, depletion and amortisation. The cost of O&G properties is amortised at the field level based on the unit of production method, as explained in Section 2.3 of this Appendix. Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives.
  - Geological and geophysical expenses. The Palaeontol B.V. Group adopts "successful efforts method" accounting and under this method, exploration costs including geological and geophysical expenses (other than direct exploration wells drilling costs) are charged to consolidated statement of comprehensive income in the period of incurrence.

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<sup>ii</sup> In Kazakhstan, crude oil is measured in terms of weight and expressed in mt, where one mt equals 2,204 pounds. Although crude oils vary in density, a good "average" volume-to-weight conversion is 7.33 bbls/mt. Based on this conversion factor, a petroleum engineer in Kazakhstan would refer to production not as 150,000 bbl/day but as 20,464 mt/day.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**

- Distribution expenses mainly comprise of transportation expenses and freight charges related to O&G delivery from the central processing plant to the point of sale.
- Employee compensation costs comprise of wages, salaries and allowance, welfare and other expenses and share-based payment granted under the Stock Incentive Compensation Plan and share option scheme of MIEH.
- General and administrative expenses comprise of utilities, transportation, business related travel, office rental costs, expenses on office maintenance, audit and legal fees and training expenses for management personnel at or above manager level of Emir-Oil and operational staff.
- Other operating expenses/ income comprise of the other losses and foreign exchange gain/loss on operation. Other losses were incurred due to accident indemnity in the FYE 31 December 2013 which has been net-off with the foreign exchange gain. The net result from the foreign exchange losses/gains arose due to the translation of USD-denominated trade and other payable and bank deposits.

**(iii) Finance income**

Finance income comprise of interest income on deposits placed with financial institutions.

**(iv) Finance costs**

Finance costs comprise mainly of interest expenses on Shareholder Loans from MIEH. Other finance costs are accretion expenses of asset retirement obligations, foreign exchange translation loss and other fees.

	FYE 31 December			FPE 30 June	
	2013	2014	2015	2015	2016
	USD'000	USD'000	USD'000	USD'000	USD'000
Interest expenses on Shareholder Loans from MIEH	7,720	9,549	13,083	6,286	7,188
Accretion expenses of asset retirement obligations	150	784	461	192	183
Other fees	352	431	662	285	70
	8,222	10,764	14,206	6,763	7,441
Exchange loss, net	54	2,763	1,313	65	6
<b>Total</b>	<b>8,276</b>	<b>13,527</b>	<b>15,519</b>	<b>6,828</b>	<b>7,447</b>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**


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**(v) Income tax expense/(credit)**

Income tax expense/(credit) consists of current tax and deferred tax. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the Netherlands and Kazakhstan. Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. The statutory tax rate in Kazakhstan was 20% for the past three FYEs 31 December 2013 to 2015 and for the FPE 30 June 2015 and 2016. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

The following table sets out the income tax expense/(credit) for the past three FYEs 31 December 2013 to 2015 and for the FPE 30 June 2015 and 2016:

	FYE 31 December			FPE 30 June	
	2013	2014	2015	2015	2016
	USD'000	USD'000	USD'000	USD'000	USD'000
Current income tax	6,795	120	827	689	145
Deferred income tax	(11,448)	3,260	(10,602)	(2,153)	(7,546)
<b>Total</b>	<b>(4,653)</b>	<b>3,380</b>	<b>(9,775)</b>	<b>(1,464)</b>	<b>(7,401)</b>
Statutory tax rate (%)	20	20	20	20	20
Effective tax rate (%)	(33)	23	17	17	13

**2.5 Commentaries on historical financial performance****2.5.1 FPE 30 June 2016****Revenue**

For the FPE 30 June 2016 the revenue of the Palaeontol B.V. Group declined by 20.5% or USD6.2 million from USD30.0 million for the FPE 30 June 2015 to USD23.8 million for the FPE 30 June 2016.

**Oil sales**

For the FPE 30 June 2016, the Palaeontol B.V. Group recorded USD23.1 million of revenue from crude oil sales compared to USD28.9 million for the FPE 30 June 2015. The decrease in revenue from crude oil sales was primarily due to decrease in average realised oil price.

The average realised oil price per barrel (for both export and domestic sales) reduced by USD13.73 per barrel or 28.2% from USD48.76 per barrel for FPE 30 June 2015 to USD35.03 per barrel for FPE 30 June 2016. The average realised oil price for the FPE 30 June 2016 was USD36.44 per barrel from export sales (after discount of USD5.40 per barrel) and USD11.60 per barrel from domestic sales, compared to USD53.68 per barrel from export sales (after discount of USD7.41 per barrel) and USD12.03 per barrel from domestic sales for the FPE 30 June 2015. The drop in average realised oil price was mainly due to the lower export and domestic realised oil prices which were partially offset by an increase in export:domestic sales mix from 88:12 for the FPE 30 June 2015 to 94:6 for the FPE 30 June 2016.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**

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The Palaeontol B.V. Group's oil sales volume increased from 592,177 barrels for the FPE 30 June 2015 to 659,418 barrels for the FPE 30 June 2016, representing an increase of 11.4%. The Palaeontol B.V. Group's export sales volume was 622,116 barrels and domestic sales volume was 37,302 barrels for the FPE 30 June 2016 compared to export sales volume of 522,280 barrels and domestic sales volume of 69,897 barrels for the FPE 30 June 2015, representing a 19.1% increase and a 46.6% decrease, respectively. For the FPE 30 June 2016, the average daily oil production decreased slightly by 0.30% from 3,306 bbl/d in the FPE 30 June 2015 to 3,296 bbl/d in the FPE 30 June 2016.

For the FPE 30 June 2015 and the FPE 30 June 2016, 88.2% and 94.3%, respectively of the Palaeontol B.V. Group's sales volume of oil was exported. Revenue from export sales contributed to 93.5% and 95.1% of the Palaeontol B.V. Group's total oil revenue for the FPE 30 June 2015 and the FPE 30 June 2016, respectively.

#### *Gas sales*

Revenue from gas sales decreased by 34.2% or USD0.4 million from USD1.1 million for the FPE 30 June 2015 to USD0.7 million for the FPE 30 June 2016. The decrease was mainly due to the lower average realised gas price of USD0.77 Mscf in the FPE 30 June 2016 as compared to USD1.10 Mscf in the FPE 30 June 2015 and the decrease in gas sales volume from 1,012 MMscf for the FPE 30 June 2015 to 945 MMscf for the FPE 30 June 2016. Correspondingly, the average daily gas production also decreased slightly from 5.96 MMscfd in the FPE 30 June 2015 to 5.71 MMscfd in the FPE June 2016, representing a decrease of 4.2%.

#### *Operating expenses*

The Palaeontol B.V. Group's operating expenses increased by USD41.4 million or 129.8% from USD31.8 million for the FPE 30 June 2015 to USD73.2 million for the FPE 30 June 2016, primarily due to increase in asset impairment loss, depreciation, depletion and amortisation, distribution expenses and other operating expenses which was partly offset by the decrease in taxes other than income taxes, purchases, services and other direct costs, employee compensation costs and general and administrative expenses.

- *Taxes other than income taxes.* Taxes other than income taxes decreased by USD6.7 million or 54.6%, from USD12.3 million for the FPE 30 June 2015 to USD5.6 million for the FPE 30 June 2016, primarily due to the decrease in rent export tax, rent export duty expenditures, MET and property tax.

Rent export tax paid to the Government of Kazakhstan during the FPE 30 June 2016 amounted to USD0.8 million, a decrease of USD2.9 million or 78.5% compared to USD3.7 million paid in the FPE 30 June 2015. The decrease was due to the drop in the realised export oil price per barrel, a key component in calculating the rent export tax payable for export oil.

The rent export duty expenditure payable on export oil during the FPE 30 June 2016 amounted to USD2.6 million, a decrease of USD2.5 million or 48.3% compared to USD5.1 million paid in the FPE 30 June 2015. The decrease was due to lower average realised oil price for export and new progressive rate used in calculating the rent export duty expenditure.

The MET paid to the Government of Kazakhstan during the FPE 30 June 2016 amounted to USD1.2 million, which was USD0.4 million lower than the MET paid in the FPE 30 June 2015. This was due to the decrease in global oil prices per barrel, a key component in calculating the MET payable for export oil.

Property tax decreased by USD0.9 million or 49.8%, from USD1.9 million for the FPE 30 June 2015 to USD1.0 million for the FPE 30 June 2016, primarily due to the lower net book value of O&G properties caused by impairment and accumulated depreciation.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**


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- *Purchases, services and other direct costs.* Purchases, services and other direct costs decreased by USD2.2 million or 46.0%, from USD4.8 million for the FPE 30 June 2015 to USD2.6 million for the FPE 30 June 2016. The decrease is primarily due to lower oil prices resulting in shut-in of some producing wells and cost cutting measures for oil production. In addition, the Palaeontol B.V. Group has been undertaking cost optimisation measures such as renegotiation of pricing with its suppliers.
- *Asset impairment loss.* During the FPE 30 June 2016, following the continuous global low oil prices environment, the Palaeontol B.V. Group performed an assessment of the recoverability of the Palaeontol B.V. Group's oil and gas properties and its mining rights. An impairment of USD44.3 million for O&G properties and mining rights was recorded for the FPE 30 June 2016 due to a shortfall between the carrying value of the O&G properties and mining rights and the present value of cash flows expected to be generated from proved and probable developed reserves. The present value of cash flows expected to be generated from the proved and probable developed reserves takes into account, among others, the oil price forecast and are discounted at the weighted average cost of capital based on the latest cost of debt and cost of equity of the USA and Kazakhstan. There was no impairment required for the FPE 30 June 2015 as there was no significant impairment indicator for the FPE 30 June 2015, hence the assets are not tested for impairment.
- *Depreciation, depletion and amortisation.* Depreciation, depletion and amortisation increased by USD6.0 million or 92.1% from USD6.5 million for the FPE 30 June 2015 to USD12.5 million for the FPE 30 June 2016 primarily due to the decrease in proved and probable developed producing reserves in the FPE 30 June 2016 compared to the FPE 30 June 2015.
- *Geological and geophysical expenses.* There was no geological and geophysical expenses incurred for the FPE 30 June 2016 and FPE 30 June 2015 as there was no exploration activity carried out during the period.
- *Distribution expenses.* Distribution expenses increased by USD1.0 million or 20.3%, from USD5.1 million for the FPE 30 June 2015 to USD6.1 million for the FPE 30 June 2016 primarily due to the change in the sales delivery terms.

The sales delivery terms prior to February 2015 were based on free carrier ("FCA"). However, from February 2015 onwards, the delivery terms were changed to free on board ("FOB") where the Palaeontol B.V. Group would bear higher transportation and distribution costs. This would however result in a lower net discount given to the off-taker.

- *Employee compensation costs.* Employee compensation costs decreased by USD1.1 million or 49.0%, from USD2.3 million for the FPE 30 June 2015 to USD1.2 million for the FPE 30 June 2016, primarily due to a reduction in the number of employees and working hours.
- *General and administrative expenses.* General and administrative expenses decreased by USD0.4 million or 45.3%, from USD0.9 million for the FPE 30 June 2015 to USD0.5 million for the FPE 30 June 2016. The decrease in general and administrative expenses was in tandem with the cost optimisation measures undertaken by the Palaeontol B.V. Group.
- Other operating expenses are derived from net foreign exchange loss. The net result of foreign exchange loss has increased by USD0.24 million from a net gain of USD0.06 million for the FPE 30 June 2015 to a net loss of USD0.17 million for the FPE 30 June 2016. The decrease was primarily due to the devaluation of the KZT against the USD. During the FPE 30 June 2016, the Palaeontol B.V. Group recorded an accident indemnity amounting to USD0.25 million for a traffic accident in 2013 involving an oil tank truck of Emir-Oil and a petroleum tank train near Aktau, which is finalised in 2016.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEONTOL B.V. GROUP (Cont'd)**

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***Loss from operations***

The Palaeontol B.V. Group recorded a loss from operations of USD49.4 million for the FPE 30 June 2016, representing an increase of USD47.5 million or 2,561% from the loss from operations of USD1.9 million for the FPE 30 June 2015. This increase was due primarily to asset impairment loss of USD44.3 million for the FPE 30 June 2016.

***Finance income***

The finance income from deposits placed with financial institutions decreased from USD0.07 million for the FPE 30 June 2015 to USD0.06 million for the FPE 30 June 2016.

***Finance costs***

The finance costs increased by USD0.6 million or 9.1% from USD6.8 million for the FPE 30 June 2015 to USD7.4 million for the FPE 30 June 2016. This increase was primarily due to the loan interest expenses charged on additional shareholder loan obtained from MIEH during the period.

***LBT***

The Palaeontol B.V. Group recorded a LBT of USD56.7 million for the FPE 30 June 2016, compared to a LBT of USD8.6 million for the FPE 30 June 2015, representing an increase of USD48.1 million or 559.1%. The LBT was mainly due to asset impairment loss for the FPE 30 June 2016.

***Income tax expense/credit***

The Palaeontol B.V. Group recognised an income tax credit of USD7.4 million for the FPE 30 June 2016 as compared to USD1.5 million for the FPE 30 June 2015. The income tax credit was primarily due to the increase in unabsorbed tax losses which give rise to the deferred tax credit. The weighted average effective tax rate for FPE 30 June 2016 was 13%, compared to 17% for the FPE 30 June 2015.

***LAT***

The Palaeontol B.V. Group recorded a LAT of USD49.3 million for the FPE 30 June 2016, as compared to a LAT of USD7.1 million for the FPE 30 June 2015. The LAT was mainly due to asset impairment loss for the FPE 30 June 2016.

**2.5.2 FYE 31 December 2015*****Revenue***

For the FYE 31 December 2015 the revenue of the Palaeontol B.V. Group declined by 59.0% or USD71.7 million from USD121.5 million for the FYE 31 December 2014 to USD49.8 million for the FYE 31 December 2015.

***Oil sales***

For the FYE 31 December 2015, the Palaeontol B.V. Group recorded USD47.9 million of revenue from crude oil sales compared to USD119.2 million for the FYE 31 December 2014. The decrease in revenue from crude oil sales was primarily due to lower global price and production by Emir-Oil in response to the continued low international crude oil price environment which resulted in lower average realised oil price per barrel and a reduction in oil sales volume.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEONTOL B.V. GROUP (Cont'd)**


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The average realised oil price per barrel (for both export and domestic sales) reduced by USD19.36 per barrel or 30.6% from USD63.31 per barrel in 2014 to USD43.95 per barrel in 2015. The average realised oil price for the FYE 31 December 2015 was USD48.41 per barrel from export sales (after discount of USD5.56 per barrel) and USD12.02 per barrel from domestic sales, compared to USD70.63 per barrel from export sales (after discount of USD20.98 per barrel) and USD39.68 per barrel from domestic sales for the FYE 31 December 2014. The drop in average realised oil price was mainly due to lower export and domestic realised oil prices which were partially offset by an increase in export:domestic sales mix from 76:24 for the FYE 31 December 2014 to 88:12 during the FYE 31 December 2015.

The Palaeontol B.V. Group's oil sales volume declined from 1,883,235 barrels for the FYE 31 December 2014 to 1,089,285 barrels for the FYE 31 December 2015, representing a decrease of 42.2%. The Palaeontol B.V. Group's export sales volume was 955,750 barrels and domestic sales volume was 133,535 barrels for the FYE 31 December 2015 compared to export sales volume of 1,439,846 barrels and domestic sales volume of 443,389 barrels for the FYE 31 December 2014, representing a 33.6% and 69.9% decrease, respectively. For the FYE 31 December 2015, the average daily oil production decreased by 34.4% from 5,201 bbl/d in the FYE 31 December 2014 to 3,412 bbl/d in the FYE 31 December 2015, in tandem with the decrease in oil sales volume.

For the FYE 31 December 2014 and the FYE 31 December 2015, 76.4% and 87.8%, respectively of its sales volume of oil was exported. Revenue from export sales contributed to 83.7% and 93.0% of the Palaeontol B.V. Group's total oil revenue for the FYE 31 December 2014 and the FYE 31 December 2015, respectively.

#### *Gas sales*

Revenue from gas sales decreased by 13.6% or USD0.3 million from USD2.2 million in the FYE 31 December 2014 to USD1.9 million for the FYE 31 December 2015. The decrease was mainly due to the lower average realised gas price of USD0.95 Mscf in the FYE 31 December 2015 as compared to USD1.14 Mscf in the FYE 31 December 2014, which was partly offset by the increase in gas sales volume from 1,954.38 MMscf for the FYE 31 December 2014 to 2,001.15 MMscf for the FYE 31 December 2015. Correspondingly, the average daily gas production also increased slightly from 5.88 MMscfd in the FYE 31 December 2014 to 5.89 MMscfd in 2015, representing an increase of 0.2%.

#### ***Operating expenses***

The Palaeontol B.V. Group's operating expenses decreased by USD3.3 million or 3.5% from USD93.6 million for the FYE 31 December 2014 to USD90.3 million for the FYE 31 December 2015, primarily due to the devaluation of the KZT, decreases in taxes other than income taxes, purchases, services and other direct costs, geological and geophysical expenses, employee compensation costs, general and administrative expenses and other operating expenses which was partly offset by the increase in depreciation, depletion and amortisation, distribution expenses and impairment of assets.

- *Taxes other than income taxes.* Taxes other than income taxes decreased by USD33.1 million or 61.2%, from USD54.0 million for the FYE 31 December 2014 to USD20.9 million for the FYE 31 December 2015, primarily due to the decrease in rent export tax, rent export duty expenditures and MET.

Rent export tax paid to the Government of Kazakhstan during the FYE 31 December 2015 amounted to USD5.6 million, a decrease of USD23.1 million or 80.4% compared to USD28.7 million paid in the FYE 31 December 2014. The decrease was due to the drop in the realised oil price per barrel, a key component in calculating the MET payable for export oil and the decrease in sales volumes.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**


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During the FYE 31 December 2015, the rent export duty expenditure payable on export oil was decreased from USD80 per mt to USD60 per mt, effective from April 2015. Consequently, the rent export duty expenditure payable decreased by USD5.1 million or 35.9% from USD14.2 million for the FYE 31 December 2014 to USD9.1 million for the FYE 31 December 2015.

The MET paid to the Government of Kazakhstan during the FYE 31 December 2015 amounted to USD2.9 million, which was USD4.3 million lower than the MET paid in the FYE 31 December 2014 due to the decrease in global oil prices per barrel, a key component in calculating the MET payable for export oil and the decrease in production level.

Property tax decreased by USD0.6 million or 15.8%, from USD3.8 million for the FYE 31 December 2014 to USD3.2 million for the FYE 31 December 2015, primarily due to the devaluation of the KZT which was partly offset by increase in tax base.

- *Purchases, services and other direct costs.* Purchases, services and other direct costs decreased by USD8.1 million or 50.9%, from USD15.9 million for the FYE 31 December 2014 to USD7.8 million for the FYE 31 December 2015. Apart from the devaluation of the KZT, the decrease in purchases, service and other direct costs was also due to decrease in production and sales.
- *Asset impairment loss.* During the FYE 31 December 2015, the Palaeontol B.V. Group recorded an impairment of USD39.1 million for the O&G properties and intangible assets due to a shortfall between the carrying value of the O&G properties and intangible assets and the present value of cash flows expected to be generated from proved and probable developed reserves. The Palaeontol B.V. Group also recorded impairment on spare parts of USD3.8 million which were assessed as obsolete.
- *Depreciation, depletion and amortisation.* Depreciation, depletion and amortisation increased by USD5.2 million or 32.4% from USD16.0 million for the FYE 31 December 2014 to USD21.2 million for the FYE 31 December 2015 primarily due to decrease in proved and probable developed producing reserves in the FYE 31 December 2015 compared to the FYE 31 December 2014.
- *Geological and geophysical expenses.* No geological and geophysical expenses were incurred for the FYE 31 December 2015 as compared to USD3.2 million incurred for the FYE 31 December 2014 because there was no exploration activity carried out during the year under review.
- *Distribution expenses.* Distribution expenses increased by USD9.6 million or 682.2%, from USD1.4 million for the FYE 31 December 2014 to USD11.0 million for the FYE 31 December 2015, primarily due to the change in sales delivery terms.

The sales delivery terms prior to 2015 were based on FCA. However, in 2015, the delivery terms were changed to FOB wherein the Palaeontol B.V. Group would bear higher transportation and distribution costs. This would however result in a lower net discount given to the off-taker.

- *Employee compensation costs.* Employee compensation costs decreased by USD4.1 million or 49.7%, from USD8.1 million for the FYE 31 December 2014 to USD4.0 million for the FYE 31 December 2015, primarily due to significant staff reduction from 351 employees for the FYE 31 December 2014 to 231 employees for the FYE 31 December 2015.
- *General and administrative expenses.* General and administrative expenses decreased by USD1.2 million or 30.5%, from USD4.2 million for the FYE 31 December 2014 to USD3.0 million for the FYE 31 December 2015. The decrease was primarily due to decrease in training expenses and cost optimisation program.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**

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- Other operating income is derived from net foreign exchange gain. The net result of foreign exchange gain has increased by USD11.2 million or 120.6% from USD9.3 million for the FYE 31 December 2014 to USD20.5 million for the FYE 31 December 2015. The increase was primarily due to the devaluation of the KZT against the USD as the majority of the revenue of the Palaeontol B.V. Group is denominated in USD, while production, purchases and other expenses are transacted in KZT.

***Loss from operations***

The Palaeontol B.V. Group recorded a loss of operations of USD40.6 million for the FYE 31 December 2015, representing a decrease of USD68.4 million or 245.6% from profit from operations of USD27.8 million for the FYE 31 December 2014. This decrease was due primarily to significantly lower revenue as compared to previous year.

***Finance income***

The finance income from deposits placed with financial institutions decreased by USD123,000 or 46.4% from USD0.3 million for the FYE 31 December 2014 to USD0.1 million for the FYE 31 December 2015.

***Finance costs***

The finance costs increased by USD2.0 million or 14.7% from USD13.5 million for the FYE 31 December 2014 to USD15.5 million for the FYE 31 December 2015. This increase was primarily due to the additional shareholder loan obtained from MIEH during the financial year.

***PBT/LBT***

The Palaeontol B.V. Group recorded a LBT of USD55.9 million for the FYE 31 December 2015, compared to a PBT of USD14.6 million for the FYE 31 December 2014, representing a decrease of USD70.5 million or 483.6%. The LBT was mainly due to significantly lower revenue and asset impairment loss for the FYE 31 December 2015.

***Income tax expense/credit***

The Palaeontol B.V. Group recognised an income tax credit of USD9.8 million for the FYE 31 December 2015 as compared to income tax expense of USD3.4 million of income tax expense for the FYE 31 December 2014. The income tax credit was due to the reversal of deferred tax liabilities and the increase in unabsorbed tax losses which give rise to the deferred tax credit. The weighted average effective tax rate for 2015 was 17%, compared to 23% in 2014.

***LAT***

The Palaeontol B.V. Group recorded a LAT of USD46.2 million for the FYE 31 December 2015, as compared to PAT of USD11.2 million for the FYE 31 December 2014 due to lower revenue caused by lower oil price.

**2.5.3 FYE 31 December 2014*****Revenue***

For the FYE 31 December 2014, the revenue of the Palaeontol B.V. Group declined by USD4.9 million or 3.9% from USD126.4 million for the FYE 31 December 2013 to USD121.5 million for the FYE 31 December 2014.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**

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*Oil sales*

For the FYE 31 December 2014, the Palaeontol B.V. Group recorded revenue of USD119.2 million from crude oil sales compared to USD124.2 million for the FYE 31 December 2013. The decrease in revenue from crude oil sales was mainly due to a 20.5% decrease in the average realised oil price per barrel (for both export and domestic sales) from USD79.64 per barrel in 2013 to USD63.31 per barrel in 2014. The average realised oil price for the FYE 31 December 2014 was USD70.63 per barrel from export sales (after discount of USD20.98 per barrel) and USD39.68 per barrel from domestic sales, compared to USD87.80 per barrel from export sales (after discount of USD20.76 per barrel) and USD41.57 per barrel from domestic sales for the FYE 31 December 2013. The drop in average realised oil price was mainly due to the lower Brent oil price since the second half of the year 2014 and decrease in export:domestic sales mix from 82:18 for FYE 31 December 2013 to 76:24 during the FYE 31 December 2014.

The decline in the average realised oil price for the export and domestic sales was offset by an increase in the export and domestic oil sales volume during the financial year. The Palaeontol B.V. Group's oil sales volume was 1,883,235 barrels for the FYE 31 December 2014 as compared to 1,559,808 barrels for the FYE 31 December 2013 representing a 20.7% increase. The Palaeontol B.V. Group's export sales volume was 1,439,846 barrels and domestic sales volume was 443,389 barrels for the FYE 31 December 2014 compared to export sales volume of 1,284,288 barrels and domestic sales volume of 275,520 barrels for the FYE 31 December 2013 representing 12.0% and 60.9% increases, respectively.

For the FYE 31 December 2014, the average daily oil production increased by 20.4% from 4,320 bopd in the FYE 31 December 2013 to 5,201 bopd in the FYE 31 December 2014 in tandem with the increase in oil sales volume.

For the FYE 31 December 2013 and FYE 31 December 2014, 82.3% and 76.4%, respectively of its sales volume of oil was exported. Revenue from export sales contributed to 89.2% and 83.7% of the Palaeontol B.V. Group's total oil revenue for the FYE 31 December 2013 and FYE 31 December 2014, respectively.

*Gas sales*

Revenue from gas sales decreased by 0.4% or USD10,000 from USD2.22 million for the FYE 31 December 2013 to USD2.21 million for the FYE 31 December 2014. The decrease was mainly due to the lower average realised gas price of USD1.14 Mscf in the FYE 31 December 2014 as compared to USD1.34 Mscf in the FYE 31 December 2013, which was partly offset by the increase in gas sales volume from 1,661.58 MMscf for the FYE 31 December 2013 to 1,954.38 MMscf for the FYE 31 December 2014. Correspondingly, the average daily gas production increased from 5.00 MMscfd in the FYE 31 December 2013 to 5.88 MMscfd in FYE 31 December 2014, representing an increase of 17.6%.

***Operating expenses***

The Palaeontol B.V. Group's operating expenses decreased by USD10.8 million or 10.4% from USD104.4 million for the FYE 31 December 2013 to USD93.6 million for the FYE 31 December 2014, primarily due to the devaluation of the KZT and decrease in purchases, services and other direct costs.

- *Taxes other than income taxes.* Taxes other than income taxes increased by USD2.4 million or 4.7%, from USD51.6 million for the FYE 31 December 2013 to USD54.0 million for the FYE 31 December 2014, primarily caused by the rent export duty expenditure. Effective March 2014, the rent export duty expenditure increased from USD60 per mt to USD80 per mt, hence increasing the rent export duty expenditure payable by USD5.0 million from USD9.2 million for the FYE 31 December 2013 to USD14.2 million for the FYE 31 December 2014.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEONTOL B.V. GROUP (Cont'd)**


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The increase in rent export duty expenditure was offset by the decrease in rent export tax and MET of USD1.3 million and USD0.1 million, respectively during the year. The lower rent export duty expenditure and MET in the FYE 31 December 2014 was due to lower export crude oil sales, which in turn was due to lower average realised oil price for export. Property tax also decreased by USD1.3 million or 25.4%, from USD5.1 million for the FYE 31 December 2013 to USD3.8 million for the FYE 31 December 2014, primarily due to lower property, plant and equipment ("PPE") addition for the FYE 31 December 2014.

- *Purchases, services and other direct costs.* Purchases, services and other direct costs decreased by USD2.1 million or 11.8% from USD18.0 million for the FYE 31 December 2013 to USD15.9 million for the FYE 31 December 2014. The decrease in purchases, services and other direct costs was primarily due to less work over and fracturing operations performed on the wells for Emir-Oil and the devaluation of the KZT.
- *Depreciation, depletion and amortisation.* Depreciation, depletion and amortisation increased by USD0.9 million or 5.9% from USD15.1 million for the FYE 31 December 2013 to USD16.0 million for the FYE 31 December 2014 due to additional PPE for the FYE 31 December 2014.
- *Geological and geophysical expenses.* Geological and geophysical expenses decreased by USD0.4 million from USD3.6 million for the FYE 31 December 2013 to USD3.2 million for the FYE 31 December 2014.
- *Distribution expenses.* Distribution expenses decreased by USD0.1 million or 7.3% from USD1.5 million for the FYE 31 December 2013 to USD1.4 million for the FYE 31 December 2014.
- *Employee compensation costs.* Employee compensation costs decreased by USD28,000 or 0.3% from USD8.2 million for the FYE 31 December 2013 to USD8.1 million for the FYE 31 December 2014, primarily due to minimal change in number of employees, lower performance bonus and minimum salary incremental rate payout.
- *General and administrative expenses.* General and administrative expenses increased by USD1.3 million or 43.2% from USD2.9 million for the FYE 31 December 2013 to USD4.2 million for the FYE 31 December 2014. The increase was mainly due to more education services, training, and donation expenses incurred by Emir-Oil.
- *Other operating income derived from foreign exchange gain, net.* Net foreign exchange gain increased by USD8.9 million from USD0.4 million for the FYE 31 December 2013 to USD9.3 million for the FYE 31 December 2014. During the FYE 31 December 2013, the Palaeontol B.V. Group has accrued indemnity provisions for the traffic accident in 2013 involving an oil tank truck of Emir-Oil and a petroleum tank train near Aktau amounting to USD3.9 million. There are no other losses incurred by the Palaeontol B.V. Group for the FYE 31 December 2014.

***Profit from operations***

The Palaeontol B.V. Group's profit from operations increased by USD5.8 million or 26.6%, from USD22.0 million for the FYE 31 December 2013 to USD27.8 million for the FYE 31 December 2014. This minor increase was primarily due to decrease in operating expenses during the financial year. The operating profit margin for the FYE 31 December 2014 was 22.9% as compared to 17.4% for the FYE 31 December 2013.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**


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***Finance income***

The finance income from deposits placed with financial institutions decreased by USD0.1 million or 31.2% from USD0.4 million for the FYE 31 December 2013 to USD0.3 million for the FYE 31 December 2014 due to decrease in cash and cash equivalents.

***Finance costs***

The finance costs increased by USD5.2 million or 63.4%, from USD8.3 million for the FYE 31 December 2013 to USD13.5 million for the FYE 31 December 2014. The increase was primarily due to increase in accretion expenses of asset retirement obligations.

***PBT***

As a result of the factors discussed above, the Palaeontol B.V. Group's PBT increased by USD0.5 million or 3.4% to USD14.6 million for the FYE 31 December 2014, as compared to USD14.1 million for the FYE 31 December 2013. The PBT margin for the FYE 31 December 2014 was 12.0% as compared to 11.2% for the FYE 31 December 2013.

***Income tax expense/credit***

The Palaeontol B.V. Group's income tax expense for the FYE 31 December 2014 was USD3.4 million whilst the Palaeontol B.V. Group recorded an income tax credit of USD4.7 million in the FYE 31 December 2013. The income tax credit was derived from the re-measurement of the Palaeontol B.V. Group's deferred tax liability in respect of decrease in excess profit tax ("EPT") rate. EPT was computed based on the portion of net income that exceeds 25% of deductions and the EPT rates range from 0% to 60% depending on the extent of the excess income. This re-measurement was triggered by a change in the Palaeontol B.V. Group's expectations of future CAPEX on Emir-Oil Concession Block which in turn have an impact on the other oil taxes payable. Such re-measurement did not occur in 2014. The weighted average effective tax rate for 2014 was 23%, compared to -33% in 2013.

***PAT***

The Palaeontol B.V. Group's PAT decreased by USD7.6 million to USD11.2 million for the FYE 31 December 2014 as compared to USD18.8 million for the FYE 31 December 2013 due to lower PBT and higher income tax expense for the FYE 31 December 2014. The PAT margin for FYE 31 December 2014 was 9.2% as compared to 14.8% for FYE 31 December 2013.

**2.5.4 FYE 31 December 2013*****Revenue***

The Palaeontol B.V. Group recorded revenue of USD126.4 million for the FYE 31 December 2013.

***Oil sales***

The Palaeontol B.V. Group recorded revenue from crude oil sales of USD124.2 million for the FYE 31 December 2013. The average realised oil price per barrel comprising export and domestic sales was USD79.64 per barrel in 2013. The average realised oil price for the FYE 31 December 2013 is USD87.80 per barrel from export sales (after discount of USD20.76 per barrel) and USD41.57 per barrel from domestic sales.

The Palaeontol B.V. Group's oil sales volume was 1,559,808 barrels for the FYE 31 December 2013, comprising of 1,284,288 barrels from export sales and 275,520 barrels from domestic sales. The average daily oil production was 4,320 bopd in the FYE 31 December 2013.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOONTOL B.V. GROUP (Cont'd)**

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For the FYE 31 December 2013, 82.3% of the sales volume of oil was exported, which contributed to 89.2% of the Palaeontol B.V. Group's total oil revenue.

**Gas sales**

Revenue recorded revenue from gas sales of USD2.22 million for the FYE 31 December 2013 with an average realised gas price of USD1.34 Mscf. The gas sales volume was 1,661.58 MMscf and the average daily gas production was 5.00 MMscfd in the FYE 31 December 2013.

**Operating expenses**

The Palaeontol B.V. Group's recorded operating expenses of USD104.4 million for the FYE 31 December 2013. The operating expenses consist of:

- taxes other than income taxes of USD51.6 million;
- purchases, services and other direct costs of USD18.0 million;
- depreciation, depletion and amortisation of USD15.1 million;
- geological and geophysical of USD3.6 million;
- distribution expenses of USD1.5 million;
- employee compensation costs of USD8.2 million;
- general and administrative expenses of USD2.9 million; and
- Other operating expenses comprises the accrued accident indemnity provision of USD 4.1 million and others operating expenses of USD0.2 million which were used to net off the foreign exchange gain of USD 0.4 million. The accrued indemnity provision was provided for the traffic accident in 2013 involving an oil tank truck of Emir-Oil and a petroleum tank train near Aktau.

**Profit from operations**

The Palaeontol B.V. Group recorded profit from operations of USD22.0 million for the FYE 31 December 2013.

**Finance income**

The finance income from deposits placed with financial institutions was USD0.4 million for the FYE 31 December 2013.

**Finance costs**

The finance costs was USD8.3 million for the FYE 31 December 2013 comprising interest expenses on shareholder's loan from MIEH, accretion expenses of asset retirement obligations and other fees.

**PBT**

For the FYE 31 December 2013, the Palaeontol B.V. Group recorded a PBT of USD14.1 million and the PBT margin was 11.2%.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEONTOL B.V. GROUP (Cont'd)**

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***Income tax expense/credit***

The Palaeontol B.V. Group recorded an income tax credit of USD4.7 million in the FYE 31 December 2013. The weighted average effective tax rate for 2013 was -33% in 2013.

***PAT***

The Palaeontol B.V. Group recorded a PAT of USD18.8 million for the FYE 31 December 2013. The PAT margin for FYE 31 December 2013 was 14.8%.

**2.6 Seasonality**

Save for fluctuations in crude oil prices which are not seasonal in nature, the Palaeontol B.V. Group does not experience any significant fluctuations in its business, financial condition or results of operations due to seasonal factors.

**2.7 Impact of inflation**

The Palaeontol B.V. Group does not report that inflation has had a material impact on its business, financial condition or results of operations for the past three FYEs 31 December 2013 to 2015 and the FPE 30 June 2016.

**2.8 Impact of foreign exchange rates, interest rates and commodity price****(i) Impact of foreign exchange rate**

The majority of the revenue of the Palaeontol B.V. Group is denominated in USD, while production, purchases and other expenses are transacted in KZT. The KZT is not a freely convertible currency. Limitation in foreign exchange transactions could cause future exchange rates to vary significantly from current or historical exchange rates.

Any significant changes in exchange rates may affect the Palaeontol B.V. Group's results of operations or financial position.

On 11 February 2014, Kazakhstan's Central Bank decided to stop supporting the KZT exchange rate and reduce currency interventions and the exchange rate of KZT depreciated to KZT182 for USD1. On 20 August 2015, Kazakhstan's Central Bank implemented the free-floating regime which resulted in a further depreciation of the exchange rate to KZT345 for USD1. If the KZT had weakened/strengthened by 1% against USD with all other variables held constant, the Palaeontol B.V. Group's PBT for the FYE 31 December 2015 would have been USD822,000 (2014: USD925,000, 2013: USD980,000) higher/lower respectively. This change was mainly due to foreign exchange losses/gains on translation of USD-denominated trade and other payable, bank deposits.

The management of the Palaeontol B.V. Group is not in a position to anticipate changes in the foreign exchange regulations and as such is unable to reasonably anticipate the impact arising from future movement in exchange rates. However, to mitigate the risk of unfavourable fluctuations in foreign exchange rate, Reach Energy may enter into forward foreign exchange contracts to hedge against adverse foreign exchange fluctuations.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEONTOL B.V. GROUP (Cont'd)**

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**(ii) Impact from interest rate**

The Palaeontol B.V. Group's income and operating cash flows are substantially independent of the changes in interest rates. This is because the Palaeontol B.V. Group does not have any external borrowing except for the Shareholder Loans of which the interest rates are fixed. As such, the Palaeontol B.V. Group's financial results for the past three FYEs 31 December 2013 to 2015 and for the FPE 30 June 2015 and 2016 were not materially affected by fluctuations in interest rates.

**(iii) Impact from commodity prices**

The Palaeontol B.V. Group is exposed to general fluctuations of crude oil price as it is engaged in crude oil development, production and selling activities. Prices of crude oil are affected by both domestic and global factors which are beyond the control of the Palaeontol B.V. Group. The fluctuations in such prices will have a favourable or unfavourable impact to the Palaeontol B.V. Group.

**2.9 Government / economic / fiscal or monetary policies**

Risks relating to the government, economic, fiscal or monetary policies or factors which may materially affect the operations of the Palaeontol B.V. Group are set out in Section 8.2.3 of this Circular.

Save for the risks as disclosed in Section 8.2.3 of this Circular, there was no government, economic, fiscal or monetary policies or factors that have had a material impact on the Palaeontol B.V. Group's financial performance for the past three FYEs 31 December 2013 to 2015 and the FPE 30 June 2016.

**2.10 Exceptional and extraordinary items**

There is no exceptional and extraordinary item during the past three FYEs 31 December 2013 to 2015 and the FPE 30 June 2016 except for the accrued indemnity provisions for the traffic accident in 2013 involving an oil tank truck of Emir-Oil and a petroleum tank train near Aktau amounting to a total amount of USD4.1 million.

**3. LIQUIDITY AND CAPITAL RESOURCES****3.1 Working capital**

The Palaeontol B.V. Group has financed its working capital requirements from a combination of cash generated from operations and the Shareholder Loans. Cash generated from operations is mainly from collections from its customers. The principal uses of cash by the Palaeontol B.V. Group have been for trade payments to suppliers, payment of oil taxes such as rent export tax, rent export duty expenditure, MET and property tax to the Kazakhstan government, and for general and administrative expenses.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEONTOL B.V. GROUP (Cont'd)**


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As at 30 June 2016, the Palaeontol B.V. Group's net current liabilities was approximately USD53.2 million, comprising the following:

	<b>As at 30 June 2016</b>
	<b>(USD'000)</b>
<b>Current assets</b>	
Inventories	1,283
Prepayments and other receivables	6,426
Trade receivables	5,712
Cash and cash equivalents	535
<b>Total current assets</b>	<b>13,956</b>
<b>Current liabilities</b>	
Trade payable	24,096
Amount due to related parties	33,657
Provisions, accruals and other payables	9,432
<b>Total current liabilities</b>	<b>67,185</b>
<b>Net current liabilities</b>	<b>53,229</b>

The working capital deficit was primarily due to the construction of the new CPF as a step to "de-bottleneck" the capacity limitations of the present processing facility and further ramp up the O&G production for Emir-Oil, drilling of wells and interests payable on the Shareholder Loans from MIEH of which the first repayment together with the principal is due and payable in 2018. As at 30 June 2016, out of USD24.1 million of the outstanding trade payables, USD11.5 million was for the construction of the new CPF and USD7.5 million was due to trade payables arising from drilling services. If the trade payable arising from the construction of the new CPF and drilling services as well as interests payable on the Shareholder Loans was excluded, the working capital deficit as at 30 June 2016 will reduce from USD53.2 million to USD16.9 million. The investment costs for the CPF are anticipated to be recovered from future crude oil output from the Emir-Oil Concession Block, which is expected in 2017. The Palaeontol B.V. Group believes it has the ability to manage these positions due to the anticipated monthly positive cash flows generated from its operations and the ability to negotiate and modify the payment terms with trade creditors. After taking into consideration the above, the Palaeontol B.V. board believes that the Palaeontol B.V. Group has sufficient cash to enable them to settle their liabilities as and when they fall due. The Palaeontol B.V. Group may raise additional capital or funds through bank borrowings or shareholders' loans in the future to meet the financing requirements should the need arise.

Although there is a deficiency in the net working capital of the Palaeontol B.V. Group as at 30 June 2016, MIEH has confirmed to provide financial support for the continuing operations of the Palaeontol B.V. Group in the next 12 months from the date of this Circular so long as the Palaeontol B.V. Group remains its subsidiary. In addition, MIEH and Reach Energy have also confirmed to provide financial support for the continuing operations of the Palaeontol B.V. Group after the completion of the Proposed Acquisition to the extent of their proportionate ownership in Palaeontol B.V.. In view of the decline in oil prices, the Palaeontol B.V. Group has reduced its CAPEX. In any event, the current liabilities of the Palaeontol B.V. Group had reduced from the Effective Date up to 30 June 2016 mainly due to settlement of trade payables and Reach Energy expects the working capital deficit to further reduce in the FYE 31 December 2016 as the Palaeontol B.V. Group continues to settle its outstanding trade payables using its internally generated funds as well as from continued financial support from MIEH. If the oil price continues to remain at the current level of around USD50/bbl, our Company expects that the financial support required from both MIEH and us would reduce.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEONTOL B.V. GROUP (Cont'd)**


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The Palaeontol B.V. Board is of the opinion that based on the financial performance and results of operations for the past three FYEs 31 December 2013 to 2015 as well as the FPE 30 June 2016 and its prospects, after taking into consideration the funding requirements for the committed CAPEX for the financial year ending 31 December 2016 (there is no CAPEX that is expected to be incurred for the financial year ending 31 December 2017), the cash and cash equivalents, the expected cash flows to be generated from operations as well as cash contribution from MIEH through shareholders' loans or advances, the Palaeontol B.V. Group will have sufficient working capital for the operations of the Palaeontol B.V. Group for a period of 12 months from the date of this Circular.

### 3.2 Cash flow

The following table sets out a summary of the audited consolidated statement of cash flows of the Palaeontol B.V. Group for the FYE 31 December 2015 and the FPE 30 June 2016 and should be read together with the Accountants' Report on the Palaeontol B.V. Group in Appendix X of this Circular.

	<b>FYE 31 December 2015</b>	<b>FPE 30 June 2016</b>
	<b>USD'000</b>	<b>USD'000</b>
Net cash generated from operating activities	28,166	1,400
Net cash used in investing activities	(62,547)	(18,116)
Net cash generated from financing activities	32,450	12,550
Net decrease in cash and cash equivalents	(1,931)	(4,166)
Exchange losses on cash and cash equivalents	(283)	(1)
Cash and cash equivalent at the beginning of the financial year	6,916	4,702
<b>Cash and cash equivalent at the end of the financial year</b>	<b>4,702</b>	<b>535</b>

There are no legal, financial or economic restrictions on the ability of Emir-Oil to transfer funds to Palaeontol B.V. in the form of cash dividends, loans or advances to meet its cash obligations. For further information on repatriation of profits from Netherlands and Kazakhstan, please refer to the Expert's Opinion on Policies on Foreign Investment, Taxation and Repatriation of Profits of Netherlands and Kazakhstan as set out in Appendix XII of this Circular.

#### Net cash used in operating activities

Net cash generated from operating activities was USD28.2 million for the FYE 31 December 2015. This was attributed to the operating loss before working capital changes of approximately USD29.6 million (after adjusting for non-cash items, net finance costs and share based payments totaling to USD59.5 million) and net cash inflow for working capital of USD26.3 million as well as payment for interest of USD1.4 million and income tax of USD0.2 million.

Net cash generated from operating activities was USD1.4 million for the FPE 30 June 2016. This was attributed to the operating loss before working capital changes of approximately USD62.9 million (after adjusting for non-cash items, net finance costs and share based payments totaling to USD64.4 million) and net cash outflow for working capital of USD6.2 million as well as payment for income tax of USD0.1 million.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEONTOL B.V. GROUP (Cont'd)**

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**Net cash used in investing activities**

Net cash used in investing activities for the FYE 31 December 2015 which amounted to USD62.5 million was due to purchases of property, plant and equipment of USD63.4 million and a decrease in restricted cash of USD0.8 million, which was funds set aside for environmental remediation under the laws of Kazakhstan.

Net cash used in investing activities for the FPE 30 June 2016 amounted to USD18.1 million. This was due to purchases of property, plant and equipment of USD18.0 million and an increased in restricted cash of USD0.1 million, which was funds set aside for environmental remediation under the laws of Kazakhstan.

**Net cash generated from financing activities**

Net cash from financing activities for the FYE 31 December 2015 of USD32.5 million was mainly due to the Shareholder Loans from MIEH of USD32.5 million for the purpose of funding the construction of the CPF.

Net cash from financing activities for the FPE 30 June 2016 of USD12.5 million was mainly due to the Shareholder Loans from MIEH of USD12.5 million for the purpose of funding the construction of the CPF.

**3.3 Borrowings****(i) Bank borrowing**

For the past three FYEs 31 December 2013 to 2015 and the FPE 30 June 2016 under review, the Palaeontol B.V. Group does not have any bank borrowing and/or credit facilities from financial institutions.

**(ii) Loans from an intermediate holding company**

On 18 March 2014, Palaeontol B.V. entered into several shareholder loan agreements with MIEH as lender for an aggregate principal amount of approximately USD340.17 million, bearing interest ranging from 4.855% to 11.855%. Pursuant to the shareholder loan agreements, the Shareholder Loans are to be repaid at their respective maturity dates, of which USD200.00 million and USD140.17 million are due and payable in 2018 and 2036 respectively.

As at 30 June 2016, the total outstanding loans from MIEH to fund the CAPEX and working capital of Emir-Oil is USD319.4 million which comprise of USD277.3 million of principal amount and interest of USD42.1 million. Pursuant to the SPA, 60% of the Shareholder Loans with accrued interest will be assigned to Reach Energy at the Completion Date.

**3.4 Type of financial instruments used**

As at 30 June 2016, the Palaeontol B.V. Group's financial instruments comprised mainly of cash and cash equivalents, trade and other receivables, trade and other payables and amount due to related parties as shown in the consolidated statement of financial position. The abovementioned financial instruments are used in the Palaeontol B.V. Group's ordinary course of business.

Save as disclosed above, the Palaeontol B.V. Group does not use any other financial instruments.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEONTOL B.V. GROUP (Cont'd)**


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**3.5 Treasury policies and objectives**

The Palaeontol B.V. Group has been financing its operations through a combination of cash generated from operations and the Shareholder Loans. Its external source of funds mainly consists of credit terms extended by suppliers and sub-contractors. The normal credit terms granted by trade suppliers is disclosed in Section 4 of this Appendix. The Shareholder Loans are at a fixed interest rate.

The Palaeontol B.V. Group is exposed to foreign currency risk as its revenue is denominated in USD for export sales and in KZT for domestic sales, whilst its production, purchases and other expenses are mainly denominated in KZT. It maintains its cash and cash equivalents mainly in USD and KZT. Less than 1% of its cash and cash equivalents is maintained in Euro to cater for its daily operational expenses as Palaeontol B.V. is incorporated in Netherlands. The Palaeontol B.V. Group currently does not have any foreign exchange rate hedging policy and as such, the Palaeontol B.V. Group is exposed to fluctuations in foreign exchange rates as discussed in Section 2.8(i) of this Appendix.

**3.6 CAPEX**

A summary of CAPEX incurred by the Palaeontol B.V. Group for the past three FYEs 31 December 2013 to 2015 and the FPE 30 June 2016 are as follows:

	FYE 31 December			FPE 30 June
	2013	2014	2015	2016
	USD' million	USD' million	USD' million	USD' million
CAPEX	81.9	60.9	53.6	3.4

The CAPEX for the past three FYEs 31 December 2013 to 2015 was mainly incurred for the cost of exploratory wells of North Kariman -1, Yessen-1, Aidai -1 (including certain geophysical costs which are directly attributable to the drilling of these wells), construction and drilling of additional producing wells in the four Producing Fields and construction of the CPF. The CAPEX for the FPE 30 June 2016 was mainly incurred for the exploratory wells of Yessen-3 and Dolinnoe-8.

Based on the Independent Technical Expert and Valuation Report, the planned CAPEX for the financial year ending 31 December 2016 is USD28.6 million which Emir-Oil intends to use primarily for the remaining construction of the CPF and drilling of the two committed exploratory wells under the Exploration Contract, being Yessen-3 and Dolinnoe-8.

The actual capital expenditure may vary from the planned CAPEX due to various factors, including change in the global oil outlook and operational factors. In view of continuing low global oil prices, the Palaeontol B.V. Group will continue to focus on lowering operating costs and optimising the productivity of the Producing Fields. The Palaeontol B.V. Group will also continue to carefully control CAPEX, with projects strategically important to the Palaeontol B.V. Group's future growth, particularly the advancement of construction on the CPF.

We expect to meet our capital expenditure requirements through our internally generated funds, bank borrowings and/or shareholders' advances.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEONTOL B.V. GROUP (Cont'd)**


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**3.7 Material commitments****(i) Capital commitments**

As at 30 June 2016, the Palaeontol B.V. Group had a total of USD68.7 million of capital commitments for the purchase of property, plant and equipment. These commitments consist of the following:

	<u>As at 30 June 2016</u>
	<u>USD'000</u>
Authorised by the director but not contracted for	46,481
Contracted but not provided for	22,226
<b>Total</b>	<b><u>68,707</u></b>

**(ii) Operating lease commitments**

As at 30 June 2016, the Palaeontol B.V. Group had operating lease commitments amounting to USD1.1 million related to its non-cancellable operating leases for offices.

The future aggregate minimum lease payments under these operating leases are as follows:

	<u>As at 30 June 2016</u>
	<u>USD'000</u>
Less than 1 year	452
1 – 2 years	452
2 – 5 years	236
> 5 years	-
<b>Total</b>	<b><u>1,140</u></b>

**(iii) Contractual obligations according to the Production Contracts**

According to the Production Contracts, the Palaeontol B.V. Group is obligated to perform minimum work program during the life of the Production Contracts. Set out below is the commitment for the minimum work program:

	<u>As at 30 June 2016</u>
	<u>USD'000</u>
Less than 1 year	84,461
1 – 2 years	78,876
2 – 5 years	219,472
> 5 years	702,751
<b>Total</b>	<b><u>1,085,560</u></b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEONTOL B.V. GROUP (Cont'd)**

The minimum work program comprises of capital expenditure of USD279 million to be incurred over the life of the Production Contracts expiring in 2036 (save for the production contract for the Emir oil field which expires in 2030) as well as operational expenditure, general and administrative expenses, and other direct operation and maintenance costs of wells and related facilities. Despite the Palaeontol B.V. Group's contracted timing schedule to implement the minimum work program, the Palaeontol B.V. Group is entitled to amend the approved work program in various cases (e.g. introduction of amendments to the project documentation) subject to the MOE's approval.

Save as disclosed above, as at the LPD, the Palaeontol B.V. Board, after having made all reasonable enquiries, is not aware of any material commitment incurred or to be incurred by the Palaeontol B.V. Group that has not been provided for, which upon becoming enforceable, may have a material impact on its financial position.

Please refer to Section 23 of the Accountants' Report in Appendix X of this Circular for further information in relation to the Palaeontol B.V. Group's material commitments. The anticipated cost of funds for the material commitment will be from the Palaeontol B.V. Group's internally generated funds and loans from shareholders.

**3.8 Contingent liability**

As at the LPD, the board of directors of Palaeontol B.V. is not aware of any contingent liabilities, which upon becoming enforceable, may have a material effect on the financial position of the Palaeontol B.V. Group.

**3.9 Material litigation**

As at the LPD, the board of directors of Palaeontol B.V. is not aware of any material litigation and arbitration proceedings which, upon becoming enforceable, may have a material effect on the financial position of the Palaeontol B.V. Group.

**4. KEY FINANCIAL RATIOS**

The key financial ratios of the Palaeontol B.V. Group based on the audited consolidated financial information for the past three FYEs 31 December 2013 to 2015 and the FPE 30 June 2016 and the unaudited consolidated financial information for the FPE 30 June 2015 are as follows:

	FYE 31 December			FPE 30 June	
	2013	2014	2015	2015	2016
Trade receivables turnover period (days) <sup>(1)</sup>	10	2	7	24	44
Trade payables turnover period (days) <sup>(2)</sup>	167	196	299	471	153
Inventories turnover period (days) <sup>(3)</sup>	4	5	25	5	8
Current ratio (times) <sup>(4)</sup>	0.24	0.32	0.23	0.24	0.21
Gearing ratio (times)	-	-	-	-	-
Total Shareholder Loans over EBITDIA ratio <sup>(5)</sup>	5.56	5.58	12.30	27.17	20.72



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOONTOL B.V. GROUP (Cont'd)**


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**Notes:**

- N/A Not applicable.
- (1) Calculated based on trade receivables as at their respective balance sheet date over total revenue multiplied by 365 days.
- (2) Calculated based on trade payables as at their respective balance sheet date over cost of sales multiplied by 365 days.
- (3) Calculated based on inventory as at their respective balance sheet date over cost of sales multiplied by 365 days.
- (4) Calculated based on current assets over current liabilities.
- (5) Computed based on EBITDIA divided by Shareholder Loans.

**4.1 Trade receivables**

The Palaeontol B.V. Group generally grants credit terms between 30 days to 180 days to its customers. For the FYEs 31 December 2013 to 2015, the Palaeontol B.V. Group maintains a generally low trade receivables turnover period ranging from 2 to 10 days. However, the trade receivables turnover has increased to 44 days for the FPE 30 June 2016. Since December 2015, there was a change in the payment terms where the Palaeontol B.V. Group will receive 100% of its payment within 30 days when the oil is loaded onto the vessel in Novorossiysk whilst previously, the Palaeontol B.V. Group will receive 80% of their payment when the oil is loaded onto the vessel at Aktau Port.

The trade receivables as at 31 December 2015 are lower as compared to 30 June 2016 because the Palaeontol B.V. Group had recorded lower revenue in December 2015 as compared with June 2016. This is because one shipment of oil which was supposed to be delivered at the end of December 2015 was delayed due to adverse weather conditions. As such, the oil was recorded as inventory as at 31 December 2015 and was only sold and invoiced in January 2016 when the oil was loaded at the port by then. This resulted in lower trade receivables and a shorter trade receivables turnover period as at 31 December as compared to 30 June 2016.

The ageing analysis for the Palaeontol B.V. Group's trade receivables as at 30 June 2016 is as follows:

	<-----Within credit period----->		Exceeding credit period	Total
	0 – 30 days	31 - 180 days		
	USD'000	USD'000	USD'000	USD'000
Trade receivables	5,092	596	24	5,712
% of total trade receivables	89%	10%	1%	100%

As at the LPD, approximately 100% or USD5.7 million of the total trade receivables as at 30 June 2016 has been collected.

**4.2 Trade payables**

The Palaeontol B.V. Group's generally receive credit terms between 30 to 60 days from its suppliers and contractors.

The trade payables turnover period increased from 167 days in the FYE 31 December 2013 to 196 days in the FYE 31 December 2014 primarily due to the increase in time taken by the contractors to complete their works and time needed for rectification of any inconsistencies in the work performed. Trade payables turnover period increased from 196 days in the FYE 31 December 2014 to 299 days in the FYE 31 December 2015 primarily due to longer payment terms given by contractors as payment is due after the work completion and warranty period. The long outstanding trade payables in the FYE 31 December 2015 are mainly amount due to the contractors involved in the construction of the CPF. Trade payables turnover period decreased from 471 days in the FPE 30 June 2015 to 153 days in the FPE 30 June 2016 primarily due to repayment of long outstanding trade payables between FPE 30 June 2015 to FPE 30 June 2016.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**

The ageing analysis for the Palaeontol B.V. Group's trade payables as at 30 June 2016 is as follows:

	<----Within credit period---->		Exceeding credit period	Total
	0 – 30 days	31 - 180 days		
	USD'000	USD'000	USD'000	USD'000
Trade payables	3,490	3,768	16,838	24,096
% of total trade payables	14%	16%	70%	100%

As at the LPD, approximately 52% or USD12.6 million of the trade payables as at 30 June 2016 has been paid. As at the LPD, the Palaeontol B.V. Group has not defaulted on its trade payments. There were also no significant matters in dispute in relation to the trade payables and it is not aware of any action, legal or otherwise, that have been taken against the Palaeontol B.V. Group by their suppliers or vendors as at the LPD.

#### 4.3 Inventories

The inventory primarily consists of crude oil in the oil tanks and in transit. The inventory turnover period is between four days to 25 days for the past three FYEs 31 December 2013 to 2015 and for the FPE 30 June 2015 and 2016. The long inventory turnover periods in the FYE 31 December 2015 were due to increased level of inventory at year end arising primarily from a change in sales delivery terms from FCA to FOB in 2015, hence the inventory transit time is longer.

#### 4.4 Current ratio

	FYE 31 December			FPE 30 June	
	2013	2014	2015	2015	2016
	USD'000	USD'000	USD'000	USD'000	USD'000
Current assets	25,530	26,543	19,446	26,883	13,956
Current liabilities	105,710	82,110	82,772	110,431	67,185
Current ratio (times)	0.24	0.32	0.23	0.24	0.21

The current ratio of the Palaeontol B.V. Group was 0.24 times as at 31 December 2013, 0.32 times as at 31 December 2014, 0.23 times as at 31 December 2015, 0.24 times as at 30 June 2015 and 0.21 times as at 30 June 2016. The current liabilities mainly comprise payables arising from CAPEX incurred as explained in Section 3.6 of this Appendix.

#### 4.5 Gearing ratio

The Palaeontol B.V. Group does not have any bank borrowing and/or credit facilities from financial institutions for the past three FYEs 31 December 2013 to 2015 and the FPE 30 June 2016.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOINTOL B.V. GROUP (Cont'd)**

**4.6 Total Shareholder Loans over EBITDIA ratio**

	FYE 31 December			FPE 30 June	
	2013	2014	2015	2015	2016
	USD'000	USD'000	USD'000	USD'000	USD'000
EBITDIA	37,086	43,829	23,482	( <sup>1</sup> )9,322	( <sup>1</sup> )14,902
Total Shareholder Loans <sup>(2)</sup>	206,300	244,649	288,760	253,238	308,739
Total Shareholder Loans over EBITDIA ratio	5.56	5.58	12.30	27.17	20.72

Notes:

- (1) EBITDIA for the FPE 30 June 2015 and FPE 30 June 2016 is based on annualised performance results as computed below:

	FPE 30 June	
	2015	2016
	USD'000	USD'000
PAT/(LAT)	(14,292)	(98,700)
Finance income	(146)	(116)
Finance costs	13,656	14,894
Income tax expense/(credit)	(2,928)	(14,802)
Depreciation, depletion and amortisation	13,032	25,040
Asset impairment loss	-	88,586
EBITDIA	9,322	14,902

- (2) The Shareholder Loans for the FYE 31 December 2013 to 2015 and FPE 30 June 2016, as extracted from the audited financial statements of the Palaeontol B.V. Group of the respective years/period are recorded at amortised costs under the accounting standard requirement.

The total Shareholder Loans over EBITDIA ratio of the Palaeontol B.V. Group was 5.56 times as at 31 December 2013, 5.58 times as at 31 December 2014, 12.30 times as at 31 December 2015 and 20.72 times as 30 June 2016. The high total Shareholder Loans over EBITDIA ratios in FYE 31 December 2015 and FPE 30 June 2016 were mainly because of the low EBITDIA recorded during the FYE 31 December 2015 and the FPE 30 June 2016 due to lower revenue recorded for the financial years/period under review. Nevertheless, as MIEH has been funding the development of the Emir-Oil Concession Block through Shareholder Loans to Palaeontol B.V., the equity funding structure of Palaeontol B.V. is principally through the Shareholder Loans as opposed to an increase in share capital.

**5. ORDER BOOK**

Due to the nature of business of the Palaeontol B.V. Group which is in the exploration, development, production and sale of crude oil and other petroleum products, it does not maintain an order book.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS OF THE PALAEOONTOL B.V. GROUP (Cont'd)**

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**6. TREND INFORMATION**

As at the LPD, to the best knowledge and belief of the Palaeontol B.V. Board, the financial conditions and operations of the Palaeontol B.V. Group has not been and are not expected to be affected by any of the following:

- (a) known trends, demands, commitments, events or uncertainties that have had or that it reasonably expects to have, a material favourable or unfavourable impact on the Palaeontol B.V. Group's financial performance, position and operations other than those discussed in Sections 3, 7 and 8 as well as Appendix V of this Circular;
- (b) material commitment for CAPEX save as disclosed in Section 3.7 of this Appendix;
- (c) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of the Palaeontol B.V. Group save as disclosed in Section 8 of this Circular;
- (d) known trends, demands, commitments, events or uncertainties that have resulted in a material impact on the Palaeontol B.V. Group' revenue and/or profits, save as disclosed in Sections 3, 7 and 8 as well as Appendix V of this Circular; and
- (e) known trends, demands, commitments, events or uncertainties that have had or that the Palaeontol B.V. Group reasonably expects to have, a material favourable or unfavourable impact on its liquidity and capital resources and which are reasonably likely to make the Palaeontol B.V. Group's historical financial statements not indicative of its future financial performance and position, other than those discussed in this Appendix and in Section 8 of this Circular.

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**EXPERT'S OPINION ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS OF THE NETHERLANDS AND KAZAKHSTAN**

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**Attention: The Board of Directors**

13 September 2016

Dear Sirs,

**REPORT ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS FROM THE REPUBLIC OF KAZAKHSTAN ("KAZAKHSTAN") AND THE NETHERLANDS**

We have been requested by Reach Energy Berhad ("Reach Energy") to prepare this letter for inclusion in the circular to the shareholders of Reach Energy ("the Circular"). A copy of this letter will be separately submitted to Bursa Malaysia Securities Berhad, Securities Commission Malaysia and other relevant authorities as part of the regulatory approval process for the Proposed Acquisition (as defined herein).

This letter provides high level comments on the policies on foreign investment, taxation and repatriation of profits from Kazakhstan and the Netherlands in relation to the proposed acquisition by Reach Energy Ventures Sdn Bhd ("REVSB"), a wholly-owned subsidiary of Reach Energy, of 60% the equity interest in Palaeontol B.V. and 60% of the shareholder loans in Palaeontol B.V. ("the Proposed Acquisition"). The proposed shareholding structure is shown in Figure 1 below.

The contents of this letter are general in nature and are dependent upon the information made available to us. In particular we have not performed a tax due diligence review of the entities in the proposed shareholding structure. Any references to the relevant laws are those applicable as at the date of this letter and we have relied on comments provided by BDO offices in Kazakhstan and the Netherlands for the respective jurisdictions. This letter should not be regarded as providing advice on legal or regulatory matters. Therefore, investors in Reach Energy should always seek advice from their own independent professional advisors to take into account their own specific set of circumstances.

**1. Background**

Reach Energy through its wholly-owned subsidiary, REVSB, will acquire 60% of the equity interest in Palaeontol B.V. as well as 60% of the shareholder loans in Palaeontol B.V.. Palaeontol B.V. has a 100% ownership in a Kazakhstan limited liability partnership ("LLP"), Emir-Oil LLP ("Asset Co"). It is our understanding that Asset Co is an active company that conducts business in hydrocarbon production and exploration contracts in Kazakhstan. We further understand that Palaeontol B.V. does not have any activities other than the holding of the shares in Asset Co.

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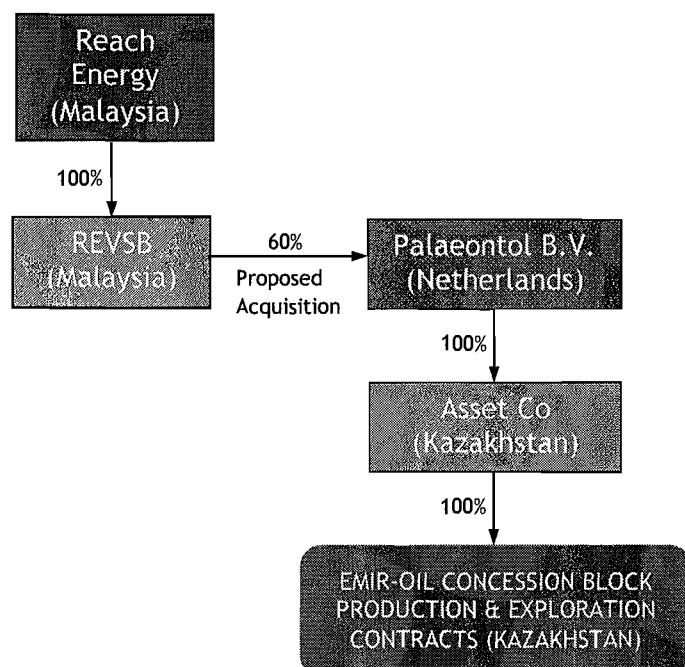


Reach Energy Berhad  
13 September 2016

Asset Co has the legal form of a LLP, or in the local language 'Товарищество с Ограниченной Ответственностью' (Товарищество с ограниченной ответственностью, abbreviated as "ТОО") in Kazakhstan.

Please note that this report does not cover the aspects regarding the other 40% equity interest in Palaeontol B.V., nor the owner of the said 40% equity interest.

Figure 1.



## 2. Kazakhstan

### 2.1 Legal regulation of foreign investments in accordance with the relevant laws of Kazakhstan, including restrictions in force

#### 2.1.1 Review of the provisions of the investment legislation of Kazakhstan

The relationships connected with investments in Kazakhstan, legal and economic frameworks for stimulating investment, guarantees of the protection of investors' rights in the making of investments in Kazakhstan, state support measures, and the procedure for resolution of the disputes involving investors, are regulated by the *Commercial Code of Kazakhstan* No. 375-V dated 29 October 2015 ("the Commercial Code"). The Law of Kazakhstan No. 373-II dated 8 January 2003 *On investments* was repealed with the introduction of the Commercial Code effective from 1 January 2016. State support for investment in Kazakhstan is aimed at the creation of a favourable investment climate for the development of the economy and stimulating investment in creating new production enterprises, expanding and upgrading existing ones with modern technologies, professional development of a Kazakh workforce, as well as environmental protection.



Reach Energy Berhad  
13 September 2016

### 2.1.2 Definition of an investor and investment activity in Kazakhstan

As per article 274 of the Commercial Code an 'investor' is any physical and legal person investing in Kazakhstan.

'Investments' are all types of property (except for goods intended for personal consumption), including finance lease items under lease contracts, as well as the rights to the properties, given by an investor in the form of share capital of a legal entity or an increase in the fixed assets used for entrepreneurial activity, as well as for implementation of public-private partnership projects, including concession projects. The increase or creation of fixed assets is the investment in fixed assets in the amounts and within the time limits stipulated by the investment contract terms, a subsoil use contract, or a public-private partnership contract, including a concession agreement.

Investors are entitled to invest in any objects and types of business activities, except for the cases provided for by the laws of Kazakhstan which, in the interests of national security, may determine the types of activities and/or territories for which the investment activities are limited or prohibited (Article 275 of the Commercial Code).

### 2.1.3 Guarantees for investors

#### 2.1.3.1 The guarantees for legal protection of investors in Kazakhstan (Article 276 of the Commercial Code)

The investors are granted full and unconditional protection of their rights and interests, which is provided by the Constitution of Kazakhstan, the Commercial Code and other normative legal acts of Kazakhstan and international treaties ratified by Kazakhstan. The investors are also entitled to compensation for damages caused by the publication of acts of public authorities which do not comply with the legislative acts of Kazakhstan, as well as a result of illegal actions/inaction of these officials, in accordance with the civil legislation of Kazakhstan. Kazakhstan guarantees the stability of the conditions of contracts between investors and state bodies of Kazakhstan, except in cases where the changes in the contracts are made by the parties' mutual agreement.

These guarantees do not apply to:

- 1) Changes in the legislation of Kazakhstan and/or the entry into force and/or changes in international treaties of Kazakhstan, which change the procedure and conditions of import, production and sale of excisable goods; and
- 2) Changes and additions made to the laws of Kazakhstan in order to ensure national security, public order, and health or morals of its population.

#### 2.1.3.2 Use of income guarantees (Article 277 of the Commercial Code)

Investors are entitled:

- 1) to use income derived from their activities at its own discretion, after payment of taxes and other compulsory payments to the budget, in accordance with the legislation of Kazakhstan; and
- 2) to open bank accounts in the local currency and/or foreign currency in the territory of Kazakhstan in accordance with banking and currency legislation of Kazakhstan.



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### 2.1.3.3 Guarantee of the rights of investors in nationalisation and requisition (Article 279 of the Commercial Code)

The forced withdrawal of the investor's property (nationalisation and requisition) for public use is allowed in exceptional cases stipulated by the Law of Kazakhstan No. 413-IV dated 1 March 2001 *On State Property* (Chapters 4 and 5). In case of nationalisation Kazakhstan shall reimburse the investor full damages incurred as a result of the publication of regulatory acts of Kazakhstan on nationalisation. In case of requisition of property, the investor shall be entitled to receive the market value of the property. The market value of the property is determined in the manner prescribed by the legislation of Kazakhstan. The assessed value of reimbursement of the requisitioned property may be challenged by the owner in court. Upon termination of the circumstances that caused the requisition, the investor is entitled to demand the return of the remaining assets, but is obliged to return the received amount of compensation with due account for losses from reduction of the property value.

### 2.1.4 State support for investment

#### 2.1.4.1 Investment preferences

Under Article 286 of the Commercial Code, subsurface use activities shall not be included in the list of priority activities identified for implementation of investment priority projects. Therefore, subsurface activities are not eligible for investment preferences.

#### 2.1.4.2 The authorised body for investment (Article 282 of the Commercial Code)

State support of investments is carried out by the Ministry for Investment and Development of Kazakhstan ("the Ministry for Investments").

The Ministry for Investments interacts with investors by means of establishing and operating a 'one stop shop' for investors. The 'one stop shop' principle for investors implies a centralised form of assistance to investors from the Ministry for Investments in the provision of public services, which involves minimising the participation of investors in the collection and preparation of documents and the limitation of their direct contact with state authorities.

In addition, the Ministry for Investments provides the following services to investors or their representatives:

- 1) consulting on existing public services;
- 2) assistance in the preparation and presentation of documents required to obtain public services;
- 3) assistance in obtaining digital signatures, electronic applications and other documents; and
- 4) accompanying investors in the central and local executive bodies when receiving government services.

#### 2.1.4.3 Investments Ombudsman (Article 317 of the Commercial Code)

Investment Ombudsman operates under the *Regulation on the activities of the Investment Ombudsman, approved by Resolution of the Government of Kazakhstan No. 1069 dated 26 December 2015*. The main functions of the Investment Ombudsman are as follows:





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- 1) consider appeals of investors on issues arising in the course of investment activities in Kazakhstan, and make recommendations for their resolution, including interacting with public authorities;
- 2) assist investors in addressing emerging issues in extrajudicial and pre-trial procedures; and
- 3) elaborate recommendations on improving the legislation of Kazakhstan on investment activity and present these to the Government of Kazakhstan.

#### 2.1.4.4 Investment dispute resolution (Article 296 of the Commercial Code)

An 'investment dispute' is a dispute arising out of contractual obligations between investors and government agencies in connection with their investment activities.

'Contractual obligations' are the obligations between investors and state bodies, which are formed in the form of investment contracts or other contracts for the implementation of the investment, including concession agreements and contracts of public-private partnership.

In order to ensure protection of the rights and interests of investors, the term 'public body' shall mean the public authorities who have concluded contracts with investors not only on its own behalf, but on behalf of the Government of Kazakhstan. In this regard investment disputes also include disputes on contracts for subsoil use, the party of which is the Government of Kazakhstan.

The following types of arguments can be recognized as investment disputes:

- 1) disputes arising from the conclusion, modification and termination of contracts for the implementation of investments;
- 2) disputes relating to the execution of the investor's tax, customs, social, environmental and other obligations arising from the agreement on the implementation of the investment, including the disputing investors assessed under the amounts of the contract;
- 3) disputes on investor appeal of actions/inaction of the state body in the course of verification of compliance with terms of the contract for the implementation of investments;
- 4) disputes related to the return of property given to the investor as a state in-kind grant or recovery of a public authority of its value in case of early termination of the contract on implementation of investments; and
- 5) other disputes as for claims of investors, and for claims of state agencies related to the performance of the mutual obligations under the contract on the realisation of investments.

#### 2.1.5 Investment in subsoil use sector (hydrocarbon production)

Investments in the subsoil use sector are governed by the Law of Kazakhstan No. 291-IV dated 24 June 2010 *On subsurface and subsurface use* ("the Law on Subsurface and Subsurface Use").

In the context of the Law On Subsurface and Subsurface Use the definitions include:

'subsoil use operations' - activities related to the state geological studies, exploration and/or mining, including exploration and mining of underground waters, therapeutic mud, subsoil prospecting for discharge of sewage, as well as construction and/or the operation of underground facilities not related to exploration and/or extraction;



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'subsoil use right' - the right of possession and use of mineral resources acquired by the subsoil user in accordance with the Law on Subsurface and Subsurface Use; and

'objects related to subsoil use right' - share/shares (including securities confirming the title to shares or securities convertible into shares) in a legal entity possessing the subsoil use right, as well as a legal entity that has the ability to directly and/or indirectly determine and/or to influence decisions made by such subsoil user, if such legal entity's main activities are related to subsoil use in Kazakhstan.

#### 2.1.5.1 Legal regime for investors-subsoil users

Investors' activities in the field of subsoil use are also covered by state guarantees granted in accordance with the Law on Subsurface and Subsurface Use. Changes to the legislation which adversely affect the situation of the subsoil user, shall not apply to contracts that became effective prior to such changes. These guarantees shall not apply to changes in the field of national security, defence, environmental protection, health, tax and customs regulation.

#### 2.1.5.2 Stability of subsoil use contracts

Under Article 71 of the Law on Subsurface and Subsurface Use, as a general rule changes and/or supplements to the terms of the contract are permitted by agreement of the parties. However, the Law on Subsurface and Subsurface Use provides that, if a subsoil user's actions during the mining operations in respect of subsoil areas and fields of strategic importance, lead to a change in the economic interests of the Government of Kazakhstan or endangers national security, the competent authority may require changes and/or amendments of the contract, including for the previously signed contract, to restore the economic interests of the Government of Kazakhstan.

With regard to changes in the tax legislation, the general rule is that the fulfilment of tax obligations within the subsoil use contract is carried out in accordance with the current tax legislation.

Exceptions can only be set in relation to the stability of the tax regime for already concluded production sharing agreements.

Paragraph 1 of Article 308-1 of The Code of Kazakhstan No. 99-IV dated 10 December 2008 *On taxes and other obligatory payments to the budget* ("the Tax Code") expressly states that the tax regime, as defined in the production sharing agreement/contract is preserved, if:

- 1) the production sharing agreement/contract is concluded between the Government of Kazakhstan or the competent authority and a subsurface user prior to 1 January 2009 and which passed the obligatory state tax inspection; or
- 2) a subsurface use contract has been approved by the President of Kazakhstan and it stipulates the tax regime;

then the guarantee of tax regime stability shall apply and be effective exclusively with regard to the parties to such agreement/contract, and also with regard to the their proxies/operators.

The tax regime under such circumstances may be changed only by mutual agreement of the parties.



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## 2.1.6 International obligations of Kazakhstan on protection of investment

### 2.1.6.1 The international legal framework for the promotion and mutual protection of investments

Kazakhstan has signed a number of treaties with foreign states on mutual protection and support for foreign investment, according to which it undertook to give full support to investors and not to take actions aimed at terminating or complicating investment activities. As a general rule, international treaties signed and ratified by the Republic of Kazakhstan prevail over national legislation.

Such agreements are primarily aimed to provide, on a mutual basis and at the international level, guarantees of the rights of investors, in terms of ensuring repayment of the investment upon the occurrence of political/regulatory risks, non-discrimination, ensuring the legal regime in respect of investment and investor, as well as activities related to the investment.

For the period from 1992 onwards Kazakhstan has signed a total of 48 bilateral intergovernmental and inter-state agreements on promotion and mutual protection of investments and 1 multilateral intergovernmental agreement (with the Eurasian Economic Community Member States).

The Energy Charter Treaty ("ECT") was signed in December 1994 and entered into force in April 1998. The treaty was developed on the basis of the 1991 Energy Charter that was of a declarative character. The ECT is a legally binding multilateral agreement.

With regards to the subsoil use sector, Kazakhstan has ratified the Energy Charter Treaty and thus has committed itself to "encourage and create stable, equitable, favourable and transparent conditions for investors to make investments", who are parties to the Energy Charter.

The ECT, although it mostly regulates the relations in investments protection, also affects subsoil use, in particular the oil and gas sector. This is based on the interpretation of the term "economic activity in the energy sector", which include "an economic activity concerning the exploration, extraction, refining, production, storage, land transport, transmission, distribution, trade, marketing, or sale of Energy Materials and Products" (paragraph 5 of Article 1 of the ECT). In turn, "Energy Materials and Products" as per the ECT include almost all kinds of minerals and products from them, which are sources of energy, including oil and gas (Annex EM to the ECT).

The listed provisions of the ECT impose a number of obligations on the countries, in particular:

- ensure that within its jurisdiction it has and enforces such laws as are necessary and appropriate to address unilateral and concerted anti-competitive conduct in Economic Activity in the Energy Sector" (paragraph 2 of Article 6);
- take the necessary measures to facilitate the Transit of Energy Materials and Products consistent with the principle of freedom of transit and without distinction as to the origin, destination or ownership of such Energy Materials and Products or discrimination as to pricing on the basis of such distinctions, and without imposing any unreasonable delays, restrictions or charges (Article 7, paragraph 1);
- acknowledge the importance of open capital markets in encouraging the flow of capital to finance trade in Energy Materials and Products and for the making of and

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- assisting with regard to Investments in Economic Activity in the Energy Sector in the Areas of other Contracting Parties (Article 9, paragraph 1);
- promote conditions for access to its capital market by companies and nationals of other Contracting Parties, for the purpose of financing trade in Energy Materials and Products and for the purpose of Investment in Economic Activity in the Energy Sector in the Areas of those other Contracting Parties, on a basis no less favourable than that which it accords in like circumstances to its own companies and nationals (Article 9, paragraph 1);
  - examine in good faith requests by Investors of another Contracting Party, and key personnel who are employed by such Investors or by Investments of such Investors, to enter and remain temporarily in its Area to engage in activities connected with the making or the development, management, maintenance, use, enjoyment or disposal of relevant Investments, including the provision of advice or key technical services (Article 11, paragraph 1);
  - permit Investors of another Contracting Party which have Investments in its Area, and Investments of such Investors, to employ any key person of the Investor's or the Investment's choice regardless of nationality and citizenship provided that such key person has been permitted to enter, stay and work in the Area of the former Contracting Party (Article 11, paragraph 2);
  - facilitate access to energy resources, inter alia, by allocating in a non-discriminatory manner on the basis of published criteria authorisations, licences, concessions and contracts to prospect and explore for or to exploit or extract energy resources (paragraph 4 of Article 18);
  - be fully responsible under this Treaty for the observance of all provisions of the Treaty, and shall take such reasonable measures as may be available to it to ensure such observance by regional and local governments and authorities within its Area (Article 23, paragraph 1);
  - provide to the Secretariat a list of all customs duties and charges of any kind imposed on or in connection with importation or exportation of Energy Materials and Products, notifying the level of such customs duties and charges applied (paragraph 2 of Article 29).

These provisions take precedence over national legislation and are directly applicable.

## **2.2 Taxation**

### **2.2.1 Corporate income tax ("CIT")**

According to paragraph 1 of Article 81 of the Tax Code, legal entities who are residents of Kazakhstan are subject to CIT.

In accordance with Article 83 of the Tax Code, taxable income is defined as the difference between total annual income subject to the adjustments provided for in Article 99 of the Tax Code, and the deductions provided for in Articles 100-122 of the Tax Code. This includes tax depreciation, which for oil and gas assets is 15% per annum using the reducing balance method. The deduction for interest is subject to the thin capitalisation rule described at the end of this section.

Under Article 147 of the Tax Code, the above taxable income of the taxpayer, further adjusted for the amount of income and expenses as provided by Article 133 of the Tax Code, and less the amount of carried forward losses that are transferred in the manner prescribed by Article 137 of the Tax Code, is subject to CIT at a rate of 20%.

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The losses, except the losses arising from activity with non-depreciable assets, securities, shares and other financial instruments, shall be carried forward for the next ten years inclusively to be deducted from the taxable income of these tax periods.

Thin capitalisation rule

Thin capitalisation rules in Kazakhstan operate so as to limit the deductibility of interest paid in relation to related party borrowings, borrowings from lenders resident in states with preferential taxation and third party facilities secured by related party guarantees. Interest costs will be fully deductible if the borrowing company in Kazakhstan has a debt:equity ratio within the ratio of 4:1.

The amount of interest deduction is calculated in accordance with the following formula:

$$(A + E) + (AC/AO) * (MC) * (B + C + D)$$

Where:

*A* is the amount of interest except for the amounts included in *B*, *C*, *D* and *E*;

*B* is the amount of interest paid to a related party except for the amounts included in *E*;

*C* is the amount of interest paid to persons registered in a state with preferential taxation, except for the amounts included in *B*;

*D* is the amount of interest paid to an independent party for loans, which are provided under a deposit or guarantee, surety or other form of security of related parties in the case of fulfilment of the guarantee, surety or other form of security, except for the amounts included in *C*;

*E* is the amount of interest for credits/loans given by a credit partnership established in Kazakhstan.

*MC* is the marginal coefficient ('7' for financial organisations, '4' for other legal entities);

*AC* is average annual amount of equity capital, which is the arithmetic average amount of equity capital at the end of each month of the reporting tax period. Where there is a negative value of average amount of equity capital, it shall be recognised as equal to zero;

*AO* is the average annual amount of obligations, which is the arithmetic average of maximum amounts of obligations in each month of the reporting tax period. When calculating the average of annual obligations, the following charged obligations shall not be taken into account:

- Taxes, contributions and other obligatory payments to the budget
- Salary and other income of employees
- Income of forthcoming periods, except for income from related parties
- Interests and commission fees
- Dividends



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When calculating the amounts A, B, C, D and E, the interest on credits/loans received for construction and accrued during the period of construction are excluded.

### **2.2.2 Value-added tax (“VAT”)**

Unless otherwise provided for in paragraph 1 of Article 568 of the Tax Code, resident legal entities are required to register for VAT in the manner prescribed by paragraph 2 of Article 568 of the Tax Code.

Paragraph 2 of Article 568 of the Tax Code provides that if the turnover in a calendar year exceeds a minimum turnover, which is 30,000 times the size of monthly payments established by the law on the national budget and acts on 1 January of the fiscal year, the resident legal entity is required to register for VAT no later than ten working days after the end of the month in which the minimum turnover was exceeded.

Article 266 of the Tax Code provides that the amount of VAT payable shall be the difference between the VAT calculated on the taxable turnover in accordance with Article 268 of the Tax Code, less the amount of input tax credit attributable in accordance with Article 256 of the Tax Code.

The standard VAT rate is 12%, however certain transactions may be subject to VAT at 0% (e.g. when exporting goods) or even exempted altogether from VAT (e.g. financial services).

The Government of Kazakhstan has recently announced that it will replace VAT with sales tax. However a final decision has yet to be made for its implementation.

### **2.2.3 Social tax**

In accordance with paragraph 1 of Article 355 of the Tax Code, resident legal entities shall be payers of social tax.

Paragraph 2 of Article 357 of the Tax Code provides that social tax is imposed on the employer's expenses that are paid to resident workers in the form of income as defined by paragraph 2 of Article 163 of the Tax Code, non-resident workers in the form of income as defined in subparagraphs 18), 19), 20) and 21) of the Tax Code as well as income of foreign personnel referred to in paragraph 7 of Article 191 of the Tax Code.

According to paragraph 1 of Article 358 of the Tax Code, social tax is calculated at a rate of 11%.

### **2.2.4 Property tax**

In accordance with paragraph 1 of Article 394 of the Tax Code the payers of property tax are legal entities with taxable property rights.

Paragraph 1 of Article 396 of the Tax Code provides that the property rights subject to property tax for legal entities are the following located in the territory of Kazakhstan:

- 1) Buildings, structures related to those (including oil and gas properties) in accordance with the classification established by the authorized body in the field of technical regulation, and accounted as fixed assets or investment property in accordance with international financial reporting standards and requirements of Kazakhstan on accounting and financial reporting;



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- 2) buildings, which are the objects of the concession, the rights of possession/use of which passed under a concession agreement.

In accordance with paragraph 1 of Article 398 of the Tax Code, legal entities shall calculate property tax at a rate of 1.5% of the tax base, which, according to paragraph 1 of Article 397 of the Tax Code is the average book value of the property rights as determined by the accounting records.

### 2.2.5 Corporate income tax withheld at source

In accordance with paragraph 1 of Article 143 of the Tax Code, income taxed at source, unless otherwise provided in paragraph 2 of Article 143 of the Tax Code, includes the income of non-residents from sources in Kazakhstan determined in accordance with Article 192 of the Tax Code, and are not related to a permanent establishment in Kazakhstan.

Paragraph 4 of Article 147 of the Tax Code provides that the income of non-residents from sources in Kazakhstan, defined in subparagraphs 1) - 8), 10) - 29) of paragraph 1 of Article 192 of the Tax Code, that is not related to a permanent establishment in Kazakhstan, as well as income in paragraph 9) of paragraph 1 of Article 192 of the Tax Code, are taxed at rates established by Article 194 of the Tax Code.

According to Article 194 of the Tax Code, income derived from sources in Kazakhstan by non-residents doing business without a permanent establishment in Kazakhstan shall be subject to withholding tax at the following rates:

- 1) income defined in Article 192 of the Tax Code, except for the incomes specified below - 20%;
- 2) income of a person registered in a state with preferential taxation - 20%;
- 3) insurance premium on risk insurance contracts - 15%;
- 4) insurance premium on contracts of reinsurance of risks - 5%;
- 5) incomes from services provided by for international transport - 5%;
- 6) income from capital gains, dividends, interests, royalties - 15%.

### 2.2.6 Taxation of subsurface users

In the Kazakhstan tax law there are special rules and surtaxes for subsurface users.

A subsurface user shall be obliged to keep separate accounts in accordance with Article 310 of the Tax Code for the assessment of the tax obligation associated with the activity which is carried out within the framework of each concluded subsurface use contract.

The special payments and taxes of subsurface users include the following:

- 1) Special payments of subsurface users:
  - a) *Signature bonus* is a lump-sum payment paid by a subsurface user for the right to use the subsurface in the contract territory, as well as for the expansion of the contract territory in accordance with the legislation of Kazakhstan. The starting value of the signature bonus is determined individually for each contract concluded for subsoil use.

For oil exploration contracts where the proven reserves are not known, the starting value is 2,800 times the monthly calculation index ("MCI") as established by the Law *On the Republican Budget* that is effective as of the date of

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publication of the conditions of the tender or the date the minutes of the direct negotiations are signed ("Publication Date").

For oil production contracts as well as combined oil exploration and production contracts, if the reserves are not proven, the starting value is 3,000 times the MCI which is effective as of the Publication Date. However, if the reserves are proven, the starting value is based on a formula that applies the rate of 0.04% and 0.01% to the value of proven and provisionally proven reserves (as approved by the competent state authorities) respectively, subject to a minimum of 3,000 times the MCI that is effective as of the Publication Date. There is no signature bonus payable by a subsurface user in respect of oil production contracts concluded following a commercial discovery made by the said subsurface user on the contract territory. In addition, the starting value of the signature bonus for production contracts generally may not be less than the commercial discovery bonus.

The starting value of the signature bonus may be increased by the tender committee prior to the tender. The final amount of the signature bonus is determined by the tender committee at the end of the tender process or by the competent state authorities as a result of direct negotiations.

- b) *Commercial discovery bonus* is a one-off payment paid by subsurface users when a commercial discovery is made on the contract territory. Commercial discovery bonus is paid by subsurface users on production contracts and/or combined exploration and production contracts for each commercial discovery in the contract territory, including discoveries made during additional field exploration. The base for calculation of the commercial discovery bonus is defined as the value of the extractable minerals duly approved by the competent state authorities. The value of the mineral resources is determined using the market price established at the International (London) Petroleum Exchange in Platts Crude Oil Marketwire. The rate of the commercial discovery bonus is fixed at 0.1 % of the value of proven extractable resources.
  - c) *Payment for compensation of historic costs* is a fixed payment to compensate the state for geological survey and development costs of the contact territory incurred before the subsurface use contract is concluded. The obligation to compensate historical costs arises from the date when the confidentiality agreement is concluded between the subsurface users and authorized state body on subsurface study and usage.
- 2) *Mineral extraction tax* applies to crude oil, gas condensate and natural gas. The taxable base is the value of the production. On export sales, the value is based on world prices without adjustments.

The world price of crude oil and gas condensate is determined as the arithmetic mean of daily quotations for each of the Urals Mediterranean ('Urals Med') or Dated Brent ('Brent Dtd') brands in the tax period (which is a calendar quarter) on the basis of information published in the Platts' Crude Oil Marketwire.

If that source does not provide price information for those brands, the Argus Crude source should be used.



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The world price for natural gas is determined as the arithmetic mean of daily quotations Zeebrugge Day-Ahead in the tax period on the basis of information published in the Platts' European Gas Daily. If that source does not provide price information for natural gas, the Argus European Natural Gas source should be used.

The rates of tax are determined by the annual volume of production. The tax rates for crude oil including gas condensate are provided in the table below.

Annual Production Output	Rates (%)
Up to 250,000 tons inclusive	5
Up to 500,000 tons inclusive	7
Up to 1,000,000 tons inclusive	8
Up to 2,000,000 tons inclusive	9
Up to 3,000,000 tons inclusive	10
Up to 4,000,000 tons inclusive	11
Up to 5,000,000 tons inclusive	12
Up to 7,000,000 tons inclusive	13
Up to 10,000,000 tons inclusive	15
In excess to 10,000,000 tons	18

These rates are reduced by 50% if the production is processed domestically in Kazakhstan either by the producer or by a purchaser. There are special rules for the calculation of tax bases in such cases.

In the case of natural gas that is exported, a flat rate of 10% applies. If the gas is sold to the domestic Kazakhstan market then the rates are reduced depending on the annual production based on the table below.

Annual Production Output	Rates (%)
Up to 1.0 billion m <sup>3</sup> inclusive	0.5
Up to 2.0 billion m <sup>3</sup> inclusive	1.0
In excess of 2.0 billion m <sup>3</sup>	1.5

- 3) **Excess profit tax** ("EPT") is calculated annually. The taxable object is the portion of net income (if any) that exceeds 25% of "deductions". The net income is calculated as aggregate annual income less "deductions" less CIT and branch profits tax, if any. For EPT purpose "deductions" are the expenditure deductible for CIT purposes plus additional deductions such as accelerated depreciation for fixed assets. The tax is calculated by applying the following rates to the tranches of excess income, each tranche being allocated the marginal net income determined as a percentage of "deductions" until total net income is allocated:

Scale of distribution of net income for the purposes of EPT income distribution assessment, percent of amount of deduction	Percent for calculation of maximum amount of net for the purposes of excess profits tax assessment	Rate (%)
Less than or equal to 25%	25	Not established
From 25% to 30% inclusive	5	10
From 30% up to 40% inclusive	10	20
From 40% up to 50% inclusive	10	30
From 50% up to 60% inclusive	10	40
From 60% up to 70% inclusive	10	50

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More than 70%	In accordance with sub-paragraph 2) of paragraph 2 of Article 350 of the Tax Code	60
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- 4) Rent tax on exported crude oil and gas condensate applies to legal entities and individuals selling crude oil and gas condensate for export (except for subsurface users that concluded production sharing agreements). The taxable base for rent tax on exported crude oil is the volume of crude oil for export. The taxable base for crude oil is determined based on the average world price in a calendar quarter not taking into account the quality discount and certain transportation costs. Rent tax rates for export of crude oil and gas condensate are determined by reference to the "world price" of exported crude oil as shown in the table below.

World Price	Rate (%)
Up to USD 20 per barrel inclusive	0
Up to USD 30 per barrel inclusive	0
Up to USD 40 per barrel inclusive	0
Up to USD 50 per barrel inclusive	7
Up to USD 60 per barrel inclusive	11
Up to USD 70 per barrel inclusive	14
Up to USD 80 per barrel inclusive	16
Up to USD 90 per barrel inclusive	17
Up to USD 100 per barrel inclusive	19
Up to USD 110 per barrel inclusive	21
Up to USD 120 per barrel inclusive	22
Up to USD 130 per barrel inclusive	23
Up to USD 140 per barrel inclusive	25
Up to USD 150 per barrel inclusive	26
Up to USD 160 per barrel inclusive	27
Up to USD 170 per barrel inclusive	29
Up to USD 180 per barrel inclusive	30
Up to USD 190 per barrel inclusive	32
Up to USD 200 per barrel and above	32

- 5) Crude oil export duty. The rate of the export duty on crude oil is based on the monthly average world market price of crude oil. Effective from 1 March 2016, the export duty rates are as follows:

Average market price of crude oil	Rate of export customs duty, USD per ton
Up to USD 25 per barrel	0
From USD 25 to USD 30 per barrel	10
From USD 30 to USD 35 per barrel	20
From USD 35 to USD 40 per barrel	35
From USD 40 to USD 45 per barrel	40
From USD 45 to USD 50 per barrel	45
From USD 50 to USD 55 per barrel	50
From USD 55 to USD 60 per barrel	55
From USD 60 to USD 65 per barrel	60
From USD 65 to USD 70 per barrel	65
From USD 70 to USD 75 per barrel	70
From USD 75 to USD 80 per barrel	75
From USD 80 to USD 85 per barrel	80

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From USD 85 to USD 90 per barrel	85
From USD 90 to USD 95 per barrel	90
From USD 95 to USD 100 per barrel	95
From USD 100 to USD 105 per barrel	100
From USD 105 to USD 115 per barrel	115
From USD 115 to USD 125 per barrel	130
From USD 125 to USD 135 per barrel	145
From USD 135 to USD 145 per barrel	160
From USD 145 to USD 155 per barrel	176
From USD 155 to USD 165 per barrel	191
From USD 165 to USD 175 per barrel	206
From USD 175 to USD 185 per barrel	221
From USD 185 per barrel and above	236

### 2.2.7 Transfer pricing

A transfer price is defined as the price charged when an entity supplies goods, services or finance to another entity to which it is related in some way.

The following types of transactions are subject to transfer pricing scrutiny:

- 1) transactions between mutually dependent parties;
- 2) barter transactions;
- 3) offset claims;
- 4) transactions with residents of foreign states which are covered by a concessionary tax regime, including offshore zones which are defined on a list to be prepared by the Kazakhstan Government;
- 5) transactions with legal entities which have tax concessions or for whom a special tax rate has been legally established; and
- 6) transactions with legal entities which have declared losses in their preceding 2 years' tax declarations.

Monitoring also may be carried out in respect of domestic intercompany transactions within the territory of Kazakhstan if they are directly related with international business transactions:

- When minerals are sold by a subsoil user.
- If one of the parties has tax exemptions.
- If one of the parties has losses for the two most recent tax periods, preceding the year of the intercompany transaction.

#### Related parties

The transfer pricing law generally defines related parties as individuals or legal entities whose special mutual relations may allow the economic results of the transactions to be influenced. The transfer pricing law further sets out a comprehensive, non-exhaustive list of 15 scenarios that would result in parties being deemed as interrelated for the purpose of the transfer pricing law. Included in the list of scenarios is a provision that allows the Kazakh authorities to treat any transaction as a related-party transaction based on their set of market prices.



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## 2.3 Profit repatriation

### 2.3.1 Currency regulation and currency control in Kazakhstan

Pursuant to the Law of Kazakhstan No. 57-III dated June 13, 2005 *On currency regulation and currency control* ("the Law on Currency Regulation"), non-residents shall be entitled without restriction to receive and transfer dividends, remuneration and other income received on contributions (deposits), securities, borrowing and other currency operations with residents carried out in accordance with this Law (Article 14 of the Law on Currency Regulation).

In order to gather statistical data about capital movement operations (financial loans, foreign direct investments, commercial credits, foreign bank accounts) there are regimes for registration and notification. Information received within the framework of these regimes is used to form statistical and analytical data on balance of payments, international investment position and gross external debt.

The registration and notification regimes cover only large capital movement operations involving capital goods/money inflow exceeding an equivalent of USD 500,000, and capital goods/money outflow exceeding USD 100,000.

The registration regime has to be complied with if the provision of financial loans from non-residents to residents exceed a tenure of 180 days.

The registration regime requires the National Bank of Kazakhstan to be provided with a copy of the document/contract on the basis and/or in pursuance of which capital movement transactions are carried out before such transaction is conducted, while the notification regime requires the provision of information about the capital movement transaction (including a copy of a contract) after the transaction has been conducted. The registration and notification regimes are applicable only for residents of Kazakhstan.

In order to ensure adequate supply of currency in the internal currency market, the currency legislation of Kazakhstan also imposes a currency repatriation requirement, under the following events:

- 1) proceeds received from exports of goods/works/services in local or foreign currency; and
- 2) refund received by a resident from a non-resident in local or foreign currency in the event of a non-fulfilment of obligation by the non-resident for the import of goods/works/services by a resident.

According to the current legislation of Kazakhstan the time period for currency repatriation is determined solely by the conditions of an external-economic contract. There are no limitations in conducting export or import transactions after the repatriation period. The currency repatriation requirement is applicable only for residents of Kazakhstan.

Control of currency repatriation covers external trade contracts exceeding an equivalent of USD 50,000.

Due to the existing risks of external shocks, the Law on Currency Regulation provides the mechanism for timely reaction against threats to the economic security of Kazakhstan and the stability of its financial system.



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In particular, if the threat is unable to be resolved by other measures of economic policy, the Law on Currency Regulation allows the temporary implementation of specific currency exchange limitations within the framework of a Special Currency Regime, such as:

- 1) the requirement for placement of interest-free deposit in a Kazakhstan commercial bank or the National Bank of Kazakhstan in the amount to be defined as a share of the amount of the currency transaction for a defined period,
- 2) the requirement for obtaining a special permit from the National Bank of Kazakhstan to carry out foreign currency transactions,
- 3) the requirement for compulsory conversion of proceeds in foreign currency received by residents of Kazakhstan to the local currency, and
- 4) restrictions on the use of accounts in foreign banks, setting the time frame on currency repatriation, and establishing the limits on the number of, value of and currency for foreign currency transactions.

The Special Currency Regime may be introduced only by the President of Kazakhstan after consultations with the Government and the National Bank and the implementation period of the Special Currency Regime must not be longer than 1 year.

To date Kazakhstan has never applied the Special Currency Regime.

### 2.3.2 Taxation of profit repatriation

The profit of the Asset Co after CIT will be distributed among the shareholders as dividends. The dividends paid to a non-resident of Kazakhstan shall be taxed at the source of payment at the rate of 15%.

Pursuant to the Convention between the Netherlands and Kazakhstan for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital ("the Convention"), in relation to a resident of the Netherlands who receives dividends from Kazakhstan the corporate income tax rate payable at source can be reduced to 5% if the beneficial owner of the dividends is a company that owns, directly or indirectly, at least 10% of the capital of the company paying the dividends.

#### Capital gains tax

According to Article 197 of the Tax Code, income of non-residents from sources in Kazakhstan from capital gains arising from the sale of shares:

- 1) of a resident legal entity involved in subsurface use activities;
  - 2) of a resident legal entity which do not meet the conditions set out in the Tax Code; or
  - 3) of a non-resident legal entity which do not meet the conditions set out in the Tax Code,
- are subject to withholding tax at the rate of 15%.

Therefore, in the event that REVS B disposes of the shares in Palaeontol B.V., any gain on disposal of the shares would be subject to Kazakhstan withholding tax as Palaeontol B.V. would derive more than 50% of its value from the property of Asset Co, a subsurface user in Kazakhstan. The Malaysia-Kazakhstan tax treaty also stipulates that such gains may be taxed in Kazakhstan.



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### 3. The Netherlands

#### 3.1 Policies on relevant foreign investments

As Palaeontol B.V. will only hold shares in Asset Co and will not carry out any operational activities itself in the Netherlands or elsewhere, no specific policies in relation to foreign investment limiting the use of a Dutch holding company would apply.

#### 3.2 Taxation of a Dutch holding company

This section gives an outline of the most relevant Dutch tax aspects regarding a Dutch holding company. It primarily focuses on a Dutch holding company that has the legal form of a private limited liability company, the 'Besloten Vennootschap' ("B.V.").

##### 3.2.1 General

Dutch corporate income tax ("CIT") is levied on the worldwide income of entities that are incorporated under Dutch law. Dutch entities, such as Palaeontol B.V., are considered Dutch residents for Dutch corporation tax purposes. The CIT rates are 20% on profits up to € 200,000, and 25% on the excess of € 200,000.

##### Functional currency and currency control

The Netherlands does not have 'currency control'. As a result, there is no restriction for Palaeontol B.V. to use foreign currencies.

The corporation tax returns must be prepared in Euro currency. Therefore the annual accounts should be drafted in Euro currency (unless Palaeontol B.V. applies for a functional currency regime). Foreign exchange gains/losses are generally taken into account in Palaeontol B.V.'s profit for corporation tax purposes.

##### Residence of Palaeontol B.V.

The Dutch holding company is a B.V. and is incorporated under the Netherlands law. Therefore, under Dutch law Palaeontol B.V. is deemed to be resident in the Netherlands for Dutch CIT and dividend withholding tax purposes.

Under the application of tax treaties, such as the treaties with Malaysia and Kazakhstan, Palaeontol B.V. generally would be considered tax resident in the Netherlands if its actual management takes place in the Netherlands.

##### 3.2.2 Dutch participation exemption

Income of Palaeontol B.V. that qualifies for the participation exemption is exempted from corporation tax. The other income of Palaeontol B.V. would be taxable as described in paragraph 3.2.1 above.

The following paragraphs give a general outline of the rules of the Dutch participation exemption as far as they would be applicable to Palaeontol B.V..

By virtue of the participation exemption, dividends and capital gains from qualifying shareholdings are exempted from corporation tax. Capital losses are generally not tax deductible. In addition, costs relating to the acquisition and alienation of subsidiaries

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are not deductible. The participation exemption does not distinguish between capital gains and dividends.

The participation exemption applies to subsidiaries if the following conditions are met:

- an ownership of at least 5% of the nominal paid-up share capital of the subsidiary; and
- the shares in the subsidiary are not held as a portfolio investment;

If a subsidiary is held as a portfolio investment, the participation exemption could still apply if the subsidiary is a *qualifying investment subsidiary*.

#### Foreign subsidiaries

In terms of foreign subsidiaries it should first be determined whether the subsidiary is regarded as a non-transparent entity (i.e. such as Dutch B.V.).

It first needs to be determined whether the Asset Co would be considered an entity or transparent for Dutch tax purposes. We have been informed that the following characteristics apply to the Asset Co:

- The Asset Co can have legal ownership of assets and in its own name (for example) acquire and exercise property rights; and
- Partners of the Asset Co shall bear the losses of the Asset Co to the extent of their investments in the Asset Co (apart from specific situations of bankruptcy caused by the participants).

Based on the information provided, it can be concluded that the Asset Co should be regarded as a non-transparent entity since the liability of the partners is limited, the business enterprise is owned by the Asset Co and run for the account of the Asset Co. This conclusion is in line with the List of Qualified Foreign Entities, published by the Dutch tax authorities following the Decree Nr. CPP2009/519M, 11 December 2009. A non-transparent entity is treated as a company for Dutch tax purposes.

#### Portfolio investment

An investment in a subsidiary is generally not considered a portfolio investment if Palaeontol B.V. is considered to be:

- a) an active top holding company; or
- b) a linking holding company.

If a subsidiary is held for the purpose of obtaining an ordinary return on investment, i.e. what can be expected with ordinary management, the subsidiary is held as a portfolio investment. An investment in a subsidiary is generally not considered a portfolio investment if the Dutch parent is actively involved in the financial, strategic and managerial aspects of the operation of the subsidiaries (an active top holding company) or, alternatively, if it can be said that the Dutch parent is a link between the operations of the corporate shareholders of the Dutch company and the operations of the subsidiaries (a linking holding company).

A subsidiary is deemed to be held as a portfolio investment when the subsidiary's main activity is group finance. Group finance is the financing of the shareholders or related parties (parties are related when there is an interest of at least 1/3 or when there is a common owner with an interest of at least 1/3 in each). Group finance includes loans, credit instruments and also renting/leasing of equipment, intangibles and other assets.

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A subsidiary is also deemed to be held as a portfolio investment when the subsidiary has more than 50% of its assets (on a consolidated basis) containing minority interests of less than 5% in other entities.

However, the participation exemption could still apply if the subsidiary is a *qualifying investment subsidiary*.

Qualifying investment subsidiary

A subsidiary qualifies as a qualifying investment subsidiary, if:

- a) the subsidiary is subject to a profits tax, which is reasonable according to Dutch standards (10%, provided that the profits tax does not substantially differ from the Dutch system of calculating the taxable profit, such as tax holidays); or
- b) the subsidiary directly or indirectly has assets where less than 50% consist of low-taxed *free investments assets* (i.e. the asset test).

An asset is considered a free investment asset if it is not used in the ordinary course of the business of the subsidiary. Based on a decree issued by the Dutch State Secretary of Finance, group loans, credit instruments and leased equipment, intangibles and assets within the group, are also considered to be free investments. Real estate is not considered to be a free investment.

A subsidiary that is a deemed portfolio investment subsidiary can be seen as a qualifying investment subsidiary if one of the two conditions explained above is met.

Subject to sufficient profit tax

A subsidiary is a qualifying investment subsidiary when the subsidiary is subject to a profit tax which is reasonable according to Dutch standards. There are quite detailed rules to determine a reasonable rate of profit tax.

What is considered reasonable will be a main corporation tax rate of at least 10% and the foreign rules in determining the taxable profit of the subsidiary do not contain important differences as compared to the Dutch system of calculating the taxable profit (i.e. 'system differences'). Examples of important differences are a tax holiday, a participation exemption that has a wider application than the Dutch participation exemption, and the lack of limitations to deductibility of interest. Also an exemption for passive income such as royalties could qualify as an important difference of determining the taxable profit.

Differences in depreciation and rules on loss compensation are generally not relevant.

If there are important differences in determining the taxable profit, then a more detailed review would be necessary to see if the foreign subsidiary's profit, calculated under Dutch standards, would be subject to profits tax with an effective rate of at least 10%.

The asset test

When a subsidiary owns usually less than 50% of its total assets in the form of free investments, the low-taxed free investment assets test for a qualifying investments subsidiary is met, so the participation exemption applies.





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In case of only a first tier subsidiary, the asset test only needs to be applied to the balance sheet (at fair market value) of that subsidiary. If there are more tiers, the asset test is looked at on a different basis than the consolidation method normally used for accounting purposes; it is merely an aggregate of all the assets in the balance sheets. This forms an 'attribution balance sheet'.

The asset test would not need to be met during the entire tax year, but the subsidiary must usually meet the asset test.

'Rotten apple approach'

When the free investments usually are less than 30% of the total assets of a company, then all the assets of this company will not be taken into account as free investments on the attribution balance sheet.

Application of participation exemption to Asset Co

Given that Asset Co is a company that is only carrying out production and exploration activities, it should be a qualifying investment subsidiary and therefore the participation exemption should apply.

### 3.2.3 Loss compensation for holding and financing companies

In general, losses incurred in a certain year, may be set off against profits of a previous year and the following 9 years.

Restrictions apply to holding and financing companies for the set off of their losses. A holding/financing company is defined as a company that at least 90% of its activities consist of holding shares in other companies (participations) and/or directly/indirectly involved in the financing of related parties throughout at least almost the whole of the year (90% of the year).

Loss compensation in that case is limited to:

- Years where the tax payer qualified as a holding/financing company; and
- The balance of the book value of the related party loans, minus the related party borrowings during 90% or more of the time in the year the loss compensation is needed does not exceed the book value of such loans minus borrowings at the end of the year the loss was made.

Fiscal unity

Under certain conditions, entities could apply for a so called 'fiscal unity'. A fiscal unity can only be formed with Dutch companies. For example, a fiscal unity could be formed between a Dutch holding company and its Dutch resident wholly-owned subsidiary. Entities that are part of the fiscal unity are consolidated and one corporation tax return is filed on behalf of the entities that are part of the fiscal unity. As a result, intra-group transactions are ignored and (under certain conditions) the profits and losses of the entities within the fiscal unity are offset against each other.

### 3.2.4 Transfer pricing

The at arm's length-principle dictates that related companies carry out business with each other as if they were not related (i.e. with unrelated third parties in the open market). Under application of the at arm's length-principle, related companies should

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apply the conditions that unrelated parties would implement under comparable circumstances regarding comparable transactions.

If transactions between related parties are not at arm's length, the Dutch tax authorities may correct the taxable income.

If transactions are conducted with related entities, the agreed transfer prices will be reviewed by the Dutch tax authorities. The review not only relates to the agreed transfer prices, but also to the other conditions as contractually agreed upon, e.g. guarantees, indemnities and payment details.

The bookkeeping must, therefore, have sufficient information/documentation on the basis of which the tax authorities could determine that there are conditions which independent parties would have agreed upon in open market transactions. There is not a specific or exhaustive description of the information that should be present; the transfer pricing administration should be in conformity with the Organization for Economic Co-operation and Development ("OECD") Transfer Pricing Guidelines.

### **3.2.5 Substance of Dutch financial services company**

Palaeontol B.V. could be seen as a Dutch financial service company if 70% or more of its activities consist of cross-border and intra-group financing, royalty or lease/rental activities. Holding activities are ignored in this calculation.

If Palaeontol B.V. is a financial service company it needs to meet so-called basic substance requirements. Failure to meet the basic substance requirements can result in the Dutch tax authorities proactively exchanging information with foreign tax authorities.

If an intermediate financial services company invokes an arrangement for the avoidance of double taxation (i.e. tax treaty) or the EU interest and royalty directive, such a company must meet the minimum substance requirements. In this context Palaeontol B.V. may invoke the Netherlands-Kazakhstan tax treaty for such payments.

The basic substance requirements to be met are:

- At least half of the total number of the statutory directors and the directors competent to make decisions reside in the Netherlands (individuals) or have the place of effective management situated in the Netherlands (non-individuals);
- The directors resident in the Netherlands (individuals) or with the place of effective management situated in the Netherlands (non-individuals), have the professional knowledge required to properly perform their duties. The task of the (joint) directors include, at the very least, the decision making - based on the legal entity's own responsibility and within the framework of normal intra-group involvement - on transactions to be concluded;
- The legal entity has qualified staff at its disposal who can adequately perform and record the transactions to be conducted by the legal entity;
- (Key) managerial decisions should be taken in the Netherlands;
- The legal entity's (main) bank accounts should be maintained in the Netherlands;
- The legal entity's accounts should be kept in the Netherlands;
- The legal entity's registered office must be located in the Netherlands. The legal entity is, to the best knowledge of the entity, not (also) regarded as a tax resident in another country; and



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- The legal entity's equity should be adequate in relation to the functions performed (taking into account the assets used and the risks assumed).

### 3.3 Repatriation of funds to REVS B

On the basis that REVS B is a tax resident of Malaysia as meant in Article 4 of the Malaysia-Netherlands tax treaty and is entitled to claim benefits under the treaty then the following comments can be made about capital gains, dividends and interest income.

Insofar REVS B realizes a capital gain on the sale of shares in Palaeontol B.V., the Malaysia-Netherlands tax treaty stipulates that this gain is taxable only in Malaysia.

Dividends paid by Palaeontol B.V. to REVS B would be exempted from withholding tax at source in the Netherlands.

Interest paid by Palaeontol B.V. to REVS B could be subject to Dutch tax at a maximum of 10% as permitted under the tax treaty. Under Dutch domestic law such tax could only arise if the Palaeontol B.V. shares held by REVS B meet the following requirements:

- a) the arrangement or series of arrangements of the group structure is/are artificial (i.e. not the result of valid business reasons); and
- b) the main goal or one of the main goals of holding the B.V. shares by B.V.'s foreign shareholder is to avoid a Dutch personal income tax claim or Dutch dividend withholding tax claim of another person regarding dividends and capital gains.

On the basis that Reach Energy is an active operating company in Malaysia and REVS B meets a level of substance in Malaysia that is in accordance with the basic substance requirements listed under paragraph 3.2.5, then the requirements (a) and (b) above are normally not met and therefore the interest paid by Palaeontol B.V. to REVS B would not be subject to Dutch tax.

#### Dividend distributions from a Dutch civil law point of view

Before making dividend distributions a so called 'equity test' and 'dividend distribution test' should be met. In short, the 'equity test' means that dividend distributions are only permitted when the remaining equity after the dividend distribution at least meets the level of the statutory and legal reserves as required by the company's articles of association and Dutch law.

The so called 'dividend distribution test' stipulates that after the dividend distribution, Palaeontol B.V. should have enough (liquid) assets to cover its (yearly) expenses. Basically, the dividend distribution must not endanger the existence of Palaeontol B.V..

The consequence of making such dividend distribution and not meeting the above mentioned tests is that both the directors of Palaeontol B.V. as well as its shareholders could be held liable insofar the dividend distribution has endangered the existence of Palaeontol B.V. (i.e. Palaeontol B.V. not being able to pay the bills of its creditors).

#### Currency controls

The Netherlands does not have currency controls that limit the payment of dividends or interest.

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Please note that the comments in this letter have been prepared solely for Reach Energy for inclusion in the Circular. A copy of this letter will be separately submitted to Bursa Malaysia Securities Berhad, Securities Commission Malaysia and other relevant authorities as part of the regulatory approval process for the Proposed Acquisition and should not be circulated to other advisors or third parties without the prior permission of BDO Tax Services Sdn Bhd. Please note that the liability of our firm shall be limited at any time to the amount of our fees in respect of the portion of our services giving rise to that liability.

Our comments above are based on the completeness and accuracy of the facts and/or representation provided by you. If any of the aforementioned facts, representation or assumption is not entirely complete and accurate, it is imperative that we be informed immediately, as the inaccuracy and incompleteness could have a material effect on our conclusions.

In rendering our advice, we have relied upon comments provided by BDO offices in Kazakhstan and the Netherlands, and are based on the relevant provisions of the Kazakhstan and the Netherlands tax legislation, the regulations thereunder, and judicial and administrative interpretations thereof. Such authorities are subject to change, retrospectively or prospectively, and any such changes could affect the validity of our advice. We will not update our comments for the subsequent changes or modifications to the legislations, regulations thereunder, and judicial and administrative interpretations thereof.

The terms of this advice shall be governed by, and construed according to the laws of Malaysia.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'David Lai'. The signature is written in a cursive, flowing style with a horizontal line underneath.

**David Lai**  
Executive Director

**LEGAL OPINION BY SIGNUM LAW FIRM ON THE OWNERSHIP/ TITLE IN RELATION TO THE  
PROPOSED ACQUISITION UNDER KAZAKHSTAN LAW**



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**LEGAL OPINION**

**Reach Energy Berhad**  
**For the attention of Ir. Shahul Hamid Bin Mohd Ismail**  
**Managing Director - CEO**

**9 September 2016 – Almaty – Kazakhstan**

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LEGAL OPINION BY SIGNUM LAW FIRM ON THE OWNERSHIP/ TITLE IN RELATION TO THE PROPOSED ACQUISITION UNDER KAZAKHSTAN LAW (*Cont'd*)

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## 1. INTRODUCTION

### 1.1. Objectives

- (1) This legal opinion ("**Legal Opinion**") has been prepared by SIGNUM Law Firm ("**Consultant**") as requested by Reach Energy Berhad ("**Reach Energy**") in connection with the proposed indirect acquisition by Reach Energy, through its wholly-owned subsidiary, Reach Energy Ventures Sdn Bhd of a 60% participating interest in Emir-Oil Limited Liability Partnership ("**Company**" or "**Emir-Oil**") from Palaeontol Cooperatief U.A. ("**Proposed Transaction**") for the purposes of the inclusion of the information contained in this Legal Opinion in the circular to shareholders of Reach Energy. A copy of this Legal Opinion will be separately submitted to Bursa Malaysia Securities Berhad, Securities Commission Malaysia and other relevant authorities as part of the regulatory approval process for the Proposed Transaction.

### 1.2. Responsibility and scope of work

- (1) For the purposes of issuing this Legal Opinion, we have examined and relied only on the documents listed in Appendix 1 of this Legal Opinion ("**Documents**"), and have examined no other documents or records.
- (2) In this Legal Opinion you have asked us to provide an opinion only in relation to:
- i) Ownership of title to the participating interest in the Company (i.e. proper incorporation and good standing of the Company, confirmation that Palaeontol B.V. is a 100% holder of the equity interest in the Company);
  - ii) Ownership of assets of the Company (confirmation of the Company's subsoil use rights under the Subsoil Use Contracts (as defined herein) and titles to the immovable property).
- (3) We did not receive a request for investigation of the following matters, nor did we provide consultations on the matters set forth in Section 2 of Appendix 2
- (4) This Legal Opinion is limited to the matters stated herein and is not to be read as extending by implication to any other matters not specifically referred to herein.

### 1.3. No independent verification

The Legal Opinion has been prepared exclusively on the basis of the information available at our disposal as of the time of its preparation. We did not perform independent verification of accuracy of the information provided.

### 1.4. Information update

This Legal Opinion has been prepared based on the information, events, changes in circumstances and other actions made available and known to us at the date of this Legal Opinion.

### 1.5. Terms and definitions

**Aksaz Contract** – contract dated 9 September 2011 for production of raw hydrocarbon materials in the Aksaz field within Blocks XXXV-10-C (partially), XXXV-11-A (partially), D (partially) in Munailinskiy District, Mangystau Oblast between the Competent Body and the Company including all addendums thereto (if any).

**Competent Body** – The Ministry of Energy of the RK (*formerly known as Ministry of Oil and Gas of the Republic of Kazakhstan and earlier, Ministry of Energy and Mineral Resources of the Republic of Kazakhstan*) and all its legal predecessors.

**Documents** – documents listed in Appendix 1 of this Legal Opinion.

**Dolinnoe Contract** – contract dated 9 September 2011 for production of raw hydrocarbon materials in the Dolinnoe field within Blocks XXXV-11-A (partially), D (partially) in Munailinskiy district, Mangystau Oblast between the Competent Body and the Company including all addendums thereto (if any).

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**Emir Contract** – contract No. 3890-YBC dated 1 March 2013 for production of raw hydrocarbon materials in the Emir field within Block XXXV-II-A (partially), in Munailinskiy district, Mangystau Oblast between the Competent Body and the Company including all addendums thereto (if any).

**Exploration Contract** – contract No. 482 dated 9 June 2000 for carrying out exploration of raw hydrocarbon materials of Aksaz-Dolinnoe-Emir fields on “ADE” block in Tyubkaragan region of Mangystau oblast between the Competent Body and the Company including all addendums thereto (if any).

**Good Standing Certificate** – Good Standing Certificate of Emir-Oil LLP dated 29 March 2016 issued by the Ministry of Justice of the Republic of Kazakhstan.

**Good Standing Certificate on imposed encumbrances (arrest)** – Good Standing Certificate on imposed encumbrances (arrest) of Emir-Oil LLP dated 11 April 2016 issued by the Ministry of Justice of the Republic of Kazakhstan.

**Good Standing Certificate on immovable property** – Good Standing Certificate on immovable property of Emir-Oil LLP No. 0608/285 dated 05 April 2016 issued by the Justice Department of Mangystau Oblast of the Republic of Kazakhstan.

**RK** – Republic of Kazakhstan.

**Subsoil Use Contracts** – means collectively: (1) the Exploration Contract; (2) the Dolinnoe Contract; (3) the Emir Contract; (4) the Aksaz Contract; and (5) the Kariman Contract.

**Subsoil Use Law** – The Law of the Republic of Kazakhstan “On Subsoil and Subsoil Use” dated 24 June 2010.

**Kariman Contract** – contract No. 3736-YBC dated 9 September 2011 for production of hydrocarbons in the Kariman field within Block XXXV-11-D (partially), E (partially) in Munailinskiy district, Mangystau Oblast between the Competent Body and the Company including all addendums thereto (if any).

**Mining Allotment** – means a document, being an integral part of a contract for production, combined exploration and production, which graphically and descriptively defines the subsurface area in which the subsurface user has the right to carry out production, construction and/or operation of underground facilities unrelated to exploration and/or production.

## 2. ASSUMPTIONS AND CONSIDERATIONS

This Legal Opinion is subject to the assumptions and consideration set forth in Section 1 of Appendix 2.

## 3. LEGAL OPINION

Based on the above assumptions, we are of the opinion that under the laws of the RK, as at the date hereof:

1. Emir-Oil (Business Identification No. 020340004531) was initially registered by the Almaty Justice Department on 20 March 2002 as ТОО «Емир-Ойл» (Emir-Oil LLP).
2. Pursuant to Good Standing Certificate, the Company is a limited liability partnership, duly organised and validly existing under the laws of the RK and has the requisite power to enter into and perform its obligations under any contracts arrangements and instruments in its own name including the Subsoil Use Contracts, to own, lease and operate its property and assets, to incur indebtedness and to sue and be sued in its own name.
3. Pursuant to Good Standing Certificate Palaeontol B.V. is listed as 100% participant of the Company.

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**LEGAL OPINION BY SIGNUM LAW FIRM ON THE OWNERSHIP/ TITLE IN RELATION TO THE PROPOSED ACQUISITION UNDER KAZAKHSTAN LAW (Cont'd)**



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4. Pursuant to Good Standing Certificate on imposed encumbrances (arrest) the interest of Palaeontol B.V. in the Company is free from any encumbrances. However, it should be noted that there may be encumbrances on the participating interest that are not registered with the government authorities and hence would not be reflected in the Good Standing Certificate on imposed encumbrances, as the participating interest is deemed a movable property and is not subject to statutory registration.
5. Based on our search carried out at the respective registers of bankrupt or liquidated companies and insolvent debtors maintained by the Tax Committee of the RK, no order or resolution for any administration, suspension of payments, receivership, winding-up or similar insolvency proceedings has been registered in relation to the Company, nor has there been registered any notice of the appointment of an administrator, receiver, liquidator or similar insolvency representative over any part of the assets, business or undertaking of the Company, or notice of any application for such an appointment as of 07 September 2016.
6. Pursuant to Official Confirmation of the Ministry of Energy of the RK No. 08-02/37425 dated 20 January 2016, as of 20 January 2016 the Company held the subsoil use rights under the following subsoil use contracts free from any encumbrances:
  - the Exploration Contract;
  - the Dolinnoe Contract;
  - the Kariman Contract;
  - the Aksaz Contract; and
  - the Emir Contract,
 (together "**Subsoil Use Contracts**").

Therefore we confirm that as of 20 January 2016 the Subsoil Use Contracts are in force and have been entered into and signed between the Competent Body and the Company<sup>1</sup> as a subsoil user.

7. Exploration Contract

On 9 June 2000, the Competent Body and Zhanaozenskiy Remontno-Mekhanicheskiy Zavod LLP (former contract holder) signed the Exploration Contract on the legal basis of License AI No.1552 (oil) dated 30 April 1999.

Zhanaozenskiy Remontno-Mekhanicheskiy Zavod LLP (former contract holder) was replaced by the Company in 2002 in accordance with the duly signed Addendum No. 1 (Registration No. 997) dated 23 September 2002 to Exploration Contract.

Pursuant to Article 36 paragraph 2 of the Subsoil Use Law, transfer of a subsurface use right for exploration, production, combined exploration and production of minerals, with the exception of commonly occurring minerals and/or items related to subsurface use rights, shall be carried out with the permission of the competent authority.

We confirm that transfer of the participating interest in the Company to Palaeontol B.V. in 2011 was duly secured by the respective permission of the Competent Body.

Addenda to Exploration Contract

Addendum No. 1 (Registration No. 997) dated 23 September 2002.

Addendum No. 2 (Registration No. 1513) dated 10 September 2004.

<sup>1</sup> Exploration Contract was initially signed by Zhanaozenskiy Remontno-Mekhanicheskiy Zavod LLP (former contract holder) which was replaced by the Company based on Addendum #1 to the Exploration Contract dated 23 September 2002

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- Addendum No. 3 (Registration No. 1602) dated 7 December 2004.
- Addendum No. 4 (Registration No. 2303) dated 23 February 2007.
- Addendum No. 5 (Registration No. 2695) dated 24 June 2008.
- Addendum No. 6 (Registration No. 2819) dated 15 October 2008.
- Addendum No. 7 (Registration No. 2963) dated 16 January 2009.
- Addendum No. 8 (Registration No. 3014) dated 20 February 2009.
- Addendum No. 9 (Registration No. 3598-YBC) dated 8 September 2010.
- Addendum No. 10 (Registration No. 3803-YBC) dated 8 May 2012.
- Addendum No. 11 (Registration No. 4091-YBC-MERK) dated 26 December 2014.

Effective Term of the Exploration Contract

Pursuant to Clause 3.4 of the Exploration Contract, the initial term of Exploration Contract was 5 years from the date of entering into force (9 July 2000 - 9 July 2005). Clause 3.2.1 provides for two possible extensions of the Exploration Contract for 2 years each. As of this Legal Opinion, the Exploration Contract was extended several times for:

- 2 years, i.e. till 9 July 2007 (Addendum No.2);
- 2 years, i.e. till 9 July 2009 (Addendum No.4);
- 3 years and 6 months for appraisal of commercial discovery, i.e. till 9 January 2013 (Addendum No.5);
- 2 years for appraisal, i.e. till 9 January 2015 (Addendum No.10);
- 2 years for appraisal, i.e. till 9 January 2017 (Addendum No.11).

Exploration Contract can be extended at the subsoil user's initiative provided the subsoil user notifies the Competent Body at least 90 days before the contract expiry date. Clause 3.5 of the Exploration Contract provides that in case of extension by the Competent Body the terms and conditions of the contract may be amended in writing by the parties.

Contract area

The Exploration Contract was granted for exploration of hydrocarbons within XXXV-10-B (partially), C (partially), F (partially), XXXV-11-A (partially), B (partially), D (partially), E (partially) in Tubkaraganskyi district of Mangystau region.

From the date of the Exploration Contract the contract area was changed several times:

- Initial contract area - 202.563 km<sup>2</sup>;
- Expansion of contract area to 464.17 km<sup>2</sup> following the specification of Geology Allotment (Addendum No.3);
- Expansion of contract area to 850.3 km<sup>2</sup> (Addendum No.6);
- Reduction of contract area to 804.807 km<sup>2</sup> following the shift of Aksaz, Dolinnoe, Kariman and Emir fields to production phase (Addendum No.11).

According to Geology Allotment dated 2012 the contract area is 804.807 km<sup>2</sup> with depth up to Paleozoic.

8. Dolinnoe Contract

On 9 September 2011, the Competent Body) and the Company signed the Dolinnoe Contract on the legal basis of Protocol of Direct Negotiation dated 17 May 2011.

Effective Term of Dolinnoe Contract

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Pursuant to Clause 3.1 of the Dolinnoe Contract, the term of Dolinnoe Contract is 25 years from the date of its state registration.

In accordance with Act of Registration No. 3735-YBC Dolinnoe Contract was registered on 9 September 2011. The Company is therefore entitled to produce hydrocarbons on Dolinnoe oilfield till 9 September 2036.

Pursuant to Clause 3.3 of the Dolinnoe Contract, the Competent Body can extend the term of the Dolinnoe Contract if the Company does not breach contractual obligations and applies for an extension not later than 6 months prior to completion of works with justification for such extension.

Contract area

Dolinnoe Contract grants the Company with the right to produce hydrocarbons within XXXV-11-A (partially), D (partially) in Munaylinskiy district of Mangystau region.

According to Mining Allotment dated 2011, which is an integral part of Dolinnoe Contract, the contract area is 18.24 km<sup>2</sup> with depth – 3 900 m.

9. Kariman Contract

Kariman Contract was signed on 9 September 2011 by the Competent Body and the Company on the legal basis of Protocol of Direct Negotiation dated 17 May 2011.

Addenda to Kariman Contract

Addendum No. 1 (Registration No. 3982-YBC) dated 28 December 2013.

Effective Term of Kariman Contract

Pursuant to Clause 3.2 of the Kariman Contract, the contract shall come into force from the date of its state registration with the Competent Body, which is 9 September 2011, and remains effective for 25 years.

Pursuant to Clause 3.3 of the Kariman Contract, the Competent Body can extend the term of Kariman Contract if the Company does not breach contractual obligations and applies for an extension not later than 6 months prior to completion of works with justification for such extension.

Contract area

Pursuant to the Mining Allotment dated 2011, which is an integral part of Kariman Contract, the contract area is 12.240 km<sup>2</sup>; depth of allotment - 3,900 m.

10. Aksaz Contract

On 9 September 2011, the Competent Body and the Company signed the Aksaz Contract on the legal basis of Protocol of Direct Negotiation dated 17 May 2011.

Effective Term of Aksaz Contract

Pursuant to Section 3 of the Aksaz Contract, the effective term of the Aksaz Contract is 25 years from the date of its state registration. In accordance with Act of Registration No.3737-YBC the Aksaz Contract was registered on 9 September 2011. The Company is entitled to produce hydrocarbons on Aksaz oilfield till 9 September 2036.

Clause 3.3 of Aksaz Contract provides that the Competent Body can extend the term of the Aksaz Contract if the Company does not breach contractual obligations and applies for an extension not later than 6 months prior to completion of works with justification of such extension.

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Contract area

According to Mining Allotment dated 2011, which is an integral part of Aksaz Contract, the contract area is 11.483 km<sup>2</sup> with depth – 4,520 m.

11. Emir Contract

Emir Contract was signed on 1 March 2013 by the Competent Body and the Company based on direct negotiations pursuant to the Minutes of direct negotiations dated 19 March 2012.

Effective Term of Emir Contract

Pursuant to Clause 3.2 of the Emir Contract, the contract shall come into force from the date of its state registration with the Competent Body, which is 1 March 2013 and remains effective for 17 years.

Clause 3.3 of the Emir Contract provides that the Competent Body can extend the term of Emir Contract if the Company does not breach contractual obligations and applies for an extension not later than 6 months prior to completion of works with justification of such extension.

Contract area

According to the Mining Allotment dated 2013, the contract area is 3.53 km<sup>2</sup>; depth of allotment -3,100 m.

12. Title to land

Pursuant to Good Standing Certificate on immovable property, we confirm that as of 05 April 2016 the Company is on lease for the following 111 (one hundred and eleven) land plots located in Mangystau Oblast:

#	Name of the document	Parties	Subject matter of the contract	Lease term	Registration cadastral number
1.	Lease agreement on land plot #1012 dated 28.10.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 16.09.2023	13-203-021-562
2.	Lease agreement on land plot #16 dated 14.01.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 26.03.2014 till 09.09.2036	13-203-007-550
3.	Lease agreement on land plot #1040 dated 05.11.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 26.03.2014 till 09.09.2036	13-203-021-670
4.	Lease agreement on land plot #1012 dated 14.01.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 21.11.2023	13-203-022-306
5.	Lease agreement on land plot	Akimat of Mangystau	Lease of the	From 20.03.2014 till	13-203-

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	#1018 dated 28.10.2013	oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	land plot	21.11.2023	021-659
6.	Lease agreement on land plot #21 dated 14.01.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 21.11.2023	13-203-022-309
7.	Lease agreement on land plot #23 dated 14.01.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 12.11.2018	13-203-021-679
8.	Lease agreement on land plot #23 dated 14.01.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 24.12.2036	13-203-022-311
9.	Lease agreement on land plot #14 dated 14.01.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 26.03.2014 till 09.09.2036	13-203-017-2
10.	Lease agreement on land plot #1 dated 14.01.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 26.03.2014 till 09.09.2036	13-203-007-549
11.	Lease agreement on land plot #27 dated 14.01.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 20.11.2016	13-203-021-681
12.	Lease agreement on land plot #19 dated 14.01.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 21.11.2023	13-203-022-307
13.	Lease agreement on land plot #215 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-519
14.	Lease agreement on land plot #288 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 27.05.2014 till 09.08.2036	13-203-011-091
15.	Lease agreement on land plot #217 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-512
16.	Lease agreement on land plot #222 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 27.05.2014 till 09.08.2036	13-203-011-095
17.	Lease agreement on land plot #229 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 27.05.2014 till 09.08.2036	13-203-007-443
18.	Lease agreement on land plot #221 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-520

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19.	Lease agreement on land plot #212 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-518
20.	Lease agreement on land plot #208 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-526
21.	Lease agreement on land plot #210 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-521
22.	Lease agreement on land plot #200 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-517
23.	Lease agreement on land plot #249 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-007-426
24.	Lease agreement on land plot #454 dated 27.03.2011	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 23.12.2011 till 09.01.2013	13-203-007-479
25.	Lease agreement on land plot #220 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 27.05.2014 till 09.08.2036	13-203-007-441
26.	Lease agreement on land plot #46 dated 08.10.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 03.11.2015 till 01.03.2030	13-203-006-815
27.	Lease agreement on land plot #725 dated 01.10.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 10.11.2014 till 18.03.2019	13-203-022-342
28.	Lease agreement on land plot #244 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-006-801
29.	Lease agreement on land plot #242 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-006-803
30.	Lease agreement on land plot #243 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-006-802
31.	Lease agreement on land plot #230 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 27.05.2014 till 09.08.2036	13-203-007-439
32.	Lease agreement on land plot #202 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-523

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		Landlord and Emir-Oil LLP, the Tenant			
33.	Lease agreement on land plot #199 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-522
34.	Lease agreement on land plot #205 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-515
35.	Lease agreement on land plot #198 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-516
36.	Lease agreement on land plot #206 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-522
37.	Lease agreement on land plot #152 dated 22.04.2011	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 18.08.2011 till 09.01.2013	13-203-021-524
38.	Lease agreement on land plot #20 dated 14.01.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 21.11.2023	13-203-022-308
39.	Lease agreement on land plot #1016 dated 28.10.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 26.03.2014 till 21.11.2023	13-203-021-663
40.	Lease agreement on land plot #1005 dated 28.10.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 16.09.2023	13-203-021-557
41.	Lease agreement on land plot #1010 dated 28.10.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 16.09.2023	13-203-021-558
42.	Lease agreement on land plot #25 dated 14.01.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 09.09.2023	13-203-022-305
43.	Lease agreement on land plot #1015 dated 28.10.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 26.03.2014 till 16.09.2023	13-203-021-662
44.	Lease agreement on land plot #1017 dated 28.10.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 26.03.2014 till 16.09.2023	13-203-021-509
45.	Lease agreement on land plot #1021 dated 28.10.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 26.03.2014 till 16.09.2023	13-203-021-510

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46.	Lease agreement on land plot #1020 dated 28.10.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 26.03.2014 till 16.09.2023	13-203-021-658
47.	Lease agreement on land plot #1014 dated 28.10.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 26.03.2014 till 16.09.2023	13-203-021-661
48.	Lease agreement on land plot #18 dated 14.01.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 21.11.2023	13-203-021-682
49.	Lease agreement on land plot #1013 dated 28.10.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 26.03.2014 till 16.09.2023	13-203-021-660
50.	Lease agreement on land plot #160 dated 22.04.2011	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 18.08.2011 till 09.01.2013	13-203-021-513
51.	Lease agreement on land plot #216 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-006-804
52.	Lease agreement on land plot #224 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 27.05.2014 till 09.08.2036	13-203-007-444
53.	Lease agreement on land plot #154 dated 22.04.2011	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 18.08.2011 till 09.01.2013	13-203-021-528
54.	Lease agreement on land plot #166 dated 22.04.2011	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 18.08.2011 till 09.01.2013	13-203-021-525
55.	Lease agreement on land plot #204 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-527
56.	Lease agreement on land plot #227 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 27.05.2014 till 09.08.2036	13-203-011-094
57.	Lease agreement on land plot #150 dated 22.04.2011	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 18.08.2011 till 09.01.2013	13-203-021-514
58.	Lease agreement on land plot #214 dated 28.05.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 28.05.2014 till 09.08.2036	13-203-021-697
59.	Lease agreement on land plot #191 dated 29.04.2011	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil	Lease of the land plot	From 12.08.2011 till 09.01.2013	13-203-007-440

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		LLP, the Tenant			
60.	Lease agreement on land plot #231 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 27.05.2014 till 09.08.2036	13-203-007-438
61.	Lease agreement on land plot #130 dated 22.04.2011	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 18.08.2011 till 09.01.2013	13-203-007-430
62.	Lease agreement on land plot #194 dated 29.04.2011	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 12.08.2011 till 09.01.2013	13-203-007-446
63.	Lease agreement on land plot #239 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-011-090
64.	Lease agreement on land plot #241 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-011-086
65.	Lease agreement on land plot #240 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-011-087
66.	Lease agreement on land plot #256 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 30.05.2014 till 09.08.2036	13-203-011-155
67.	Lease agreement on land plot #223 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 27.05.2014 till 09.08.2036	13-203-011-096
68.	Lease agreement on land plot #191 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 30.05.2014 till 09.08.2036	13-203-011-153
69.	Lease agreement on land plot #198 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 27.05.2014 till 09.08.2036	13-203-011-092
70.	Lease agreement on land plot #254 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 30.05.2014 till 09.08.2036	13-203-011-157
71.	Lease agreement on land plot #143 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-011-088
72.	Lease agreement on land plot #205 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 27.05.2014 till 09.08.2036	13-203-007-442



**LEGAL OPINION BY SIGNUM LAW FIRM ON THE OWNERSHIP/ TITLE IN RELATION TO THE PROPOSED ACQUISITION UNDER KAZAKHSTAN LAW (Cont'd)**



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73.	Lease agreement on land plot #252 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 30.05.2014 till 09.08.2036	13-203-007-480
74.	Lease agreement on land plot #250 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-007-423
75.	Lease agreement on land plot #253 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 30.05.2014 till 09.08.2036	13-203-007-481
76.	Lease agreement on land plot #311 dated 14.04.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-021-544
77.	Lease agreement on land plot #188 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 30.05.2014 till 09.08.2036	13-203-007-325
78.	Lease agreement on land plot #234 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-007-424
79.	Lease agreement on land plot #404 dated 10.04.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 21.06.2013 till 25.02.2023	13-203-022-278
80.	Lease agreement on land plot #411 dated 10.04.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 25.06.2013 till 25.02.2023	13-203-022-284
81.	Lease agreement on land plot #219 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 27.05.2014 till 09.08.2036	13-203-007-447
82.	Lease agreement on land plot #236 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-007-422
83.	Lease agreement on land plot #246 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-007-428
84.	Lease agreement on land plot #248 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-007-429
85.	Lease agreement on land plot #192 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 30.05.2014 till 09.08.2036	13-203-007-326
86.	Lease agreement on land plot #247 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-007-427

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**LEGAL OPINION BY SIGNUM LAW FIRM ON THE OWNERSHIP/ TITLE IN RELATION TO THE PROPOSED ACQUISITION UNDER KAZAKHSTAN LAW (Cont'd)**



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		Landlord and Emir-Oil LLP, the Tenant			
87.	Lease agreement on land plot #235 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-007-425
88.	Lease agreement on land plot #226 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 27.05.2014 till 09.08.2036	13-203-011-093
89.	Lease agreement on land plot #375 dated 01.06.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 17.06.2015 till 09.09.2036	13-203-011-186
90.	Lease agreement on land plot #440 dated 30.06.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 05.08.2015 till 04.03.2036	13-203-021-700
91.	Lease agreement on land plot #365 dated 01.06.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 17.06.2015 till 09.09.2036	13-203-011-183
92.	Lease agreement on land plot #370 dated 01.06.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 02.07.2015 till 09.09.2036	13-203-011-184
93.	Lease agreement on land plot #443 dated 30.02.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 05.08.2015 till 20.02.2025	13-203-022-381
94.	Lease agreement on land plot #366 dated 01.06.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 17.06.2015 till 09.09.2036	13-203-011-182
95.	Lease agreement on land plot #190 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 30.05.2014 till 09.08.2036	13-203-007-1
96.	Lease agreement on land plot #1003 dated 28.10.2013	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 16.09.2023	13-203-021-555
97.	Lease agreement on land plot #374 dated 01.06.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 17.06.2015 till 09.09.2036	13-203-011-188
98.	Lease agreement on land plot #233 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 29.05.2014 till 09.08.2036	13-203-021-546
99.	Lease agreement on land plot #29 dated 14.01.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 24.12.2036	13-203-022-310

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**LEGAL OPINION BY SIGNUM LAW FIRM ON THE OWNERSHIP/ TITLE IN RELATION TO THE PROPOSED ACQUISITION UNDER KAZAKHSTAN LAW (Cont'd)**



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100	Lease agreement on land plot #196 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 20.03.2014 till 09.08.2036	13-203-022-185
101	Lease agreement on land plot #144 dated 22.04.2011	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 13.08.2011 till 09.01.2013	13-203-011-089
102	Lease agreement on land plot #368 dated 01.06.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 02.07.2015 till 09.09.2036	13-203-022-372
103	Lease agreement on land plot #371 dated 01.06.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 17.06.2015 till 09.09.2036	13-203-022-370
104	Lease agreement on land plot #364 dated 01.06.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 17.06.2015 till 09.09.2036	13-203-011-181
105	Lease agreement on land plot #373 dated 01.06.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 17.06.2015 till 09.09.2036	13-203-011-187
106	Lease agreement on land plot #372 dated 01.06.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 17.06.2015 till 09.09.2036	13-203-022-371
107	Lease agreement on land plot #224 dated 08.07.2008	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 26.01.2009 till 09.07.2009	13-203-007-069
108	Lease agreement on land plot #192 dated 27.03.2014	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 30.05.2014 till 09.08.2036	13-203-007-360
109	Lease agreement on land plot #363 dated 01.06.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 17.06.2015 till 09.09.2036	13-203-022-373
110	Lease agreement on land plot #36 dated 01.06.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 17.06.2015 till 09.09.2036	13-203-011-185
111	Lease agreement on land plot #660 dated 17.09.2015	Akimat of Mangystau oblast of the RK, the Landlord and Emir-Oil LLP, the Tenant	Lease of the land plot	From 30.05.2015 till 09.09.2036	13-203-022-392

**LEGAL OPINION BY SIGNUM LAW FIRM ON THE OWNERSHIP/ TITLE IN RELATION TO THE PROPOSED ACQUISITION UNDER KAZAKHSTAN LAW (Cont'd)**

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We trust that the provided information will be useful for you. Should you have any questions regarding this Legal Opinion or require any further information we will be pleased to respond.

Kind regards

A handwritten signature in black ink, appearing to read "Liza Zhumakhmetova", written over a horizontal line.

**Liza Zhumakhmetova**

**Partner**

**SIGNUM Law Firm**

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**LEGAL OPINION BY SIGNUM LAW FIRM ON THE OWNERSHIP/ TITLE IN RELATION TO THE PROPOSED ACQUISITION UNDER KAZAKHSTAN LAW (Cont'd)**

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**Appendix 1****List of documents**

1. Good Standing Certificate of Emir-Oil LLP dated 07 September 2016.
2. Good Standing Certificate on imposed encumbrances (arrest) dated 07 September 2016.
3. Official Confirmation of the Ministry of Energy of the Republic of Kazakhstan No. 08-02/37425 dated 20 January 2016.
4. Good Standing Certificate on immovable property dated 5 April 2016.
5. Contract on Exploration for Hydrocarbon Raw Materials on the Site of "Aksaz-Dolinnoe-Emir" between the Ministry of Energy of the Republic of Kazakhstan and Emir-Oil LLP with Registration Number: 482 and dated 9 June 2000, and the amendments thereof.
6. Hydrocarbon Production Contract for Dolinnoe oilfield within XXXV-11-A (partially), D (partially) blocks in Munaylinskiy district of Mangystau region between the Republic of Kazakhstan represented by the Ministry of Oil and Gas of the Republic of Kazakhstan and Emir-Oil LLP with Registration Number 3735-YBC and dated 9 September 2011.
7. Hydrocarbon Production Contract for Kariman oilfield within XXXV-11-D (partially), E (partially) in Munaylinskiy district of Mangystau region between the Republic of Kazakhstan represented by the Ministry of Oil and Gas of the Republic of Kazakhstan and Emir-Oil LLP with Registration Number: 3736-YBC and dated 9 September 2011, and the amendments thereof.
8. Hydrocarbon Production Contract for Aksaz field within XXXV-10C (partially), XXXV-11-A (partially), D (partially) blocks in Munaylinskiy district of Mangystau region between the Republic of Kazakhstan represented by the Ministry of Oil and Gas of the Republic of Kazakhstan and Emir-Oil LLP with Registration Number: 3737-YBC and dated 9 September 2011.
9. Hydrocarbon Production Contract for Emir oilfield within XXXV-11-A (partially) block in Munaylinskiy district of Mangystau region between the Republic of Kazakhstan represented by the Ministry of Oil and Gas of the Republic of Kazakhstan and Emir-Oil LLP with Registration Number 3890-YBC and dated 1 March 2012.
10. The Extract from the List of companies going through bankruptcy or rehabilitation and the List of Insolvent Debtors (status is as of 07 September 2016) maintained by the Tax Committee of the Republic of Kazakhstan.

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**LEGAL OPINION BY SIGNUM LAW FIRM ON THE OWNERSHIP/ TITLE IN RELATION TO THE PROPOSED ACQUISITION UNDER KAZAKHSTAN LAW (Cont'd)**

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**Appendix 2**

**Assumptions, Considerations and Qualifications**

**1. Assumptions**

For the purposes of rendering this Legal Opinion, we have assumed the following:

- (1) All Documents on which we have relied, where appropriate, are in the form reflected in the records of the relevant authority or agency and have been executed in the same forms as those examined by us for the purposes of this Legal Opinion;
- (2) All signatures, stamps and seals are genuine, the copies of Documents and records submitted to us as originals are authentic;
- (3) No party to any of the Subsoil Use Contracts (i) has taken any action nor have any steps been taken or legal proceedings been started against any party for the liquidation, winding-up, dissolution, reorganisation, reconstruction or administration of, or for the appointment of a liquidator, receiver, manager, trustee, administrator, administrative receiver or similar officer of, any party or all or any of its assets; (ii) no party is insolvent or unable to pay its debts; (iii) no party has been dissolved and (iv) no event analogous to any of the foregoing has occurred in relation to any party under the laws of any jurisdiction applicable to such party;
- (4) That any officer of a company executing any of the subsoil use contracts on behalf of that company had the legal capacity to execute the subsoil use contracts to which such company is a party and was duly authorised by such company to do so;
- (5) This Legal Opinion relates only to the law of the RK as currently applied and interpreted by the RK courts by reference to decisions which have been officially reported as at the date of this Legal Opinion;
- (6) We express no opinion on the laws of any other jurisdiction nor opinion on matters of fact. To the extent that the laws of any other jurisdiction may be relevant, this opinion is subject to the effect of those laws;
- (7) We do not assume any obligation to advise you of any subsequent change in, or in the interpretation of RK law which might affect the contents of this Legal Opinion;
- (8) We have not investigated the laws of any jurisdiction outside of the RK;
- (9) This Legal Opinion (and any non-contractual obligation arising out of or in connection with it) is governed by the laws of the RK and is issued subject to the condition that any dispute arising in respect of it shall be determined by the RK courts which shall have exclusive jurisdiction; and
- (10) It should be noted that the RK lacks a tradition of a judiciary insulated from political or other considerations and influences. As a result, a RK court could adopt a decision that would not correspond with this Legal Opinion.

**2. Qualifications**

For the purposes of issuing this Legal Opinion, we did not receive a request for investigation of the following matters, nor did we provide consultations on:

- (1) any aspects related to commercial or technical data contained in the documents, or indirect reference to pricing provisions in the contracts;
- (2) any issues related to audit of the Company's operations for compliance with regulatory, ecological, tax legislation, including issues of transfer pricing, any taxes and other obligatory payments to the budget;
- (3) any issues related to the financial, accounting and tax matters of the Company;
- (4) any audits or technical analysis of the Company's operations;

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**LEGAL OPINION BY SIGNUM LAW FIRM ON THE OWNERSHIP/ TITLE IN RELATION TO THE PROPOSED ACQUISITION UNDER KAZAKHSTAN LAW (Cont'd)**

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- (5) any issues arising with regard to the Proposed Transaction, and we do not opine on any transactions of the proposed acquisition taking place outside the RK, in other foreign jurisdictions;
- (6) any issues arising with regard to any legislation other than legislation of the RK (including edicts and decrees of the President of the RK and normative acts of central government agencies of state power and administration issued pursuant to authority expressly granted by the relevant law or laws) in force and published as at the date of this Legal Opinion, and we do not undertake to update our opinion for changes in such laws. We have made no independent investigation of the laws of any jurisdiction other than the RK as a basis for the opinions hereinafter expressed and do not express or imply any opinion on the laws of any other jurisdiction. This opinion is limited to matters of law and we express no opinion as to any question of fact, whether by implication or otherwise. In respect of any opinion herein which might be characterised as involving a mixed question of law and fact, our Legal Opinion is limited to questions of law;
- (7) tax exposures and tax consequences of the Proposed Transaction.

**LEGAL OPINION BY HOUTHOFF BURUMA COÖPERATIEF U.A. ON THE OWNERSHIP/TITLE AND ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL B.V. IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW**

**HOUTHOFF BURUMA**

P.O. Box 1507, 3000 BM Rotterdam  
Weena 355, Rotterdam

Board of Directors of  
Reach Energy Berhad  
Level 8, Symphony House  
Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor Darul Ehsan  
MALAYSIA

Rotterdam, 16 September 2016  
Re: Palaeontol B.V.  
Our ref: 290000218/16809727.1

**LEGAL OPINION ON OWNERSHIP OF SHARES IN PALAEONTOL B.V. AND ENFORCEABILITY OF CERTAIN AGREEMENTS**

Ladies and Gentlemen,

**1. Introduction**

We have acted as special Dutch legal counsel to Reach Energy Berhad (Company No. 1034400-D) ("**Reach**"), incorporated in Malaysia that requested us to prepare a legal opinion in connection with a shareholders' agreement dated 11 April 2016, among Palaeontol B.V. (the "**Company**"), Reach, MIE Holdings Corporation, Reach Energy Ventures Sdn. Bhd and Palaeontol Cooperatief U.A. (the "**Shareholders Agreement**") and certain other documents in connection with the Proposed Acquisition (as defined below). We have been informed that the Shareholders Agreement was entered into in connection with the proposed indirect acquisition by Reach, through its wholly-owned Malaysian incorporated subsidiary, Reach Energy Ventures Sdn Bhd, of (i) a 60% equity interest in the Company, currently a wholly-owned subsidiary of Palaeontol Cooperatief U.A which in turn is an indirect wholly-owned subsidiary of MIE Holdings Corporation and (ii) 60% of each of certain shareholder loans made to the Company by MIE Holdings Corporation, for a total cash consideration of USD154,889,000, subject to adjustments ("**Proposed Acquisition**").

We understand that the full text of this legal opinion shall be included in the Circular (as defined below) on a non-reliance basis. A copy of this opinion letter will, on a non-reliance basis, be separately submitted to Bursa Malaysia Securities Berhad, Securities Commission Malaysia and other relevant authorities as part of the regulatory approval process for the Proposed Acquisition.

Houthoff Buruma is de handelsnaam van Houthoff Buruma Coöperatief U.A., statutair gevestigd te Amsterdam (KvK Amsterdam nr. 34216182). De algemene voorwaarden van Houthoff Buruma, waarin een beperking van aansprakelijkheid, de toepasselijkheid van Nederlands recht en de exclusieve bevoegdheid van de rechtbank te Amsterdam zijn bedongen, zijn op alle opdrachten van toepassing. De algemene voorwaarden worden op verzoek toegezonden, maar zijn eveneens te vinden op [www.houthoff.com](http://www.houthoff.com).

Houthoff Buruma is the trade name of Houthoff Buruma Coöperatief U.A. with registered office in Amsterdam (Chamber of Commerce Amsterdam no. 34216182). Houthoff Buruma's general terms and conditions, which stipulate a limitation of liability, the applicability of Dutch law and the exclusive jurisdiction of the District Court of Amsterdam, are applicable to all work performed. A copy of the general terms and conditions is available on request or at [www.houthoff.com](http://www.houthoff.com).



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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE OWNERSHIP/TITLE AND ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL B.V. IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW  
(Cont'd)

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## **HOUTHOFF BURUMA**

### **2. Scope of Investigation**

We have solely examined the following documents:

- 2.1. an e-mailed copy of the signed Shareholders Agreement, expressed to be governed by English law;
- 2.2. an e-mailed draft of the deed of assignment of debt, between the Company, MIE Holdings Corporation and Reach Energy Ventures Sdn. Bhd. (the "**Deed of Assignment**"), expressed to be governed by Hong Kong law;
- 2.3. a draft of the deed of transfer of shares in the capital of the Company, between the Company as company, Reach as transferee and Palaeontol Coöperatief U.A. as transferor (the "**Deed of Transfer**");
- 2.4. an e-mailed copy of the shareholders' register (the "**Shareholders' Register**") of the Company as most recently amended on 11 February 2011;
- 2.5. a certified electronic trade register extract regarding the Company and United International Management B.V., each dated the date hereof, obtained from the Dutch trade register (the "**Extracts**");
- 2.6. an e-mailed copy of the deed of incorporation of the Company dated 11 February 2011 (the "**Deed of Incorporation**") including the articles of association (*statuten*) of the Company, that, according to the relevant Extract, are in force on the date hereof (the "**Articles**");
- 2.7. an e-mailed copy of a written resolution signed by all managing directors of the Company's board of managing directors (*bestuur*) relating to the Shareholders Agreement dated 8 April 2016 (the "**Managing Board Resolution SHA**");
- 2.8. an e-mailed copy of a written resolution signed by all managing directors of the Company's board of managing directors (*bestuur*) dated 4 May 2016 (the "**Additional Managing Board Resolution**" and together with the Managing Board Resolution SHA, the "**Managing Board Resolutions**");
- 2.9. a draft written resolution of the general meeting of the Company (the "**Shareholders Resolution**");
- 2.10. a draft power of attorney to be granted by the Company to each lawyer and/or employee working at the law firm of Houthoff Buruma U.A. to execute the Deed of Transfer (the "**Power of Attorney**"); and

LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE OWNERSHIP/TITLE AND ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL B.V. IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW (Cont'd)

## HOUTHOFF BURUMA

- 2.11. online copies of searches executed on the date hereof with respect to the Company and United International Management B.V. in the Dutch central insolvency register for Dutch and European Union insolvencies available at <http://insolventies.rechtspraak.nl> and <http://www.rechtspraak.nl/Registers/Paginas/EU-Registratie.aspx>, respectively, reflecting that the Company and United International Management B.V. are not listed in such Dutch central insolvency register.

In addition, the bankruptcy division (*faillissementsgriffie*) of the Amsterdam District Court has confirmed to us on today by telephone that the Company and United International Management B.V. are not listed by that District Court as having been declared bankrupt or been granted suspension of payments (such confirmation, together with the results of our search in the central insolvency register as referred to above, the "**Non-Insolvency Confirmations**").

The agreements listed in paragraph 2.1 through paragraph 2.3 above are collectively referred to as the "**Agreements**".

### 3. Opinions

Based upon the assumptions listed in **Annex I** to this opinion letter and subject to the qualifications and limitations stated hereafter, we express the following opinions:

#### Corporate Status

- 3.1. The Company has been incorporated and is existing as a legal entity (*rechtspersoon*) in the form of a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under Dutch Law (as defined below).

#### Corporate Power

- 3.2. The Company has the corporate power to enter into the Agreements and to perform its obligations and to grant its representations and undertakings under the Agreements.

#### Corporate Action

- 3.3. The Company has taken all necessary corporate action to authorise its entry into of the Agreements and the performance of its obligations and the granting of its representations and undertakings under the Agreements.

#### Legal, valid and binding

- 3.4. The Deed of Transfer will constitute legal, valid and binding obligations and undertakings of the Company that will be enforceable in accordance with their terms.

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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE OWNERSHIP/TITLE AND ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEOINTOL B.V. IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW  
(Cont'd)

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## **HOUTHOFF BURUMA**

### **Valid Entry into the Shareholders Agreement**

- 3.5. The Company has validly entered into the Shareholders Agreement.

### **Valid Entry into Deed of Assignment and Deed of Transfer**

- 3.6. The Company will have validly entered into the Deed of Assignment and the Deed of Transfer.

### **Choice of Law in the Shareholders Agreement**

- 3.7. The choice of English law as the governing law of the Shareholders Agreement is recognised as a valid choice of law and accordingly English law governs the validity, binding effect and enforceability of the Shareholders Agreement against the Company.

### **Choice of Law in the Deed of Assignment**

- 3.8. The choice of Hong Kong law as the governing law of the Deed of Assignment is recognised as a valid choice of law and accordingly Hong Kong law governs the validity, binding effect and enforceability of the Deed of Assignment against the Company.

### **Ownership of shares in the Company**

- 3.9. According to the Shareholders' Register, all outstanding shares of the Company are, prior to the execution of the Deed of Transfer, held by Palaeontol Cooperatief U.A..

### **Submission to Arbitration**

- 3.10. The submissions to arbitration, as provided in section 18.2 of the Shareholders Agreement and section 6.3 of the Deed of Assignment, are valid and binding upon the Company.

### **Enforcement of Arbitral Awards**

- 3.11. A final and binding monetary arbitral award rendered in arbitration proceedings in a foreign state which is enforceable in such foreign state will be recognised and enforced by the Dutch courts without review of its merits, according and subject to section 1075 (if enforcement is being sought pursuant to an applicable treaty such as the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958) or according and subject to section 1076 of the Dutch Code on Civil Proceedings (*Wetboek van Burgerlijke Rechtsvordering*).

### **No Consents**

- 3.12. No governmental or regulatory consents, approvals or authorisations are required under Dutch Law in connection with the Company's entry into the Agreements or the performance of its obligations thereunder.

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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE OWNERSHIP/TITLE AND ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL B.V. IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW (Cont'd)

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## **HOUTHOFF BURUMA**

### **No Filing**

- 3.13. Under Dutch Law there are no registration, notification, filing or similar formalities required to ensure the validity, binding effect and enforceability of the Agreements against the Company.

### **No Violation**

- 3.14. The entry into and performance of its obligations under the Agreements by the Company do not conflict with or result in a violation of the Articles or the provisions of any applicable published law of general application of the Netherlands, which would affect the validity, binding effect and enforceability of the Agreements against it.

### **Insolvency**

- 3.15. Solely based on the Non-Insolvency Confirmations, we can confirm that the Company has not been declared bankrupt or been granted a suspension of payments in the Netherlands.

### **No Immunity**

- 3.16. Under Dutch Law, the Company is not entitled to immunity from legal proceedings and its assets are not immune from execution, except if such assets are intended for public service (*openbare dienst*).

## **4. Qualifications**

This opinion letter is subject to the following qualifications:

- 4.1. The opinions expressed herein are limited or may be affected by a) certain general defenses available to obligors under Dutch Law in respect of the validity and enforceability of contractual obligations, such as avoidance on grounds of duress (*bedreiging*), mistake (*dwaling*), deceit (*bedrog*) or abuse of circumstances (*misbruik van omstandigheden*), the principles of reasonableness and fairness (*redelijkheid en billijkheid*), modification on grounds of unforeseen circumstances (*onvoorziene omstandigheden*), force majeure, or the right to suspend performance under the Deed of Transfer if the other party is in default in respect of its obligations, and b) the provisions of any applicable Insolvency Proceeding or emergency measures, a non-insolvency dissolution or liquidation, a statutory merger or demerger, involving the Cooperative as disappearing entity, fraudulent conveyance (*actio pauliana*) and similar laws of general application relating to or affecting the rights of creditors.

LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE OWNERSHIP/TITLE AND ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL B.V. IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW  
(Cont'd)

## HOUTHOFF BURUMA

- 4.2. Under Dutch Law, notwithstanding the recognition of English law as the governing law of the Shareholders Agreement and the recognition of Hong Kong law as the governing law of the Deed of Assignment:
- a. effect may be given to the overriding mandatory provisions of Dutch Law, or of the country where the obligations arising out of the contract have to be or have been performed, in so far as those overriding mandatory provisions render the performance of the contract unlawful, such irrespective of the governing law of the Shareholders Agreement and the Deed of Assignment;
  - b. Dutch Law will be applied or the application of English law and Hong Kong law, respectively, may be refused to the extent it is manifestly incompatible with Dutch public policy (*openbare orde*) or, with respect to the Shareholders Agreement, mandatory provisions of Dutch corporate law.
- 4.3. Under Dutch Law, when applying Dutch Law as the governing law of the Deed of Transfer effect may be given to the overriding mandatory provisions of the country where the obligations arising out of the contract have to be or have been performed, to the extent those overriding mandatory provisions render the performance of the contract unlawful, such irrespective of the governing law of the Deed of Transfer.
- 4.4. With respect to opinion 3.9 we note the following:
- (i) under Dutch law third party rights on shares in the Company, including security rights and other limited rights in rem (*beperkt zakelijke rechten*), are not required to be recorded in the Shareholders' Register, or notified to the Company. The Shareholders' Register therefore does not provide conclusive evidence as to the non-existence of any pledge or other limited rights in rem (*beperkt zakelijke rechten*) on shares in the capital of the Company; and
  - (ii) under Dutch law shares can be validly issued and transferred without registration of such issue or transfer of shares in the Shareholders' Register and/or notification of the Dutch trade register for inclusion in the relevant Extract.
- 4.5. The enforcement in a Dutch court of the Agreements and of arbitral awards is subject to Dutch rules of civil procedure.
- 4.6. We express no opinion on the consequences of any concurrent proceedings (including the combination of arbitration and other proceedings) or competing judgments (including arbitral awards) resulting therefrom.

LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE OWNERSHIP/TITLE AND ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL B.V. IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW (Cont'd)

## HOUTHOFF BURUMA

- 4.7. In proceedings before a Dutch court for the enforcement of the Agreements, the court may mitigate amounts due in respect of litigation and collection costs. In addition, specific performance or injunctive relief may not always be granted.
- 4.8. A power of attorney (*volmacht*) granted by the Company will automatically terminate upon bankruptcy of the Company and will cease to have effect upon the Company having been granted a moratorium. To the extent Dutch Law applies, a power of attorney can be made irrevocable only to the extent that it has been granted for the performance of a legal act that is in the interest of the attorney or a third party.
- 4.9. The Extracts do not constitute conclusive evidence that the facts set out therein are correct. However, under the Dutch Trade Register Act 2007, as amended (*Handelsregisterwet 2007*), subject to limited exceptions, a company incorporated in the Netherlands cannot invoke the incorrectness or incompleteness of the information regarding it contained in the trade register against third parties who were unaware thereof.
- 4.10. The Non-Insolvency Confirmations do not constitute conclusive evidence that the Company has not become the subject of an Insolvency Proceeding.
- 4.11. The enforceability of the Agreements may be limited under the 1977 Sanction Act (*Sanctiewet 1977*) or regulations promulgated thereunder, EU sanction regulations or other similar applicable international sanctions.

### 5. Scope of Opinion Letter

This opinion letter is limited to the laws of the European part of the Kingdom of the Netherlands, currently in force and as applied by Dutch courts (not including unpublished case law and, unless available on [www.rechtspraak.nl](http://www.rechtspraak.nl), case law available in electronic form only) ("**Dutch Law**"). We express no opinion on the laws of the European Union insofar as not implemented in Dutch Law or directly applicable in the Netherlands. We do not opine on tax law, competition and procurement laws. In this opinion letter Dutch Law concepts are expressed in English terms and not in their original Dutch terms. These concepts of Dutch Law may not be the same as the concepts described by the English terms as such terms may be understood under the laws of other relevant jurisdictions. Our review of documents that are not governed by Dutch Law has been based upon our understanding of the plain reading of the language contained therein; we have not investigated the meaning and effect of any such language under any law other than Dutch Law.

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LEGAL OPINION BY HOUTHOFF BURUMA COÖPERATIEF U.A. ON THE OWNERSHIP/TITLE AND ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL B.V. IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW  
(Cont'd)

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## **HOUTHOFF BURUMA**

The opinions expressed herein are rendered only as of the date of this opinion letter. We assume no obligation to inform you of any changes to Dutch Law arising after the date hereof.

Nothing in this letter should be taken as expressing an opinion on any matters of fact. We assume that there are no factual matters and documents not disclosed to us in the course of our investigation that would affect any opinion expressed in this opinion letter. We express no opinion on any representations, warranties or other statements contained in the Agreements, except as expressly confirmed herein.

### **6. Reliance**

This opinion letter is given on the express basis, accepted by each person who is entitled to rely on it, that this opinion letter and all rights, obligations or liability in relation to it are governed by Dutch Law and that any action or claim in relation to it can only be brought exclusively before the courts of Amsterdam, the Netherlands. In addition, this opinion letter is given on the express basis, accepted by each person who is entitled to rely on it, that any possible liability of Houthoff Buruma Coöperatief U.A., its members (including their directors) and employees is limited to the amount available and payable under Houthoff Buruma Coöperatief U.A.'s professional malpractice insurance coverage.

Notwithstanding inclusion of the full text of this opinion letter in the circular addressed to the shareholders of Reach (the "**Circular**"), this opinion letter is only addressed to you and may only be relied upon by you in connection with the transaction to which the Agreements relate. It may not be relied upon by, be transmitted to, quoted or referred to in any public document or filed with any other person, firm, company, or institution without our prior written consent, provided, however, that a copy of the full text of the opinion letter may, on a non-reliance basis, be included in the Circular and that the Circular may, on a non-reliance basis, be submitted to Bursa Malaysia Securities Berhad, Securities Commission Malaysia and other relevant authorities as part of the regulatory approval process for the Proposed Acquisition. In addition, a copy may be disclosed, but only on the express basis that they may not rely on it, to your legal counsel and any potential assignee, participant or transferee under the Agreements, in each case solely for the purpose of the transaction to which the Agreements relate and

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LEGAL OPINION BY HOUTHOFF BURUMA COÖPERATIEF U.A. ON THE OWNERSHIP/TITLE AND ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL B.V. IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW  
(Cont'd)

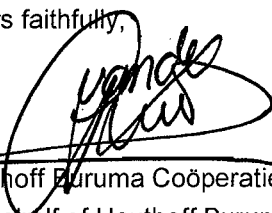
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**HOUTHOFF BURUMA**

subject to the same restrictions or, be disclosed on a non-reliance basis as required by law or regulation. For the avoidance of doubt, we do not assume any duty or liability to any person or entity to whom such copy is provided.

Yours faithfully,

I. O.



Houthoff Buruma Coöperatief U.A.

On behalf of Houthoff Buruma Coöperatief U.A. by: Michiel Wesseling



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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE OWNERSHIP/TITLE AND ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL B.V. IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW  
(Cont'd)

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## HOUTHOFF BURUMA

### ANNEX I – ASSUMPTIONS

We assume that:

1. all copies of documents conform to the originals and that all originals are authentic and complete;
2. each signature is the genuine signature of the individual concerned;
3. the results of our searches relied upon herein were accurate at their date and have remained accurate up to and including the date of this legal opinion;
4. the documents referred to in paragraph 2 above (other than the Agreements), including the statements made therein, were at their date, and will remain through the date of execution of the Deed of Assignment and the Deed of Transfer, accurate, complete and in full force and effect and that the Shareholder Agreement has through the date hereof remained in existence in the form in which it was presented to us;
5. the Deed of Assignment and the Deed of Transfer will be executed in the form provided to us;
6. the Deed of Incorporation is a valid notarial deed (*notariële akte*), and that there were no defects in the incorporation of the Company (not appearing on the face of the Deed of Incorporation) on the basis of which a court might dissolve the Company or deem it never to have existed;
7. the Company is not and will not be the subject of any of the proceedings listed in Annex A or B of Council Regulation (EC) No 1346/2000 of 29 May 2000 on insolvency proceedings (OJ 2000, L 160, 1), as amended ("**Insolvency Proceeding**"), emergency measures (*noodregeling*), a non-insolvency dissolution or liquidation, a statutory merger or demerger involving the Company as disappearing entity, or a conversion (*omzetting*), and its assets have not been placed under administration (*bewind*);
8. there is no works council, no employee of the Company or another interested party has requested to establish a works council and no works council is in the process of being established, whose advice on the entering into of the Agreements by the Company must be sought under or pursuant to the Dutch Works Council Act (*Wet op de ondernemingsraden*) or otherwise;
9. the resolutions contained in the Managing Board Resolutions have been validly passed and have been adopted in accordance with the Articles, internal regulations (*reglementen*) and Dutch Law;

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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE OWNERSHIP/TITLE AND ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL B.V. IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW  
(Cont'd)

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**HOUTHOFF BURUMA**

10. the resolutions contained in the Shareholders Resolution will have been validly passed and will have been adopted in accordance with the Articles, internal regulations (*reglementen*) and Dutch Law;
11. no member of the Company's board of managing directors has a direct or indirect personal conflict of interest (*tegenstrijdig belang*) within the meaning of section 2:239, paragraphs 5 and 6 of the Dutch Civil Code with respect to the Agreements and/or the Proposed Acquisition;
12. no resolution has been adopted by the Company's general meeting of shareholders pursuant to section 12.5 of the Articles submitting the Managing Board Resolutions to its approval;
13. any law, other than Dutch Law, which may apply to the Power of Attorney or to the Agreements or the Proposed Acquisition, would not be such as to affect any opinion expressed in this opinion letter;
14. each party to the Agreements, other than the Company, has all requisite corporate power to enter into and perform its obligations under the Agreements;
15. the Shareholders Agreement has been duly and validly authorised and entered into on behalf of each of the parties thereto, other than the Company;
16. the Deed of Assignment and the Deed of Transfer will be duly and validly authorised and executed on behalf of each of the parties thereto, other than the Company;
17. the Shareholders Agreement (including the arbitration and choice of law clauses contained therein) constitutes legal, valid and binding obligations of each of the parties thereto, and is enforceable against those parties in accordance with its terms, under the law by which it is expressed to be governed and any other law that may be applicable thereto, other than Dutch Law;
18. the Deed of Assignment (including the arbitration and choice of law clauses contained therein) will constitute legal, valid and binding obligations of each of the parties thereto, and will be enforceable against those parties in accordance with its terms, under the law by which it is expressed to be governed and any other law that may be applicable thereto, other than Dutch Law;
19. the Shareholders Agreement has been validly signed on behalf of the Company by two of its managing directors;
20. the Deed of Assignment and the Power of Attorney will be validly signed on behalf of the Company by two of its managing directors;
21. the Deed of Transfer will have been validly executed by the Company; and

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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE OWNERSHIP/TITLE AND ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL B.V. IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW  
(Cont'd)

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**HOUTHOFF BURUMA**

22. that the information contained in the Shareholders' Register is and will on the date of the execution of the Deed of Transfer be true and correct and that it has been fully updated in respect of any issuance, transfer and/or right or security, warrant and/or option, cancellation, split, nominal and paid up value which might affect the number of shares in issue and the status of the shares of the Company, which includes any pledge or any other limited right in rem (*beperkt zakelijke rechten*) on the shares of the Company;

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**LEGAL OPINION BY HOUTHOFF BURUMA COÖPERATIEF U.A. ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL COOP IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW**

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**HOUTHOFF BURUMA**

P.O. Box 1507, 3000 BM Rotterdam  
Weena 355, Rotterdam

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Board of Directors of  
Reach Energy Berhad  
Level 8, Symphony House  
Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor Darul Ehsan  
MALAYSIA

Rotterdam, 16 September 2016  
Re: Palaeontol Coöperatief U.A.  
Our ref: 290000218/16802113.2

**LEGAL OPINION ON ENFORCEABILITY OF CERTAIN AGREEMENTS**

Ladies and Gentlemen,

**1. Introduction**

We have acted as special Dutch legal counsel to Reach Energy Berhad (Company No. 1034400-D) ("**Reach**"), incorporated in Malaysia that requested us to prepare a legal opinion in connection with a sale and purchase agreement regarding shares in the capital of Palaeontol B.V. dated 5 March 2016, among Palaeontol Coöperatief U.A. (the "**Cooperative**"), with corporate seat in Amsterdam, the Netherlands, in its capacity as seller, MIE Holdings Corporation as ultimate holding company of the seller and Reach as purchaser (the "**Share Purchase Agreement**") and certain other documents in connection with the Proposed Acquisition (as defined below). We have been informed that the Share Purchase Agreement was entered into for the proposed indirect acquisition by Reach, through its wholly-owned Malaysian incorporated subsidiary, Reach Energy Ventures Sdn Bhd, of (i) a 60% equity interest in Palaeontol B.V., currently a wholly-owned subsidiary of the Cooperative which in turn is an indirect wholly-owned subsidiary of MIE Holdings Corporation and (ii) 60% of each of certain shareholder loans made to Palaeontol B.V. by MIE Holdings Corporation for a total cash consideration of USD154,889,000, subject to adjustments ("**Proposed Acquisition**").

We understand that the full text of this legal opinion shall be included in the Circular (as defined below) on a non-reliance basis. A copy of this opinion letter will, on a non-reliance basis, be separately submitted to Bursa Malaysia Securities Berhad, Securities Commission Malaysia and other relevant authorities as part of the regulatory approval process for the Proposed Acquisition.

Houthoff Buruma is de handelsnaam van Houthoff Buruma Coöperatief U.A., statutair gevestigd te Amsterdam (KvK Amsterdam nr. 34216182). De algemene voorwaarden van Houthoff Buruma, waarin een beperking van aansprakelijkheid, de toepasselijkheid van Nederlands recht en de exclusieve bevoegdheid van de rechtbank te Amsterdam zijn bedongen, zijn op alle opdrachten van toepassing. De algemene voorwaarden worden op verzoek toegezonden, maar zijn eveneens te vinden op [www.houthoff.com](http://www.houthoff.com).

Houthoff Buruma is the trade name of Houthoff Buruma Coöperatief U.A. with registered office in Amsterdam (Chamber of Commerce Amsterdam no. 34216182). Houthoff Buruma's general terms and conditions, which stipulate a limitation of liability, the applicability of Dutch law and the exclusive jurisdiction of the District Court of Amsterdam, are applicable to all work performed. A copy of the general terms and conditions is available on request or at [www.houthoff.com](http://www.houthoff.com).

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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL COOP IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW (*Cont'd*)

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## HOUTHOFF BURUMA

### 2. Scope of Investigation

We have solely examined the following documents:

- 2.1. an e-mailed copy of the signed Share Purchase Agreement, expressed to be governed by English law;
- 2.2. an e-mailed copy of a signed shareholders' agreement dated 11 April 2016, between the Cooperative, Reach, MIE Holdings Corporation, Reach Energy Ventures Sdn. Bhd. and Palaeontol B.V. (the "**Shareholders Agreement**"), expressed to be governed by English law;
- 2.3. an e-mailed copy of a signed indemnity side letter dated 5 March 2016 between the Cooperative, Reach and MIE Holdings Corporation relating to specific additional indemnities in connection with the Share Purchase Agreement (the "**Indemnity Letter**"), expressed to be governed by English law;
- 2.4. an e-mailed copy of a signed amendment letter to the Share Purchase Agreement dated 5 September 2016, between the Cooperative in its capacity as seller, MIE Holdings Corporation as ultimate holding company of the seller and Reach as purchaser (the "**SPA Amendment Letter**"), expressed to be governed by English law;
- 2.5. a draft of the deed of transfer of shares in the capital of Palaeontol B.V., between the Cooperative as transferor, Reach as transferee and Palaeontol B.V. as company (the "**Deed of Transfer**");
- 2.6. an e-mailed copy of the shareholders' register (the "**Shareholders' Register**") of Palaeontol B.V. as most recently amended on 11 February 2011;
- 2.7. a certified electronic trade register extract regarding the Cooperative, Palaeontol B.V. and United International Management B.V., each dated the date hereof, obtained from the Dutch trade register (the "**Extracts**");
- 2.8. an e-mailed copy of the deed of incorporation of the Cooperative dated 8 February 2011 (the "**Deed of Incorporation Cooperative**") including the articles of association (*statuten*) of the Cooperative, that, according to the relevant Extract, are in force on the date hereof (the "**Articles**");
- 2.9. an e-mailed copy of the deed of incorporation of Palaeontol B.V. dated 11 February 2011 (the "**Deed of Incorporation B.V.**") including the articles of association (*statuten*) of Palaeontol B.V., that, according to the relevant Extract, are in force on the date hereof.
- 2.10. an e-mailed copy of a written resolution signed by all managing directors of the Cooperative's board of managing directors (*bestuur*) dated 4 March 2016 (the "**Managing Board Resolution I**"), containing a power of attorney granted by the

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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL COOP IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW *(Cont'd)*

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## HOUTHOFF BURUMA

Cooperative to United international Management B.V., authorised to act individually (the "**MBR Power of Attorney I**");

- 2.11. an e-mailed copy of a written resolution signed by all members of the Cooperative dated 4 March 2016 (the "**Members Resolution I**");
- 2.12. an e-mailed copy of a written resolution signed by all managing directors of the Cooperative's board of managing directors (*bestuur*) dated 8 September 2016 (the "**Managing Board Resolution II**"), containing a power of attorney granted by the Cooperative to United international Management B.V., authorised to act individually (the "**MBR Power of Attorney II**" and together with the MBR Power of Attorney I, the "**MBR Powers of Attorney**");
- 2.13. an e-mailed copy of a written resolution signed by all members of the Cooperative dated 8 September 2016 (the "**Members Resolution II**", and together with the Managing Board Resolution I, the Managing Board Resolution II and the Members Resolution I, the "**Resolutions**");
- 2.14. a draft power of attorney to be granted by the Cooperative to each lawyer and/or employee working at the law firm of Houthoff Buruma U.A. to execute the Deed of Transfer (the "**Power of Attorney Share Transfer**" and together with the MBR Power of Attorney I and the MBR Power of Attorney II, the "**Powers of Attorney**"); and
- 2.15. online copies of searches executed on the date hereof with respect to the Cooperative, Palaeontol B.V. and United International Management B.V. in the Dutch central insolvency register for Dutch and European Union insolvencies available at <http://insolventies.rechtspraak.nl> and <http://www.rechtspraak.nl/Registers/Paginas/EU-Registratie.aspx>, respectively, reflecting that the Cooperative, Palaeontol B.V. and United International Management B.V. are not listed in such Dutch central insolvency register.

In addition, the bankruptcy division (*faillissementsgriffie*) of the Amsterdam District Court has confirmed to us on date by telephone that the Cooperative, Palaeontol B.V. and United International Management B.V. are not listed by that District Court as having been declared bankrupt or been granted suspension of payments (such confirmation, together with the results of our search in the central insolvency register as referred to above, the "**Non-Insolvency Confirmations**").

The agreements listed under paragraph 2.1 through paragraph 2.4 above are together referred to as the "**Executed Agreements**", and together with the Deed of Transfer referred to as the "**Agreements**".

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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL COOP IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW (*Cont'd*)

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## **HOUTHOFF BURUMA**

### **3. Opinions**

Based upon the assumptions listed in **Annex I** to this opinion letter and subject to the qualifications and limitations stated hereafter, we express the following opinions:

#### **Corporate Status**

- 3.1. The Cooperative has been incorporated and is existing as a legal entity (*rechtspersoon*) in the form of a cooperative (*coöperatie*) with exclusion of liability (*uitgesloten aansprakelijkheid*) under Dutch Law (as defined below).

#### **Corporate Power**

- 3.2. The Cooperative has the corporate power to enter into the Agreements and to perform its obligations and to grant its representations and undertakings under the Agreements.

#### **Corporate Action**

- 3.3. The Cooperative has taken all necessary corporate action to authorise its entry into of the Agreements and the performance of its obligations and the granting of its representations and undertakings under the Agreements.

#### **Legal, valid and binding**

- 3.4. The Deed of Transfer will constitute legal, valid and binding obligations and undertakings of the Cooperative that will be enforceable in accordance with their terms.

#### **Valid Entry into Executed Agreements**

- 3.5. The Cooperative has validly entered into the Executed Agreements.

#### **Valid Entry into Deed of Transfer**

- 3.6. The Cooperative will have validly entered into the Deed of Transfer.

#### **Choice of Law in the Executed Agreements**

- 3.7. The choice of English law as the governing law of the Executed Agreements is recognised as a valid choice of law and accordingly English law governs the validity, binding effect and enforceability of the Executed Agreements against the Cooperative.

#### **Ownership of shares in Palaeontol B.V.**

- 3.8. According to the Shareholders' Register, all outstanding shares of Palaeontol B.V. are, prior to the execution of the Deed of Transfer, held by the Cooperative.

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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL COOP IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW (*Cont'd*)

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## **HOUTHOFF BURUMA**

### **Submission to Arbitration**

- 3.9. The submissions to arbitration, as provided in section 15 of the Share Purchase Agreement, section 18.2 of the Shareholders Agreement and section 7 of the SPA Amendment Letter, are valid and binding upon the Cooperative.

### **Enforcement of Arbitral Awards**

- 3.10. A final and binding monetary arbitral award rendered in arbitration proceedings in a foreign state which is enforceable in such foreign state will be recognised and enforced by the Dutch courts without review of its merits, according and subject to section 1075 (if enforcement is being sought pursuant to an applicable treaty such as the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958) or according and subject to section 1076 of the Dutch Code on Civil Proceedings (*Wetboek van Burgerlijke Rechtsvordering*).

### **No Consents**

- 3.11. No governmental or regulatory consents, approvals or authorisations are required under Dutch Law in connection with the Cooperative's entry into the Agreements or the performance of its obligations thereunder.

### **No Filing**

- 3.12. Under Dutch Law there are no registration, notification, filing or similar formalities required to ensure the validity, binding effect and enforceability of the Agreements against the Cooperative.

### **No Violation**

- 3.13. The entry into and performance of its obligations under the Agreements by the Cooperative do not conflict with or result in a violation of the Articles or the provisions of any applicable published law of general application of the Netherlands, which would affect the validity, binding effect and enforceability of the Agreements against it.

### **Insolvency**

- 3.14. Solely based on the Non-Insolvency Confirmations, we can confirm that the Cooperative has not been declared bankrupt or been granted a suspension of payments in the Netherlands.

### **No Immunity**

- 3.15. Under Dutch Law, the Cooperative is not entitled to immunity from legal proceedings and its assets are not immune from execution, except if such assets are intended for public service (*openbare dienst*).

## **4. Qualifications**

This opinion letter is subject to the following qualifications:



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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL COOP IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW (*Cont'd*)

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## **HOUTHOFF BURUMA**

The opinions expressed herein are limited or may be affected by a) certain general defenses available to obligors under Dutch Law in respect of the validity and enforceability of contractual obligations, such as avoidance on grounds of duress (*bedreiging*), mistake (*dwaling*), deceit (*bedrog*) or abuse of circumstances (*misbruik van omstandigheden*), the principles of reasonableness and fairness (*redelijkheid en billijkheid*), modification on grounds of unforeseen circumstances (*onvoorziene omstandigheden*), force majeure, or the right to suspend performance under the Deed of Transfer if the other party is in default in respect of its obligations, and b) the provisions of any applicable Insolvency Proceeding or emergency measures, a non-insolvency dissolution or liquidation, a statutory merger or demerger, involving the Cooperative as disappearing entity, fraudulent conveyance (*actio pauliana*) and similar laws of general application relating to or affecting the rights of creditors.

- 4.1. Under Dutch Law, notwithstanding the recognition of English law as the governing law of the Executed Agreements:
  - a. effect may be given to the overriding mandatory provisions of Dutch Law, or of the country where the obligations arising out of the contract have to be or have been performed, in so far as those overriding mandatory provisions render the performance of the contract unlawful, such irrespective of the governing law of the Executed Agreements;
  - b. Dutch Law will be applied or the application of English law may be refused to the extent it is manifestly incompatible with Dutch public policy (*openbare orde*) or, with respect to the Shareholders Agreement, mandatory provisions of Dutch corporate law.
- 4.2. Under Dutch Law, when applying Dutch Law as the governing law of the Deed of Transfer effect may be given to the overriding mandatory provisions of the country where the obligations arising out of the contract have to be or have been performed, to the extent those overriding mandatory provisions render the performance of the contract unlawful, such irrespective of the governing law of the Deed of Transfer.
- 4.3. With respect to opinion 3.8 we note the following:
  - a. under Dutch law third party rights on shares in Palaeontol B.V., including security rights and other limited rights in rem (*beperkt zakelijke rechten*), are not required to be recorded in the Shareholders' Register, or notified to Palaeontol B.V. The Shareholders' Register therefore does not provide conclusive evidence as to the non-existence of any pledge or other limited rights in rem (*beperkt zakelijke rechten*) on shares in the capital of Palaeontol B.V.; and

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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL COOP IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW (*Cont'd*)

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## **HOUTHOFF BURUMA**

- b. under Dutch law shares can be validly issued and transferred without registration of such issue or transfer of shares in the Shareholders' Register and/or notification of the Dutch trade register for inclusion in the relevant Extract.
- 4.4. The enforcement in a Dutch court of the Agreements and of arbitral awards is subject to Dutch rules of civil procedure.
- 4.5. We express no opinion on the consequences of any concurrent proceedings (including the combination of arbitration and other proceedings) or competing judgments (including arbitral awards) resulting therefrom.
- 4.6. In proceedings before a Dutch court for the enforcement of the Agreements, the court may mitigate amounts due in respect of litigation and collection costs. In addition, specific performance or injunctive relief may not always be granted.
- 4.7. A power of attorney (*volmacht*) granted by the Cooperative will automatically terminate upon bankruptcy of the Cooperative and will cease to have effect upon the Cooperative having been granted a moratorium. To the extent Dutch Law applies, a power of attorney can be made irrevocable only to the extent that it has been granted for the performance of a legal act that is in the interest of the attorney or a third party.
- 4.8. The Extracts do not constitute conclusive evidence that the facts set out therein are correct. However, under the Dutch Trade Register Act 2007, as amended (*Handelsregisterwet 2007*), subject to limited exceptions, a company incorporated in the Netherlands cannot invoke the incorrectness or incompleteness of the information regarding it contained in the trade register against third parties who were unaware thereof.
- 4.9. The Non-Insolvency Confirmations do not constitute conclusive evidence that the Cooperative has not become the subject of an Insolvency Proceeding.
- 4.10. The enforceability of the Agreements may be limited under the 1977 Sanction Act (*Sanctiewet 1977*) or regulations promulgated thereunder, EU sanction regulations or other similar applicable international sanctions.

### **5. Scope of Opinion Letter**

This opinion letter is limited to the laws of the European part of the Kingdom of the Netherlands, currently in force and as applied by Dutch courts (not including unpublished case law and, unless available on [www.rechtspraak.nl](http://www.rechtspraak.nl), case law available in electronic form only) ("**Dutch Law**"). We express no opinion on the laws of the European Union insofar as not implemented in Dutch Law or directly applicable in the Netherlands. We do not opine on tax law, competition and procurement laws. In this opinion letter Dutch Law concepts are expressed in English terms and not in their original Dutch terms. These

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LEGAL OPINION BY HOUTHOFF BURUMA COÖPERATIEF U.A. ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEOANTOL COOP IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW *(Cont'd)*

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## **HOUTHOFF BURUMA**

concepts of Dutch Law may not be the same as the concepts described by the English terms as such terms may be understood under the laws of other relevant jurisdictions. Our review of documents that are not governed by Dutch Law has been based upon our understanding of the plain reading of the language contained therein; we have not investigated the meaning and effect of any such language under any law other than Dutch Law.

The opinions expressed herein are rendered only as of the date of this opinion letter. We assume no obligation to inform you of any changes to Dutch Law arising after the date hereof.

Nothing in this letter should be taken as expressing an opinion on any matters of fact. We assume that there are no factual matters and documents not disclosed to us in the course of our investigation that would affect any opinion expressed in this opinion letter. We express no opinion on any representations, warranties or other statements contained in the Agreements, except as expressly confirmed herein.

### **6. Reliance**

This opinion letter is given on the express basis, accepted by each person who is entitled to rely on it, that this opinion letter and all rights, obligations or liability in relation to it are governed by Dutch Law and that any action or claim in relation to it can only be brought exclusively before the courts of Amsterdam, the Netherlands. In addition, this opinion letter is given on the express basis, accepted by each person who is entitled to rely on it, that any possible liability of Houthoff Buruma Coöperatief U.A., its members (including their directors) and employees is limited to the amount available and payable under Houthoff Buruma Coöperatief U.A.'s professional malpractice insurance coverage.

Notwithstanding inclusion of the full text of this opinion letter in the circular addressed to the shareholders of Reach (the "**Circular**"), this opinion letter is only addressed to you and may only be relied upon by you in connection with the transaction to which the Agreements relate. It may not be relied upon by, be transmitted to, quoted or referred to in any public document or filed with any other person, firm, company, or institution without our prior written consent, provided, however, that a copy of the full text of the opinion letter may, on a non-reliance basis, be included in the Circular and that the Circular may, on a non-reliance basis, be submitted to Bursa Malaysia Securities Berhad, Securities Commission Malaysia and other relevant authorities as part of the regulatory approval process for the Proposed Acquisition. In addition, a copy may be disclosed, but only on the express basis that they may not rely on it, to your legal counsel and any potential assignee, participant or transferee under the Agreements, in each case solely for the purpose of the transaction to which the Agreements relate and

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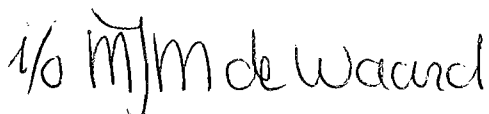
LEGAL OPINION BY HOUTHOFF BURUMA COÖPERATIEF U.A. ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEOANTOL COOP IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW *(Cont'd)*

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**HOUTHOFF BURUMA**

subject to the same restrictions or, be disclosed on a non-reliance basis as required by law or regulation. For the avoidance of doubt, we do not assume any duty or liability to any person or entity to whom such copy is provided.

Yours faithfully,

A handwritten signature in black ink, appearing to read "1/0 MjM de Waard". The signature is written in a cursive, somewhat stylized font.

Houthoff Buruma Coöperatief U.A.

On behalf of Houthoff Buruma Coöperatief U.A. by: Michiel Wesseling

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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL COOP IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW (Cont'd)

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## HOUTHOFF BURUMA

### ANNEX I - ASSUMPTIONS

We assume that:

1. all copies of documents conform to the originals and that all originals are authentic and complete;
2. each signature is the genuine signature of the individual concerned;
3. the results of our searches relied upon herein were accurate at their date and have remained accurate up to and including the date of this legal opinion;
4. the documents referred to in paragraph 2 above (other than the Agreements), including the statements made therein, were at their date, and will remain through the date of execution of the Deed of Transfer, accurate, complete and in full force and effect and that the Executed Agreements have through the date hereof remained in existence in the form in which they were presented to us;
5. the Deed of Transfer will be executed in the form provided to us;
6. the Deed of Incorporation Cooperative is a valid notarial deed (*notariële akte*), and that there were no defects in the incorporation of the Cooperative (not appearing on the face of the Deed of Incorporation) on the basis of which a court might dissolve the Cooperative or deem it never to have existed;
7. the Deed of Incorporation B.V. is a valid notarial deed (*notariële akte*), and that there were no defects in the incorporation of Palaeontol B.V. (not appearing on the face of the Deed of Incorporation) on the basis of which a court might dissolve Palaeontol B.V. or deem it never to have existed;
8. the Cooperative is not and will not be the subject of any of the proceedings listed in Annex A or B of Council Regulation (EC) No 1346/2000 of 29 May 2000 on insolvency proceedings (OJ 2000, L 160, 1), as amended ("**Insolvency Proceeding**"), emergency measures (*noodregeling*), a non-insolvency dissolution or liquidation, a statutory merger or demerger involving the Cooperative as disappearing entity, or a conversion (*omzetting*), and its assets have not been placed under administration (*bewind*);
9. there is no works council, no employee of the Cooperative or Palaeontol B.V. or another interested party has requested to establish a works council and no works council is in the process of being established, whose advice on the entering into of the Agreements by the Cooperative or Palaeontol B.V. must be sought under or pursuant to the Dutch Works Council Act (*Wet op de ondernemingsraden*) or otherwise;

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LEGAL OPINION BY HOUTHOFF BURUMA COOPERATIEF U.A. ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS OF PALAEONTOL COOP IN RELATION TO THE PROPOSED ACQUISITION UNDER THE DUTCH LAW (*Cont'd*)

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## **HOUTHOFF BURUMA**

10. the resolutions contained in the relevant Resolutions have been validly passed and have been adopted in accordance with the Articles, internal regulations (*reglementen*) and Dutch Law;
11. no member of the Cooperative's board of managing directors has a direct or indirect personal conflict of interest (*tegenstrijdig belang*) within the meaning of section 2:47 of the Dutch Civil Code with respect to the Agreements and/or the Proposed Acquisition;
12. any law, other than Dutch Law, which may apply to the Powers of Attorney or to the Agreements or the Proposed Acquisition, would not be such as to affect any opinion expressed in this opinion letter;
13. each party to the Agreements, other than the Cooperative, has all requisite corporate power to enter into and perform its obligations under the Agreements;
14. each Executed Agreement has been duly and validly authorised and entered into on behalf of each of the parties thereto, other than the Cooperative;
15. the Deed of Transfer will be duly and validly authorised and executed on behalf of each of the parties thereto, other than the Cooperative;
16. each Executed Agreement (including the arbitration and choice of law clauses contained therein) constitutes legal, valid and binding obligations of each of the parties thereto, and is enforceable against those parties in accordance with its terms, under the law by which it is expressed to be governed and any other law that may be applicable thereto, other than Dutch Law;
17. the Power of Attorney Share Transfer will be validly signed on behalf of the Cooperative by two of its managing directors;
18. each Executed Agreement has been validly signed on behalf of the Cooperative by a person named as attorney in the MBR Powers of Attorney and that the MBR Powers of Attorney has not been revoked;
19. the Deed of Transfer will have been validly executed; and
20. that the information contained in the Shareholders' Register is and will on the date of execution of the Deed of Transfer be true and correct and that it has been fully updated in respect of any issuance, transfer and/or right or security, warrant and/or option, cancellation, split, nominal and paid up value which might affect the number of shares in issue and the status of the shares of Palaeontol B.V., which includes any pledge or any other limited right in rem (*beperkt zakelijke rechten*) on the shares of Palaeontol B.V.

**LEGAL OPINION BY WALKERS LAW FIRM ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE CAYMAN ISLANDS LAW**



13 September 2016

Our Ref: TG/R2120-S04940

Reach Energy Berhad  
D3-5-8, Block D3,  
Solaris Dutamas,  
No.1, Jalan Dutamas 1,  
50480 Kuala Lumpur,  
Malaysia.  
Attention: The Board of Directors

Dear Sirs

**LEGAL OPINION ON ENFORCEABILITY OF THE DOCUMENTS (AS DEFINED HEREIN) BEING ENTERED INTO BY MIE HOLDINGS CORPORATION UNDER THE LAWS OF CAYMAN ISLANDS**

We have been asked to provide this legal opinion to you with regard to the enforceability of the Documents (as defined in Schedule 1) being entered into by **MIE Holdings Corporation** (the "**Company**") under the laws of the Cayman Islands.

This opinion has been prepared as requested by Reach Energy Berhad in connection with the proposed indirect acquisition by Reach Energy Berhad through its special purpose vehicle namely Reach Energy Ventures Sdn Bhd, which was incorporated in Malaysia, of a 60% participating interest in Palaeontol B.V., which wholly owns Emir-Oil LLP from Palaeontol Cooperatief U.A. ("**Proposed Acquisition**") for the purposes of the inclusion of the information contained in this opinion in the circular to shareholders of Reach Energy Berhad.

For the purposes of giving this opinion, we have examined and relied upon the originals, copies or translations of the documents listed in Schedule 1.

In giving this opinion we have relied upon the assumptions set out in Schedule 2, which we have not independently verified.

We are Cayman Islands Attorneys at Law and express no opinion as to any laws other than the laws of the Cayman Islands in force and as interpreted at the date of this opinion. We have not, for the purposes of this opinion, made any investigation of the laws, rules or regulations of any other jurisdiction. Except as explicitly stated herein, we express no opinion in relation to any representation or warranty contained in the Documents nor upon matters of fact or the commercial terms of the transactions contemplated by the Documents.

Based upon the foregoing examinations and assumptions and upon such searches as we have conducted and having regard to legal considerations which we consider relevant, and subject to the qualifications set out in Schedule 3, and under the laws of the Cayman Islands, we give the following opinions in relation to the matters set out below.

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Walkers (Singapore) Limited Liability Partnership

UEN/Reg. No. T09LL0833E

3 Church Street, #16-02 Samsung Hub, Singapore 049483

T 65 6595 4670 F 65 6595 4671 www.walkersglobal.com

British Virgin Islands | Cayman Islands | Dubai | Dublin | Hong Kong | Jersey | London | Singapore

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LEGAL OPINION BY WALKERS LAW FIRM ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE CAYMAN ISLANDS LAW (*Cont'd*)

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1. The Company is an exempted company duly incorporated with limited liability, validly existing under the laws of the Cayman Islands and in good standing with the Registrar of Companies in the Cayman Islands (the "**Registrar**").
2. The Company has full corporate power and authority to execute and deliver the Documents to which it is a party and to perform its obligations under the Documents.
3. The Documents (other than the Deed of Assignment) to which the Company is a party have been duly authorised and executed and, when delivered by the Company, will constitute the legal, valid and binding obligations of the Company enforceable in accordance with their respective terms.
4. The Deed of Assignment to which the Company is a party has been duly authorised and, when delivered and executed by the Company, will constitute the legal, valid and binding obligations of the Company enforceable in accordance with its respective terms.
5. The execution, delivery and performance of the Documents to which the Company is a party, the consummation of the transactions contemplated thereby and the compliance by the Company with the terms and provisions thereof do not:
  - (a) contravene any law, public rule or regulation of the Cayman Islands applicable to the Company which is currently in force; or
  - (b) contravene the Memorandum and Articles of Association of the Company.
6. Neither:
  - (a) the execution, delivery or performance of any of the Documents to which the Company is a party; nor
  - (b) the consummation or performance of any of the transactions contemplated thereby by the Company,requires the consent or approval of, the giving of notice to, or the registration with, or the taking of any other action in respect of any Cayman Islands governmental or judicial authority or agency.
7. The law (if any) chosen in each of the Documents to which the Company is a party to govern its interpretation would be upheld as a valid choice of law in any action on that Document in the courts of the Cayman Islands (the "**Courts**" and each a "**Court**").
8. Save as set out in qualification 2 in Schedule 3, there are no stamp duties, income taxes, withholdings, levies, registration taxes, or other duties or similar taxes or charges now imposed, or which under the present laws of the Cayman Islands could in the future become imposed, in connection with the enforcement or admissibility in evidence of the Documents or on any payment to be made by the Company or any other person pursuant to the Documents. The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax.



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LEGAL OPINION BY WALKERS LAW FIRM ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE CAYMAN ISLANDS LAW (*Cont'd*)

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9. None of the parties to the Documents is or will be deemed to be resident, domiciled or carrying on business in the Cayman Islands by reason only of the execution, delivery, performance or enforcement of the Documents to which any of them is party.
10. A judgment obtained in a foreign court (other than certain judgments of a superior court of any state of the Commonwealth of Australia) will be recognised and enforced in the Courts without any re-examination of the merits at common law, by an action commenced on the foreign judgment in the Grand Court of the Cayman Islands (the "**Grand Court**"), where the judgment:
- (a) is final and conclusive;
  - (b) is one in respect of which the foreign court had jurisdiction over the defendant according to Cayman Islands conflict of law rules;
  - (c) is either for a liquidated sum not in respect of penalties or taxes or a fine or similar fiscal or revenue obligations or, in certain circumstances, for in personam non-money relief (following *Bandone Sdn Bhd v Sol Properties Inc. [2008] CILR 301*); and
  - (d) was neither obtained in a manner, nor is of a kind enforcement of which is contrary to natural justice or the public policy of the Cayman Islands.
11. It is not necessary under the laws of the Cayman Islands that any of the Documents be registered or recorded in any public office or elsewhere in the Cayman Islands in order to ensure the validity or enforceability of any of the Documents.
12. It is not necessary under the laws of the Cayman Islands:
- (a) in order to enable any party to any of the Documents to enforce their rights under the Documents; or
  - (b) solely by reason of the execution, delivery and performance of the Documents,
- that any party to any of the Documents should be licensed, qualified or otherwise entitled to carry on business in the Cayman Islands or any other political subdivision thereof.
13. In each Document which contains a provision pursuant to which the Company agrees to submit to the jurisdiction of the courts specified therein, the Company has executed (or, in the case of the Deed of Assignment, when entered into, will execute) an effective submission to the jurisdiction of such courts.
14. Based solely upon our examination of the Court Register (as defined in Schedule 1) we confirm that at the Search Time (as defined in Schedule 1) there are no actions, suits or proceedings pending against the Company before the Grand Court and no steps have been, or are being, taken compulsorily to wind up the Company.

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**LEGAL OPINION BY WALKERS LAW FIRM ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE CAYMAN ISLANDS LAW (Cont'd)**

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WALKERS

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15. The Company is subject to civil and commercial law with respect to its obligations under the Documents and neither the Company nor any of its assets are entitled to immunity from suit or enforcement of a judgment on the grounds of sovereignty or otherwise in the Courts in proceedings against the Company in respect of any obligations under the Documents, which constitute commercial transactions and are not an exercise of sovereign authority.

This opinion is limited to the matters referred to herein and shall not be construed as extending to any other matter or document not referred to herein. This opinion is given solely for your benefit and the benefit of your legal advisers acting in that capacity in relation to this transaction and may not be relied upon by any other person without our prior written consent.

This opinion shall be construed in accordance with the laws of the Cayman Islands.

Yours faithfully

**WALKERS (SINGAPORE) LIMITED LIABILITY PARTNERSHIP**



**THOMAS GRANGER**

Partner

Email: [thomas.granger@walkersglobal.com](mailto:thomas.granger@walkersglobal.com)

DID: +65 6603 1694

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LEGAL OPINION BY WALKERS LAW FIRM ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE CAYMAN ISLANDS LAW (*Cont'd*)

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## SCHEDULE 1

## LIST OF DOCUMENTS EXAMINED

1. The Certificate of Incorporation dated 20 March 2008, Memorandum and Articles of Association as adopted on 27 November 2010, Certificate of Incorporation on Change of Name dated 27 November 2010, Register of Directors and Register of Mortgages and Charges, in each case, of the Company, copies of which have been provided to us by Skrine on 22 March 2016 and 5 April 2016 (together the "**Company Records**").
2. The Cayman Online Registry Information System (CORIS), the Cayman Islands' General Registry's online database, searched on 8 September 2016.
3. The Register of Writs and other Originating Process of the Grand Court kept at the Clerk of Court's Office, George Town, Grand Cayman (the "**Court Register**"), examined on 8 September 2016 (the "**Search Time**").
4. A copy of a Certificate of Incumbency dated 9 September 2016 in respect of the Company issued by Maples & Calder (the "**Certificate of Incumbency**").
5. A copy of a Certificate of Good Standing dated 9 September 2016 in respect of the Company issued by the Registrar (the "**Certificate of Good Standing**").
6. A copy of executed written resolutions of the Board of Directors of the Company dated 4 March 2016, (the "**Resolutions**").
7. Copies of the following:
  - (a) the signed sale and purchase agreement between the Company, Palaeontol Cooperatief U.A., and Reach Energy Berhad dated 5 March 2016 (the "**SPA**");
  - (b) the signed shareholders agreement between the Company, Palaeontol Cooperatief U.A., Palaeontol B.V., Reach Energy Berhad and Reach Energy Ventures Sdn. Bhd. dated 11 April 2016;
  - (c) the signed supplemental letter to the SPA relating to secondees executed by the Company, Palaeontol Cooperatief U.A., and Reach Energy Berhad dated 5 March 2016;
  - (d) the supplemental letter to the SPA relating to indemnities executed by the Company, Palaeontol Cooperatief U.A., and Reach Energy Berhad dated 5 March 2016;
  - (e) the disclosure letter to the SPA executed by the Company and Reach Energy Berhad dated 5 March 2016;
  - (f) the amendment no. 1 agreement to the SPA between the Company, Palaeontol Cooperatief U.A., and Reach Energy Berhad dated 5 September 2016; and
  - (g) the draft deed of assignment of debt between the Company, Palaeontol B.V. and Reach Energy Ventures as provided to us by Skrine on 2 March 2016 (the "**Deed of Assignment**").

The documents listed in paragraphs 7(a) to 7(g) above inclusive are collectively referred to in this opinion as the "**Documents**"

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LEGAL OPINION BY WALKERS LAW FIRM ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE CAYMAN ISLANDS LAW (*Cont'd*)

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## SCHEDULE 2

## ASSUMPTIONS

1. There are no provisions of the laws of any jurisdiction outside the Cayman Islands which would be contravened by the execution or delivery of the Documents and, insofar as any obligation expressed to be incurred under the Documents is to be performed in or is otherwise subject to the laws of any jurisdiction outside the Cayman Islands, its performance will not be illegal by virtue of the laws of that jurisdiction.
2. The Documents are within the capacity, power, and legal right of, and have been or will be duly authorised, executed and delivered by, each of the parties thereto (other than the Company).
3. The Documents constitute or, when executed and delivered, will constitute the legal, valid and binding obligations of each of the parties thereto enforceable in accordance with their terms as a matter of the laws of all relevant jurisdictions (other than the Cayman Islands).
4. The choice of the laws of the jurisdiction selected to govern each of the Documents has been made in good faith and will be regarded as a valid and binding selection which will be upheld in the courts of that jurisdiction and all relevant jurisdictions (other than the Cayman Islands).
5. All authorisations, approvals, consents, licences and exemptions required by, and all filings and other steps required of each of the parties to the Documents outside the Cayman Islands to ensure the legality, validity and enforceability of the Documents have been or will be duly obtained, made or fulfilled and are and will remain in full force and effect and any conditions to which they are subject have been satisfied.
6. All conditions precedent, if any, contained in the Documents have been or will be satisfied or waived.
7. The Board of Directors of the Company considers the execution of the Documents and the transactions contemplated thereby to be in the best interests of the Company.
8. No disposition of property effected by the Documents is made for an improper purpose or wilfully to defeat an obligation owed to a creditor and at an undervalue.
9. The Company was on the date of execution of the Documents to which it is a party able to pay its debts as they became due from its own moneys, and any disposition or settlement of property effected by any of the Documents is made in good faith and for valuable consideration and at the time of each disposition of property by the Company pursuant to the Documents the Company will be able to pay its debts as they become due from its own moneys.
10. The originals of all documents examined in connection with this opinion are authentic. The signatures, initials and seals on the Documents are genuine and are those of a person or persons given power to execute the Documents under the Resolutions or any power of attorney given by the Company to execute the Documents. All documents purporting to be sealed have been so sealed. All copies are complete and conform to their originals. Any translations are a true translation of the original document they purport to translate. The Documents conforms in every material respect to the latest drafts of the same produced to us and, where provided in successive drafts, have been marked up to indicate all changes to such Documents.
11. Any Document was either executed as a single physical document (whether in counterpart or not) in full and final form or, where any Document was executed by or on behalf of any company, body

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**LEGAL OPINION BY WALKERS LAW FIRM ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE CAYMAN ISLANDS LAW (Cont'd)**

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corporate or corporate entity, the relevant signature page was attached to such Document by, or on behalf of, the relevant person or otherwise with such person's express or implied authority.

12. The Memorandum and Articles of Association reviewed by us are the Memorandum and Articles of Association of the Company in force at the date hereof.
13. The Company Records are complete and accurate and constitute a complete and accurate record of the business transacted and resolutions adopted by the Company and all matters required by law and the Memorandum and Articles of Association of the Company to be recorded therein are so recorded.
14. There are no records of the Company (other than the Company Records), agreements, documents or arrangements other than the documents expressly referred to herein as having been examined by us which materially affect, amend or vary the transactions envisaged in the Documents or restrict the powers and authority of the Directors of the Company in any way or which would affect any opinion given herein.
15. The Resolutions have been duly executed (and where by a corporate entity such execution has been duly authorised if so required) by or on behalf of each Director and the signatures and initials thereon are those of a person or persons in whose name the Resolutions have been expressed to be signed.
16. The Resolutions and any power of attorney given by the Company to execute the Documents remain in full force and effect and have not been revoked or varied.
17. No resolution voluntarily to wind up the Company has been adopted by the members and no event of a type which is specified in the Articles of Association of the Company as giving rise to the winding up of the Company (if any) has in fact occurred.
18. As a matter of all relevant laws (other than the laws of the Cayman Islands), any power of attorney given by the Company to execute the Documents has been duly executed by the Company and constitutes the persons named therein as the duly appointed attorney of the Company with such authority as is specified therein.
19. None of the Documents constitute a security interest for the purposes of all relevant laws other than the laws of the Cayman Islands.
20. The Deed of Assignment will be duly executed, dated and unconditionally delivered by all parties thereto in the form provided to us.

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LEGAL OPINION BY WALKERS LAW FIRM ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE CAYMAN ISLANDS LAW (*Cont'd*)

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## SCHEDULE 3

## QUALIFICATIONS

1. The term "**enforceable**" and its cognates as used in this opinion means that the obligations assumed by any party under the Documents are of a type which the Courts enforce. This does not mean that those obligations will necessarily be enforced in all circumstances in accordance with their terms. In particular:
  - (a) enforcement of obligations and the priority of obligations may be limited by bankruptcy, insolvency, liquidation, reorganisation, readjustment of debts or moratorium and other laws of general application relating to or affecting the rights of creditors or by prescription or lapse of time;
  - (b) enforcement may be limited by general principles of equity and, in particular, the availability of certain equitable remedies such as injunction or specific performance of an obligation may be limited where a Court considers damages to be an adequate remedy;
  - (c) claims may become barred under statutes of limitation or may be or become subject to defences of set-off, counterclaim, estoppel and similar defences;
  - (d) where obligations are to be performed in a jurisdiction outside the Cayman Islands, they may not be enforceable in the Cayman Islands to the extent that performance would be illegal under the laws of, or contrary to the public policy of, that jurisdiction;
  - (e) a judgment of a Court may be required to be made in Cayman Islands dollars;
  - (f) to the extent that any provision of the Documents is adjudicated to be penal in nature, it will not be enforceable in the Courts; in particular, the enforceability of any provision of the Documents that is adjudicated to constitute a secondary obligation which imposes a detriment on the contract-breaker out of all proportion to any legitimate interest of the innocent party in the enforcement of the primary obligation may be limited;
  - (g) to the extent that the performance of any obligation arising under the Documents would be fraudulent or contrary to public policy, it will not be enforceable in the Courts;
  - (h) in the case of an insolvent liquidation of the Company, its liabilities are required to be translated into the functional currency of the Company (being the currency of the primary economic environment in which it operated as at the commencement of the liquidation) at the exchange rates prevailing on the date of commencement of the voluntary liquidation or the day on which the winding up order is made (as the case may be);
  - (i) a Court will not necessarily award costs in litigation in accordance with contractual provisions in this regard;
  - (j) the effectiveness of terms in the Documents excusing any party from a liability or duty otherwise owed or indemnifying that party from the consequences of incurring such liability or breaching such duty shall be construed in accordance with, and shall be limited by, applicable law, including generally applicable rules and principles of common law and equity.
2. Cayman Islands stamp duty will be payable on any Document if it is executed in or brought to the Cayman Islands, or produced before a Court.

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LEGAL OPINION BY WALKERS LAW FIRM ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE CAYMAN ISLANDS LAW (*Cont'd*)

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3. A certificate, determination, calculation or designation of any party to the Documents as to any matter provided therein might be held by a Court not to be conclusive, final and binding, notwithstanding any provision to that effect therein contained, for example if it could be shown to have an unreasonable, arbitrary or improper basis or in the event of manifest error.
4. If any provision of the Documents is held to be illegal, invalid or unenforceable, severance of such provision from the remaining provisions will be subject to the discretion of the Courts notwithstanding any express provisions in this regard.
5. Every conveyance or transfer of property, or charge thereon, and every payment obligation and judicial proceeding, made, incurred, taken or suffered by a company at a time when that company was unable to pay its debts within the meaning of section 93 of the Companies Law (2013 Revision) (as amended) of the Cayman Islands (the "**Companies Law**"), and made or granted in favour of a creditor with a view to giving that creditor a preference over the other creditors of the company, would be invalid pursuant to section 145(1) of the Companies Law, if made, incurred, taken or suffered within the six months preceding the commencement of a liquidation of the Company. Such actions will be deemed to have been made with a view to giving such creditor a preference if it is a "related party" of the company. A creditor shall be treated as a related party if it has the ability to control the company or exercise significant influence over the company in making financial and operating decisions.
6. Any disposition of property made at an undervalue by or on behalf of a company and with an intent to defraud its creditors (which means an intention to wilfully defeat an obligation owed to a creditor), shall be voidable:
  - (a) under section 146(2) of the Companies Law at the instance of the company's official liquidator; and
  - (b) under the Fraudulent Dispositions Law, at the instance of a creditor thereby prejudiced,provided that in either case, no such action may be commenced more than six years after the date of the relevant disposition.
7. If any business of a company has been carried on with intent to defraud creditors of the company or creditors of any other person or for any fraudulent purpose, the Court may declare that any persons who were knowingly parties to the carrying on of the business of the company in such manner are liable to make such contributions, if any, to the company's assets as the Court thinks proper.
8. Notwithstanding any purported date of execution in any of the Documents, the rights and obligations therein contained take effect only on the actual execution and delivery thereof but the Documents may provide that they have retrospective effect as between the parties thereto alone.
9. The obligations of the Company may be subject to restrictions pursuant to United Nations sanctions and/or measures adopted by the European Union Council for Common Foreign & Security Policy extended to the Cayman Islands by the Order of Her Majesty in Council.
10. Under the laws of the Cayman Islands, persons who are not party to a Document (other than beneficiaries under properly constituted trusts or persons acting pursuant to powers contained in a deed poll) have no direct rights or obligations under such Document unless such Document expressly provides in writing that such persons may in their own right enforce a term of such Document under The Contracts (Rights of Third Parties) Law, 2014 of the Cayman Islands.
11. Our opinion as to good standing is based solely upon receipt of the Certificate of Good Standing issued by the Registrar. The Company shall be deemed to be in good standing under section

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LEGAL OPINION BY WALKERS LAW FIRM ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE CAYMAN ISLANDS LAW (*Cont'd*)

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WALKERS

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200A of the Companies Law on the date of issue of the certificate if all fees and penalties under the Companies Law have been paid and the Registrar has no knowledge that the Company is in default under the Companies Law.

12. The Court Register may not reveal whether any out of court appointment of a liquidator or a receiver has occurred. The Court Register may not constitute a complete record of the proceedings before the Grand Court as at the Search Time including for the following reasons:
- (a) it may not reveal whether any documents filed subsequently to an originating process by which new causes of action and/or new parties are or may be added (including amended pleadings, counterclaims and third party notices) have been filed with the Grand Court;
  - (b) it may not reveal any originating process (including a winding up petition) in respect of the Company in circumstances where the Court has prior to the issuance of such process ordered that such process upon issuance be anonymised (whether on a temporary basis or otherwise);
  - (c) it may not be updated every day;
  - (d) documents may have been removed from it, or may not have been placed on it, where an order has been made to that effect in a particular cause or matter; and
  - (e) it may not reveal any orders made *ex parte* on an urgent basis where the originating process is issued subsequently pursuant to an undertaking given to the Court at the time the order is made.
13. We express no opinion upon any provisions in the Articles of Association of the Company or any document which contains a reference to any law or statute that is not a Cayman Islands law or statute.
14. We express no opinion upon the effectiveness of any clause of the Documents which provides that the terms of such Document may only be amended in writing.
15. We render no opinion as to the specific enforcement as against the Company of covenants granted by the Company to do or to omit to do any action or other matter which is reserved by applicable law or the Company's constitutional documents to the Company's members or any other person.
16. Where a document provides for an exclusive or non-exclusive jurisdiction clause submitting (or permitting the submission) to the jurisdiction of the Courts, a Court may decline to accept jurisdiction in any matter where:
- (a) it determines that some other jurisdiction is a more appropriate or convenient forum;
  - (b) another court of competent jurisdiction has made a determination in respect of the same matter; or
  - (c) litigation is pending in respect of the same matter in another jurisdiction.
- Proceedings may be stayed in the Cayman Islands if concurrent proceedings in respect of the same matter are or have been commenced in another jurisdiction.
17. Where a document provides for an exclusive jurisdiction clause submitting to a jurisdiction of a court other than the Courts, notwithstanding any provision of the document providing for the



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LEGAL OPINION BY WALKERS LAW FIRM ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE CAYMAN ISLANDS LAW (*Cont'd*)

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WALKERS

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exclusive jurisdiction of a court other than the Courts, the Court may, if it is satisfied that it is just and equitable to allow such proceedings to continue in the Cayman Islands:

- (a) decline to stay proceedings issued in contravention of such provision; or
- (b) grant leave to serve Cayman Islands proceedings out of the Cayman Islands.

18. If any amount paid by or to any party to the Documents or any property received or disposed of by any party to the Documents in each case in connection with the performance of the Documents or the consummation of the transactions contemplated thereby (any such amount or property, the "**Relevant Property**") constitutes or will constitute criminal property (as defined in the Proceeds of Crime Law (2014 Revision) (as amended) of the Cayman Islands (the "**Proceeds of Crime Law**") or terrorist property (as defined in the Terrorism Law (2015 Revision) of the Cayman Islands (the "**Terrorism Law**")) then an offence may be committed under the Proceeds of Crime Law. If the performance of the Documents or the consummation of the transactions contemplated thereby constitutes an arrangement which facilitates the retention or control by or on behalf of another person of terrorist property by concealment, by removal from the jurisdiction or by transfer to nominees or if any party to the Documents:

- (a) pays, disposes of or receives any Relevant Property with the intention that it should be used, or with reasonable cause to suspect that it will or may be used, for the purposes of terrorism;
- (b) knows or has reasonable cause to suspect that Relevant Property has been used directly or indirectly in the commission of an act of terrorism or will or may be used for the purposes of terrorism; or
- (c) acquires Relevant Property as a result of or in connection with acts of terrorism,

then an offence may be committed under the Terrorism Law.

19. We express no opinion on and our opinions are subject to the effect, if any, of any provisions of any Document that relies upon financial or numerical computation.

LEGAL OPINION BY KING & WOOD MALLESONS ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE ENGLISH LAW AND HONG KONG LAW

KING & WOOD  
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9 September 2016

**Private & Confidential**

To:

**Reach Energy Berhad**

Level 8, Symphony House,  
Pusat Dagangan Dana 1,  
Jalan PJU 1A/46,  
47301 Petaling Jaya,  
Selangor Darul Ehsanm  
Malaysia  
Attention: Board of Directors

Dear Sirs

**Legal opinion on Hong Kong law governed documents and English law governed documents**

We have been asked to opine on:

- (a) the enforceability of the Share Acquisition Documents (as defined below) under English law, including the representations and undertakings contained therein; and
- (b) the enforceability of the Deed of Assignment (as defined below) under the laws of Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"), including the representations and undertakings contained therein.

This opinion relates only to:

- (a) the enforceability of the Share Acquisition Documents (including the representations and undertakings contained therein) under English law and, in respect of that part of the opinion, is given on the basis that it is to be construed in accordance with English law; and
- (b) the enforceability of the Deed of Assignment (including the representations and undertakings contained therein) under the laws of Hong Kong and, in respect of that part of the opinion, is given on the basis that it is to be construed in accordance with Hong Kong law.

**Partners:** Ronald Arculli | Peter Bullock | Candy Chan | Barbara Chiu | Siu Ngor Chow | Hayden Flinn | Helena Huang | David Lam | Guo Sun Lee | Gary Lock | Richard Mazzochi | Urszula McCormack | Ching Wo Ng | Paul Starr | Minny Siu | Sheldon Tse | Anthony Wan | Edmund Wan | Huang Wen | Raymond Wong | Huang Xuhua (non-resident) | Simon Yung | Hao Zhou  
**Registered Foreign Lawyers:** Neil Carabine (NSW, Australia) | Christine Chen (New York, USA) | Rupert Li (California, USA) | Tejaswi Nimmagadda (England & Wales) | Susan Ning (PRC) | Jason Qiu (PRC) | Zhang Yi (PRC) **Consultants:** David Bateson | Felix Fong | Miriam Lau **Counsel:** John Baptist Chan | Rachel Chan | Angela Cui | Ian Hardee | Hera Lee | Kanne Leung | Richard Lyons | Angus Sip | Khin Voong | Yurong Ye

金杜律師事務所國際聯盟成員所。更多資訊，敬請瀏覽 [www.kwm.com](http://www.kwm.com)  
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LEGAL OPINION BY KING & WOOD MALLESONS ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE ENGLISH LAW AND HONG KONG LAW (*Cont'd*)

KING & WOOD  
MALLESONS  
金杜律师事务所

Reach Energy Berhad

9 September 2016

We express no opinion about English law or the laws of Hong Kong other than as set out above. We express no opinion about the laws of any other jurisdiction.

We express no opinion about factual matters (except as expressly provided in paragraph 3).

1 Documents

We have examined the following transaction documents, relating to the proposed acquisition by Reach Energy Berhad, through its wholly-owned subsidiary, Reach Energy Ventures Sdn Bhd, of a 60% equity interest in Palaeontol B.V., a wholly-owned subsidiary of Palaeontol Cooperatief U.A. which in turn is an indirect wholly-owned subsidiary of MIE Holdings Corporation and 60% of the shareholder loans in Palaeontol B.V. from MIE Holdings Corporation for a total cash consideration of USD154,889,000, subject to adjustments ("**Proposed Acquisition**"), which (together with the Debt Agreements) are the only documents we have examined for the purpose of this opinion:

- (a) a copy of the signed share sale and purchase agreement dated 5 March 2016 between MIE Holdings Corporation, Palaeontol Cooperatief U.A. and Reach Energy Berhad, as provided to King & Wood Mallesons in an email from Skrine dated 1 April 2016 ("**SPA**"), and as such SPA is amended by the SPA Amendment and affected by the Disclosure Letter;
- (b) a copy of the signed amendment no.1 dated 5 September 2016 between MIE Holdings Corporation, Palaeontol Cooperatief U.A. and Reach Energy Berhad, extending the "Longstop Date" under the SPA (and setting out the parties' agreement on certain matters related to that extension) and amending certain other terms of the SPA, as provided to King & Wood Mallesons in an email from Skrine dated 6 September 2016 ("**SPA Amendment**");
- (c) a copy of the signed shareholders' agreement dated 11 April 2016 between Reach Energy Berhad, MIE Holdings Corporation, Reach Energy Ventures Sdn. Bhd., Paleontol Cooperatief U.A. and Palaeontol B.V., as provided to King & Wood Mallesons in an email from Skrine dated 11 April 2016 ("**SHA**");
- (d) a copy of the signed side letter dated 5 March 2016 between MIE Holdings Corporation, Paleontol Cooperatief U.A. and Reach Energy Berhad relating to transition employees in connection with the SPA, as provided to King & Wood Mallesons in an email from Skrine dated 1 April 2016 ("**Transition Employees Side Letter**");
- (e) a copy of the signed side letter dated 5 March 2016 between MIE Holdings Corporation, Palaeontol Cooperatief U.A. and Reach Energy Berhad relating to specific additional indemnities in connection with the SPA, as provided to King & Wood Mallesons in an email from Skrine dated 1 April 2016 ("**Indemnities Side Letter**");
- (f) a copy of the signed disclosure letter dated 5 March 2016 from MIE Holdings Corporation to Reach Energy Berhad in connection with the SPA, as provided to King & Wood Mallesons in an email from Skrine dated 1 April 2016 ("**Disclosure Letter**");
- (g) a draft copy of the Deed of Assignment of Debt between the MIE Holdings Corporation, Palaeontol B.V., and another party (defined in the agreement as "REB Subsidiary") ("**REV**"), as set out in Schedule 7 of the SPA, as provided to King & Wood Mallesons in an email from Skrine dated 1 April 2016, being a document governed by the laws of Hong Kong ("**Deed of Assignment**").

LEGAL OPINION BY KING & WOOD MALLESONS ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE ENGLISH LAW AND HONG KONG LAW (*Cont'd*)

KING & WOOD  
MALLESONS  
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Reach Energy Berhad

9 September 2016

In this opinion the expressions:

- (h) **"Debt Agreements"** means the documents referred to below, being documents governed by the laws of Hong Kong:
- (i) the Shareholder Loan Agreement dated 18 March 2014 between MIE Holdings Corporation and Palaeontol B.V. for a principal amount equal to US\$60,000,000 and accruing interest at a rate of 7.855% per annum;
  - (ii) the Shareholder Loan Agreement dated 18 March 2014 between MIE Holdings Corporation and Palaeontol B.V. for an aggregate amount equal to US\$140,171,658.63 and interest at a rate of 0% and 4.855% per annum (as applicable);
  - (iii) the Shareholder Loan Agreement dated 18 March 2014 between MIE Holdings Corporation and Palaeontol B.V. for a principal amount equal to US\$100,000,000 and accruing interest at a rate of 7.855% per annum;
  - (iv) the Shareholder Loan Agreement dated 18 March 2014 between MIE Holdings Corporation and Palaeontol B.V. for a principal amount equal to US\$20,000,000 and accruing interest at a rate of 11.855% per annum;
  - (v) the Shareholder Loan Agreement dated 18 March 2014 between MIE Holdings Corporation and Palaeontol B.V. for a principal amount equal to US\$20,000,000 and accruing interest at a rate of 7.855% per annum; and
  - (vi) the Agreement to Limit the Right of Recourse between MIE Holdings Corporation and Palaeontol B.V. with the effective date being 14 September 2011 ("LRA");
- (i) **"Documents"** means the Share Acquisition Documents and the Deed of Assignment;
- (j) **"laws"** means the common law, principles of equity and laws constituted or evidenced by documents available to the public generally;
- (k) **"Relevant Party"** means each party to each of the Documents; and
- (l) **"Share Acquisition Documents"** means the documents referred to in paragraphs (a) to (e) (inclusive) above, being documents which are governed by English law.

## 2 Assumptions

This opinion is subject to the assumptions set out in schedule 1.

## 3 Opinion

### A English Law Opinion

On the foregoing basis and subject to the applicable qualifications set out below, we are of the opinion that:

LEGAL OPINION BY KING & WOOD MALLESONS ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE ENGLISH LAW AND HONG KONG LAW (*Cont'd*)

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- (a) the obligations, representations and undertakings of each Relevant Party under each Share Acquisition Document to which it is party are valid, binding and (subject to the terms of such Share Acquisition Document) enforceable under the laws of England which are in force at 9.00 am Hong Kong time on the date of this legal opinion. The expression “enforceable” means that the relevant obligations are of a type that English courts enforce and does not mean that the obligations will necessarily be enforced in all circumstances in accordance with their terms. In particular, but without limitation, see schedule 2, paragraphs 1.1, 1.2 and 1.3;
- (b) the execution and delivery by or on behalf of each Relevant Party of the Share Acquisition Documents and the observance of its obligations under them has not violated and will not contravene any law in force in England;
- (c) it is not necessary under English law to provide a copy of a Share Acquisition Document to a court or governmental agency in order to ensure the legality, validity, enforceability or admissibility in evidence of the Share Acquisition Documents;
- (d) the English courts will give effect to:
  - (i) the choice of English law to govern the Share Acquisition Documents; and
  - (ii) with respect to the Share Acquisition Documents, the submission to binding arbitration in Singapore by each of the Relevant Parties to such documents.

**B Hong Kong Law Opinion**

On the foregoing basis and subject to the applicable qualifications set out below, we are of the opinion that:

- (a) the obligations, representations and undertakings of each of the Relevant Parties under the Deed of Assignment are valid, binding and (subject to the terms of the Deed of Assignment) enforceable under the laws of Hong Kong which are in force at 9.00 am Hong Kong time on the date of this legal opinion. The expression “enforceable” means that the relevant obligations are of a type that the courts in Hong Kong enforce and does not mean that the obligations will necessarily be enforced in all circumstances in accordance with their terms. In particular, but without limitation, see schedule 2, paragraphs 1.1, 1.2 and 1.3;
- (b) the execution and delivery by or on behalf of each Relevant Party of the Deed of Assignment and the observance of its obligations under it has not violated and will not contravene any law in force in Hong Kong;
- (c) it is not necessary under Hong Kong law to provide a copy of the Deed of Assignment to a court or governmental agency in order to ensure the legality, validity, enforceability or admissibility in evidence of that agreement; and
- (d) the courts of Hong Kong will give effect to:
  - (i) the choice of the laws of Hong Kong to govern the Deed of Assignment; and
  - (ii) the submission to binding arbitration in Singapore by each of the Relevant Parties to the Deed of Assignment.

LEGAL OPINION BY KING & WOOD MALLESONS ON THE ENFORCEABILITY OF AGREEMENTS,  
REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION  
UNDER THE ENGLISH LAW AND HONG KONG LAW (Cont'd)

KING & WOOD  
MALLESONS  
金杜律师事务所

Reach Energy Berhad

9 September 2016

**4 Qualifications**

This opinion is subject to the qualifications set out in schedule 2.

**5 Benefit**

This opinion is addressed to you personally and may not, without our prior written consent, be:

- (a) relied on by another person;
- (b) disclosed, except:
  - (i) in the ordinary course of your business on the basis that the persons to whom the opinion is disclosed may not rely on it and may not disclose it to any other person; or
  - (ii) if required by law; or
  - (iii) in connection with any litigation or proposed litigation in relation to the Documents or this opinion; or
- (c) filed with a government or other agency or quoted or referred to in a public document.

We understand you have requested this opinion with the intention of:

- (d) including the information contained in the opinion in a circular to shareholders of Reach Energy Berhad relating to the Proposed Acquisition; and
- (e) submitting a copy of the opinion to Bursa Malaysia Securities Berhad, Securities Commission Malaysia and other relevant authorities as part of the regulatory approval process for the Proposed Acquisition,

and we consent to disclosure and submission of the opinion for those purposes.

LEGAL OPINION BY KING & WOOD MALLESONS ON THE ENFORCEABILITY OF AGREEMENTS,  
REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION  
UNDER THE ENGLISH LAW AND HONG KONG LAW (Cont'd)

KING & WOOD  
MALLESONS  
金杜律师事务所

Reach Energy Berhad

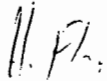
9 September 2016

This opinion is strictly limited to the matters stated in it and does not apply by implication to other matters.

This opinion is given in respect of the laws of Hong Kong and English which are in force at 9.00 am Hong Kong time on the date of this opinion; and on the basis that we have no obligation to notify any addressee of this opinion of any change in the laws of Hong Kong or English law, any change in the interpretation of laws of Hong Kong or English law or any change in the application or administration of the laws of Hong Kong or English law after the date of this opinion.

Yours faithfully

For and on behalf of **King & Wood Mallesons**



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LEGAL OPINION BY KING & WOOD MALLESONS ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE ENGLISH LAW AND HONG KONG LAW (*Cont'd*)

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## Schedule 1 - Assumptions

For the purposes of providing this opinion, we have assumed:

- (a) the authenticity of all signatures, seals, duty stamps and markings;
- (b) the completeness, and conformity to originals, of all documents submitted to us;
- (c) that the Deed of Assignment was duly executed by all Relevant Parties in the applicable form described in paragraph 1 of the main body of this opinion (but, with the details of the party defined in the Deed of Assignment as the "REB Subsidiary" having been replaced with details of "Reach Energy Ventures Sdn Bhd.");
- (d) that each Relevant Party is incorporated and validly existing under the laws of the jurisdiction in which it is incorporated and is capable of suing and being sued in its corporate name;
- (e) that each Relevant Party has:
  - (i) the corporate power to enter into the Documents to which it is a party and to observe its obligations under them; and
  - (ii) taken all corporate action required on its part to authorise the execution, delivery and observance of its obligations under the Documents to which it is a party;
- (f) that all corporate authorisations referred to in paragraph (e)(ii) of this schedule 1 remain in full force and effect;
- (g) that no Relevant Party enters into any Document in the capacity of a trustee of any trust;
- (h) that all other authorisations required under any relevant laws (other than any authorisations required under English law in connection with the Share Acquisition Documents and any authorisations required under the laws of Hong Kong in connection with the Deed of Assignment) for each Relevant Party to enter into the Documents to which it is a party and to observe its obligations under them have been obtained and remain in full force and effect;
- (i) that each Document has been executed and delivered by each Relevant Party to it by duly authorised signatories in accordance with the laws of the jurisdiction in which the party is incorporated;
- (j) that each Document constitutes valid and binding obligations of each Relevant Party to it under all relevant laws (other than English law in respect of the Share Acquisition Documents and the laws of Hong Kong in respect of the Deed of Assignment);
- (k) that the execution and delivery by or on behalf of each Relevant Party of the Documents to which it is a party and the observance of its obligations under them has not violated and will not contravene its constitutional document(s);
- (l) that, in connection with a Share Acquisition Document, if an obligation is to be performed in a jurisdiction outside England, its performance will not be contrary to an official directive, impossible or illegal under the law of that jurisdiction;
- (m) that, in connection with the Deed of Assignment, if an obligation is to be performed, or a right is to be exercised, in a jurisdiction outside Hong Kong, its performance or exercise will not be contrary to an official directive, impossible or illegal under the laws of that jurisdiction;



**LEGAL OPINION BY KING & WOOD MALLESONS ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE ENGLISH LAW AND HONG KONG LAW (*Cont'd*)**

- (n) that no transaction in connection with the Documents is void, voidable or unenforceable or otherwise liable to adjustment or reversal under any relevant insolvency laws;
- (o) that each Relevant Party is not unable to pay its debts or is not otherwise insolvent under any relevant laws at the time of entering into the Documents to which it is a party or any transactions connected with the Documents and that it will not become unable to pay its debts or is not otherwise insolvent under any relevant laws as a consequence of entering into, and performing its obligations under, the Documents or any transactions in connection with the Documents;
- (p) that no action has been taken for the appointment of an administrator, liquidator, provisional liquidator, special manager, receiver, manager or similar officer to, or the dissolution or winding up of, any Relevant Party or any of its assets or revenues and no steps have been taken to obtain a moratorium and nothing having a substantially similar effect has happened under any relevant laws;
- (q) that no transaction in connection with the Deed of Assignment constitutes a fraudulent preference or an unfair preference within the meaning of sections 266 and 266B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong, "**CWMO**"), an extortionate transaction within the meaning of section 264B of the CWMO, an invalid floating charge within the meaning of section 267 of CWMO or a voidable disposition of property under section 60(1) of the Conveyancing and Property Ordinance (Cap. 219 of the Laws of Hong Kong);
- (r) that no transaction in connection with the Documents constitutes a breach of any prohibition on giving financial assistance for the acquisition of shares or any substantially similar prohibition under any relevant laws;
- (s) that no person has been, or will be, engaged in conduct that is unconscionable or dishonest, misleading or deceptive, or likely to mislead or deceive;
- (t) that there are no facts not evident from the face of the Documents which might make any part of this opinion incorrect;
- (u) that the performance of the obligations of each Relevant Party to a Share Acquisition Document under all relevant transactions in connection with the Share Acquisition Documents are commercial transactions as defined in the State Immunity Act 1978.
- (v) that no Relevant Party to the Deed of Assignment is controlled, whether directly or indirectly, through any statutory, legal or equitable power or right, by any state, government (other than the Hong Kong government), or executive, legislative, municipal or urban counsel, or any department, commission, authority, tribunal, agency, undertaking or entity thereof; and
- (w) that neither MIE Holdings Corporation nor REV is carrying on a business in Hong Kong as a money lender; and
- (x) that, in respect of the Deed of Assignment, the common law and rules of equity of England which applied in Hong Kong on 30 June 1997 continue to apply, subject to:
  - (i) their later independent development, which rests primarily with the courts of Hong Kong;
  - (ii) the extent to which they do not contravene the Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, which was adopted by the Seventh National Congress of the People's Republic of China on 4 April 1990; and
  - (iii) their amendment by the legislature of Hong Kong.

We have not taken any steps to verify the assumptions stated above and assume, with respect to each addressee of this opinion, that such addressee does not know or suspect that any of those assumptions is incorrect.

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LEGAL OPINION BY KING & WOOD MALLESONS ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE ENGLISH LAW AND HONG KONG LAW (*Cont'd*)

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## Schedule 2 - Qualifications

### 1 Nature and enforcement of obligations

- 1.1 The nature and enforcement of obligations may be affected by lapse of time, failure to take action or considerations of public policy or laws (including, but not limited to, laws relating to bankruptcy, insolvency, liquidation, receivership, administration, arrangement and reconstruction, special management, fraudulent transfer or moratoria), certain equitable remedies and defences generally affecting creditors' rights.
- 1.2 A creditor's rights may be affected by a specific court order obtained under the applicable laws and defences generally affecting creditors' rights.
- 1.3 The rights of a Relevant Party to enforce its rights under the Documents may be limited or affected by:
- (a) breaches by that Relevant Party of its obligations under the Document, or misrepresentations made by it in, or in connection with, the Document;
  - (b) conduct of that Relevant Party in relation to the Document which is unlawful;
  - (c) conduct of that Relevant Party in relation to the Document which gives rise to an estoppel or claim against that Relevant Party by the party against whom it is seeking to enforce its rights under the Document; and
  - (d) in respect of the Deed of Assignment, the LRA. On a plain reading, the LRA appears to have the effect of limiting MIE Holdings Corporation's rights under the Debt Agreements (other than the LRA). However, as the LRA is a document governed by the laws of the Netherlands, we are unable to express any opinion on that document.
- 1.4 The availability of certain equitable remedies (including, but not limited to, injunctions and specific performance) is at the discretion of the English courts or the courts of Hong Kong (as applicable).
- 1.5 An obligation to pay an amount may be unenforceable under English law or under the laws of Hong Kong (as applicable) if the amount is held to constitute a penalty.
- 1.6 A provision that a statement, opinion, determination or other matter is final and conclusive will not necessarily prevent judicial enquiry into the merits of a claim by an aggrieved party.
- 1.7 English law or the laws of Hong Kong (as applicable) may require that discretions are exercised reasonably and opinions are based on reasonable grounds.
- 1.8 The question whether a provision of a Document which is invalid or unenforceable may be severed from other provisions is determined at the discretion of:
- (a) the English courts, in the case of the Share Acquisition Documents; or
  - (b) the courts of Hong Kong, in the case of the Deed of Assignment.
- 1.9 An indemnity for legal costs may be unenforceable under English law or the laws of Hong Kong (as applicable).
- 1.10 Any undertaking to assume liability, or indemnity:
- (a) for any stamp duty payable under English law may be void under English law; or

**LEGAL OPINION BY KING & WOOD MALLESONS ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE ENGLISH LAW AND HONG KONG LAW (*Cont'd*)**

- (b) for any fine or other reparation for a crime under the laws of Hong Kong (including for non-payment of stamp duty payable in Hong Kong) will generally be unenforceable under the laws of Hong Kong.

**2 Enforceability of specific provisions**

2.1 We express no opinion as to:

- (a) provisions precluding oral amendments or waivers;
- (b) whether a judgment for a monetary amount would be given:
  - (i) in connection with the Share Acquisition Documents, in a currency other than pounds sterling; or
  - (ii) in connection with the Deed of Assignment, in a currency other than Hong Kong dollars;
- (c) the date on which a conversion from foreign currency would be made for the purpose of enforcing a judgment;
- (d) provisions requiring a party to negotiate in good faith or settle disputes amicably (or similar phrasings); or
- (e) the accuracy, completeness or suitability of any formula set out in any Document. If any formula is inaccurate, incomplete and unsuitable for the purposes of determining the amounts or matters for which it has been included, then an English court or a court in Hong Kong (applicable) may find that the relevant formula is void for uncertainty.

2.2 A party entering into a Document may, in doing so, be acting, or later be held to have acted, in the capacity of a trustee under an undocumented or partially documented constructive, implied or resulting trust which may have arisen as a consequence of that party's conduct.

2.3 A currency indemnity contained in:

- (a) the Share Acquisition Documents may be unenforceable if it is contrary to public policy in England; or
- (b) the Deed of Assignment may be unenforceable if it is contrary to public policy in Hong Kong.

2.4 The enforceability of a guarantee under English law or the laws of Hong Kong (as applicable) may be affected by amendments to the guaranteed obligations if the guaranteed obligations do not remain within the general scope of the guarantee.

2.5 Any provision of any Document which constitutes, or purports to constitute, a restriction on the exercise of any statutory power by any party to the Documents or any other person may be ineffective under English law or the laws of Hong Kong (as applicable).

2.6 If the operation of the Contracts (Rights of Third Parties) Act 1999 (UK) is expressly excluded in any Share Acquisition Document, any person who is not party to such Share Acquisition Document may not be able to enforce provisions of that document which are expressed to be for the benefit of that person but such exclusion does not affect any right or remedy of that person which exists or is available other than pursuant to that Act.

**3 Jurisdiction, judicial interpretation and remedies**

3.1 An English court will not give effect to a choice of laws to govern the Share Acquisition Documents if to do so would be contrary to public policy in England.

3.2 A court in Hong Kong will not give effect to a choice of laws to govern the Deed of Assignment if to do so would be contrary to public policy in Hong Kong.

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**LEGAL OPINION BY KING & WOOD MALLESONS ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS IN RELATION TO THE PROPOSED ACQUISITION UNDER THE ENGLISH LAW AND HONG KONG LAW (*Cont'd*)**

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- 3.3 An English court or a court in Hong Kong (as applicable) may not give effect to provisions of a Document in relation to consequences of breach of any term of such documents if to do so would require the court to exceed the powers conferred on the court by its procedural law.
- 3.4 A document may not be admissible in court proceedings in England or in Hong Kong (as applicable) in connection with the Documents unless applicable stamp duty has been paid.
- 3.5 A payment made under mistake may be liable to restitution under English law or the laws of Hong Kong (as applicable).
- 3.6 Claims may become barred under applicable limitation legislation in England or Hong Kong (as applicable) or may be or become subject to the defence of set-off or to counterclaim.
- 3.7 An English court will give effect to any applicable mandatory provisions of English law irrespective of the choice of the laws of another jurisdiction as the governing law of any document.
- 3.8 A court in Hong Kong will give effect to any applicable mandatory provisions of the laws of Hong Kong irrespective of the choice of the laws of another jurisdiction as the governing law of any document.
- 3.9 Where any party is required to make payments on demand, English courts or the courts of Hong Kong (as applicable) may require that the party be given reasonable time to comply with the demand before the creditor will be permitted to realise or enforce any securities for a failure to satisfy the demand.
- 3.10 Legislation and treasury rules and regulations in England restrict or prohibit payments, transactions and dealings with assets having a proscribed connection with certain countries, individuals or entities subject to international sanctions or associated with terrorism.
- 3.11 Legislation, rules, regulations and industry guidelines in Hong Kong restrict or prohibit payments, transactions, services and dealings with assets having a proscribed connection with certain countries, individuals or entities subject to international sanctions or associated with terrorism, money laundering, weapons of mass destruction or other criminal activity, or which otherwise fall within higher risk categories.
- 3.12 Court proceedings in England or Hong Kong (as applicable) may be stayed, and jurisdiction declined to be accepted in certain cases, if the subject of the proceedings is concurrently before a court elsewhere or has previously been before a court.
- 3.13 An English court will not give effect to a choice of laws to govern, and a submission to the jurisdiction of the English courts in relation to, non-contractual obligations arising out of, or in connection with, the Share Acquisition Documents which are expressly excluded from Regulation No 864/2007 of the European Parliament and of the Council of 11 July 2007 on the law applicable to non-contractual obligations (known as "Rome II").
- 4 Tax**
- 4.1 We express no opinion on any taxes (including stamp duty) which may be payable in connection with the transactions contemplated by the Documents.

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**DIRECTORS' REPORT ON THE PALAEONTOL B.V. GROUP**

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Date: 10 OCT 2016

**Registered Office:**  
Strawinskylaan  
411 Tower A 4<sup>th</sup> Floor  
1077XX Amsterdam  
Netherlands

**REACH ENERGY BERHAD**

Dear Sir/Madam,

**DIRECTORS' REPORT ON PALAEONTOL B.V.**

On behalf of the Board of Directors of Palaeontol B.V. ("**Board**"), we wish to report that, after due enquiry during the period from 30 June 2016, being the date which the last audited financial statements of Palaeontol B.V. and its subsidiary ("**Palaeontol B.V. Group**") have been made up, to the date herein, being a date not earlier than 14 days before the issuance of this Circular, that, to the best of our knowledge and belief:

- (i) the business of the Palaeontol B.V. Group has, in the opinion of the Board, been carried on in the normal ordinary course of its day-to-day business in compliance in all material respects with all applicable laws and so as to maintain its business as a going concern and with a view to profit;
- (ii) in the opinion of the Board, no circumstances have arisen since the last audited financial statements of the Palaeontol B.V. Group which has caused any material adverse change in the business or the value of the assets (including current assets) of the Palaeontol B.V. Group;
- (iii) the current assets of the Palaeontol B.V. Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) there are no material contingent liabilities by reason of any guarantees or indemnities given by the Palaeontol B.V. Group;
- (v) there have been, since the last audited financial statements of the Palaeontol B.V. Group, no defaults or any known events that could give rise to a default situation, on payments of either interest and/or principal sums in relation to any borrowings from financial institutions by the Palaeontol B.V. Group; and
- (vi) the current volatile oil price environment has continued to affect the financial results of the Palaeontol B.V. Group and consequently its reserves (i.e. retained earnings). Save as mentioned in this paragraph, there have been, since the last audited financial statements of the Palaeontol B.V. Group, no other material changes to the published reserves (i.e. retained earnings) or any unusual factors affecting the financial performance of the Palaeontol B.V. Group.

This Directors' Report is addressed solely to Reach Energy Berhad for the purpose of inclusion in a circular to its shareholders in connection with its proposed acquisition of a 60% equity interest in Palaeontol B.V. from Palaeontol Cooperatief U.A. and 60% of the shareholder loans in Palaeontol B.V. from MIE Holdings Corporation for a total purchase consideration of United States Dollar USD154,889,000, subject to adjustments and may not in any circumstances be relied upon by any other persons, except the Directors of Reach Energy Berhad, or for any other purpose whatsoever and the Directors of Palaeontol B.V. shall not be liable or responsible for any loss or damage of such other persons, except the Directors of Reach Energy Berhad, arising out of, in connection with or relating to this Directors' Report.

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**DIRECTORS' REPORT ON THE PALAEONTOL B.V. GROUP (Cont'd)**

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The above matters are subject to the qualifications and limitations set out in the sale and purchase agreement between MIE Holdings Corporation, Paleaontol Cooperatief U.A and Reach Energy Berhad dated 5 March 2016.

Yours faithfully,  
For and on behalf of the Board of Directors of  
**PALAEONTOL B.V.**



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MIE New Ventures Corporation  
By: Zhang Ruilin

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**FURTHER INFORMATION**

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**1. RESPONSIBILITY STATEMENT**

Our Board has seen and approved this Circular and they collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement in this Circular misleading.

Information on the Palaeontol B.V. Group, the Emir-Oil Concession Block and the Vendors was extracted from publicly available information and/or documents provided by the board of directors and management of the Vendors, and the responsibility of our Board is limited to ensuring that such information is accurately reproduced in this Circular.

**2. CONSENTS**

HLIB, Maybank IB, BNP Paribas Capital (Malaysia) Sdn Bhd, Skrine, Messrs PricewaterhouseCoopers, Frost and Sullivan, RPS, FHCA, BDO, SIGNUM Law Firm, Houthoff Buruma Cooperatief U.A., King & Wood Mallesons and Walkers Law Firm have given their respective consent to the inclusion in this Circular of their names, letters and reports (where applicable) and all references made, in the form and context in which they appear and have not, prior to the issue of this Circular, been withdrawn.

**3. CONFLICT OF INTERESTS**

- (i) HLIB and Maybank IB confirm that there is no situation of conflict of interest or potential conflict of interest in their capacity as Joint Principal Advisers in respect of the Proposals.
- (ii) BNP Paribas Capital (Malaysia) Sdn Bhd confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the International Financial Adviser in respect of the Proposed Acquisition.
- (iii) Skrine confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the legal adviser in respect of Malaysian law in relation to the Proposals.
- (iv) PricewaterhouseCoopers confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as Reporting Accountants for the Proposals.
- (v) Frost & Sullivan confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the independent market researcher in relation to the Proposed Acquisition.
- (vi) RPS confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the independent technical and asset valuation expert for the Proposed Acquisition.
- (vii) FHCA confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the independent expert to provide an opinion on the fairness of the Purchase Consideration.
- (viii) BDO confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the independent expert on policies on foreign investments, taxation and repatriation of profits of the Netherlands and Kazakhstan in relation to the Proposed Acquisition.

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**FURTHER INFORMATION (Cont'd)**

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- (ix) SIGNUM Law Firm confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the Kazakhstan legal counsel providing the legal opinion on the ownership/title in relation to the Proposed Acquisition under Kazakhstan Law.
- (x) Houthoff Buruma Cooperatief U.A. confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the Dutch legal counsel providing the legal opinion on the ownership/title and enforceability of agreements, representations and undertakings in relation to the Proposed Acquisition under the Dutch Law.
- (xi) King & Wood Mallesons confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the English and Hong Kong legal counsel providing the legal opinion on the enforceability of agreements, representations and undertakings in relation to the Proposed Acquisition under the English Law and Hong Kong Law.
- (xii) Walkers Law Firm confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the Cayman Islands legal counsel providing the legal opinion on the enforceability of agreements, representations and undertakings in relation to the Proposed Acquisition under the Cayman Islands Law.

**4. MATERIAL COMMITMENT AND CONTINGENT LIABILITIES****4.1 Reach Energy Group**

As at the LPD, our Board confirms that there is no material commitment incurred or known to be incurred by us that may have an impact on the profits and NA of our Group.

As at the LPD, our Board confirms that there are no contingent liabilities, which upon being enforceable, will have an impact on the profits and NA of our Group.

**4.2 Palaeontol B.V. Group**

Save for the material commitment as set out in Section 3.7 of Appendix XI of this Circular, as at the LPD, the Palaeontol B.V. Board confirms that there is no material commitment incurred or known to be incurred by the Palaeontol B.V. Group which may have an impact on the profits and NA of the Palaeontol B.V. Group.

As at the LPD, to the best knowledge of the Palaeontol B.V. Board, there are no contingent liabilities, which upon becoming enforceable will have an impact on the profits and NA of the Palaeontol B.V. Group.

**5. MATERIAL LITIGATION****5.1 Reach Energy Group**

As at the LPD, our Group is not involved in any material litigation, claims, actions or arbitration, pending or threatened, either as plaintiff or defendant, which has or would have a material and adverse effect on the financial position of our Group.



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**FURTHER INFORMATION (Cont'd)**

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**5.2 Palaeontol B.V. Group**

As at the LPD, the Palaeontol B.V. Group is not involved in any material litigation, claims, actions or arbitration, pending or threatened, either as plaintiff or defendant, which has or would have a material and adverse effect on the financial position and business of the Palaeontol B.V. Group.

**6. MATERIAL CONTRACTS****6.1 Reach Energy Group**

Save for the SPA (including the SPA Amendment No. 1 and SPA Amendment No. 2) and SHA, our Group has not entered into any material contracts, not being contracts entered into in the ordinary course of business, within the past two years preceding the LPD.

**6.2 Palaeontol B.V. Group**

There are no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the Palaeontol B.V. Group within the past two years preceding the LPD.

**7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at our registered office at Level 8, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan during normal office hours (except for public holidays) from the date of this Circular up to and including the date of our coming EGM:

- (i) M&A of our Company and Palaeontol B.V. (both in Dutch and translated copy in English);
- (ii) our audited financial statements for the past FYE 31 July 2014 as well as for the FPEs 31 December 2015 and 29 February 2016;
- (iii) our latest quarterly results for the 6 months ended 30 June 2016;
- (iv) executive summary of the independent market research report as included in Appendix V of this Circular and the full independent market research report on the global O&G industry and the O&G exploration and production industry in Kazakhstan prepared by Frost & Sullivan;
- (v) Independent Technical Expert and Valuation Report of the Emir-Oil Concession Block dated 30 September 2016 prepared by RPS as included in Appendix VI of this Circular;
- (vi) Independent Upside Summary Report as included in Appendix VII of this Circular and the full independent upside potential report of the Emir-Oil Concession Block dated 20 September 2016 prepared by RPS;
- (vii) Fairness Opinion Letter prepared by FHCA as included in Appendix VIII of this Circular as well as the report on the fairness of the Purchase Consideration dated 10 October 2016;
- (viii) pro forma consolidated statement of financial position of our Company as at 29 February 2016 together with the Reporting Accountants' letter thereon as included in Appendix IX of this Circular;
- (ix) Accountants' Report on the Palaeontol B.V. Group as included in Appendix X of this Circular;

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**FURTHER INFORMATION (Cont'd)**

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- (x) audited consolidated financial statements of Palaeontol B.V. for the past three FYEs 31 December 2013 to 31 December 2015 and FPE 30 June 2016;
- (xi) expert's opinion report on policies on foreign investments, taxation and repatriation of profits of the Netherlands and Kazakhstan issued by BDO as included in Appendix XII of this Circular;
- (xii) legal opinion on the ownership/title and enforceability of agreements, representations and undertakings issued by SIGNUM Law Firm, Houthoff Buruma Cooperatief U.A., King & Wood Mallesons and Walkers Law Firm under Kazakhstan law, the Dutch law, the Cayman Islands Law as well as the English law and Hong Kong law respectively as included in Appendix XIII of this Circular;
- (xiii) SPA, SPA Amendment No. 1 and SPA Amendment No. 2;
- (xiv) SHA;
- (xv) Exploration Contract;
- (xvi) Production Contracts;
- (xvii) Directors' Report on the Palaeontol B.V. Group as included in Appendix XIV of this Circular; and
- (xviii) letters of consent referred to in Section 2 above.



**REACH ENERGY BERHAD**  
(Company No. 1034400-D)  
(Incorporated in Malaysia under the Companies Act, 1965)

## **NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** an Extraordinary General Meeting ("**EGM**") of Reach Energy Berhad ("**Reach Energy**" or "**Company**") will be held at Banquet Hall, Level 1, TPC Kuala Lumpur (formerly known as Kuala Lumpur Golf & Country Club (KLGCC)), 10, Jalan 1/70D, Bukit Kiara, 60000 Kuala Lumpur, Malaysia on Friday, 4 November 2016 at 3.30 p.m., for the purpose of considering and if thought fit, to pass the following resolutions with or without modifications:

### **SPECIAL RESOLUTION**

**PROPOSED ACQUISITION BY REACH ENERGY VENTURES SDN BHD ("REACH ENERGY VENTURES"), A WHOLLY-OWNED SPECIAL PURPOSE VEHICLE OF THE COMPANY OF 60% EQUITY INTEREST IN PALAEONTOL B.V., A WHOLLY-OWNED SUBSIDIARY OF PALAEONTOL COOPERATIEF U.A. ("PALAEONTOL COOP") WHICH IN TURN IS AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF MIE HOLDINGS CORPORATION ("MIEH") AND 60% OF THE SHAREHOLDER LOANS (AS DEFINED BELOW) FROM MIEH FOR A TOTAL CASH CONSIDERATION OF USD154,889,000, SUBJECT TO ADJUSTMENTS**

**THAT** approval be and is hereby given to the Company's wholly-owned special purpose vehicle, Reach Energy Ventures, to undertake the proposed acquisition of 60% equity interest in Palaeontol B.V., a wholly-owned subsidiary of Palaeontol COOP which in turn is an indirect wholly-owned subsidiary of MIEH and 60% of 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**") from MIEH for a total cash consideration of USD154,889,000 (equivalent to RM640,543,460), subject to adjustments in accordance with the terms and conditions as stipulated in the sale and purchase agreement dated 5 March 2016 entered into among Palaeontol COOP and MIEH as the sellers, Reach Energy as the purchaser, as amended by the agreements dated 5 September 2016 and 7 October 2016 respectively entered into by the same parties ("**SPA**") and as further elaborated in the Company's circular to shareholders dated 13 October 2016 ("**Circular**"), for purposes of fulfilling the requirement of a "Qualifying Acquisition" pursuant to the Company's Articles of Association ("**Proposed Acquisition**").

**THAT** the Directors of the Company be and are hereby empowered and authorised to do all acts, deeds and things to execute, sign, deliver and cause to be delivered on behalf of the Company all such documents and/or agreements (including, without limitation, the affixing of the Company's common seal, where necessary) as the Directors may consider necessary or expedient or relevant to give effect to and implement the SPA and transaction documents contemplated under the SPA and all other related and/or relevant agreements and matters in connection with, to give effect to and to complete the Proposed Acquisition and with full power to assent to any conditions, modifications, variations and/or amendments in any manner as may be required by the relevant authorities or as the Directors may deem necessary or expedient in the interest of the Company and to take such steps as they may deem necessary or expedient in order to implement, finalise and give full effect to the Proposed Acquisition.

**AND THAT** the Directors of the Company be and are hereby empowered and authorised to do all acts, deeds and things, as the Directors may consider necessary or expedient or relevant to do, to give effect to and implement the repurchase of the ordinary shares of RM0.01 each in the Company held by shareholders of the Company ("**Relevant Shares**") as required by the shareholders who voted against the Proposed Acquisition and who have complied with all the relevant procedures and requirements as set out in the Circular issued by the Company, including to cancel the Relevant Shares repurchased by the Company and to take all other relevant actions as may be required by laws and regulations, or as the Directors may deem necessary or expedient in the interest of the Company, in order to implement and to give full effect to the repurchase of the Relevant Shares.

#### **ORDINARY RESOLUTION**

#### **PROPOSED PLACEMENT OF NEW ORDINARY SHARES OF RM0.01 EACH IN REACH ENERGY ("PLACEMENT SHARES") TO RAISE GROSS PROCEEDS OF UP TO RM180.0 MILLION**

**THAT**, subject to the passing of the Special Resolution and the approvals of all relevant authorities being obtained, the Board of Directors ("**Board**") of Reach Energy be and is hereby authorised to allot and issue such number of new ordinary shares of RM0.01 each in Reach Energy ("**Reach Energy Shares**") ("**Placement Shares**") to raise gross proceeds of up to RM180.0 million ("**Proposed Placement**") to such persons and at such time as the Board may deem fit.

**THAT** the Placement Shares shall be issued at an issue price to be determined later, after taking into consideration the prevailing market conditions and the 5-day volume weighted average market price ("**VWAMP**") of Reach Energy Shares immediately preceding the price-fixing date. The discount for the issue price of the Placement Shares, if any, shall not be more than 15% of the 5-day VWAMP of Reach Energy Shares immediately preceding the price-fixing date and such issue price shall not be lower than the par value of Reach Energy Shares of RM0.01 each.

**THAT** the proceeds of the Proposed Placement shall be utilised for the purposes as set out in the Circular and the Directors of the Company be authorised with full powers to vary the manner and/or purpose of utilisation of such proceeds in such manner as the Board may deem fit, necessary and/or expedient, subject to the approval of the relevant authorities, where required.

**THAT** such Placement Shares will, upon allotment and issuance, rank pari passu in all respects with the then existing Reach Energy Shares, except that the Placement Shares will not be entitled to any dividends, rights, allotments and/or any other distributions that may be declared by the Company, the entitlement date of which is prior to the date of allotment of the Placement Shares.

**AND THAT** the Directors of the Company be and are hereby empowered and authorised to take all such necessary steps to give effect to the Proposed Placement with full powers to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or permitted by any relevant authorities or deemed necessary by the Board, and to take all steps to do all such acts and matters as they may consider necessary or expedient to implement, finalise and give full effect to the Proposed Placement.

**BY ORDER OF THE BOARD,**

**CHEN BEE LING (MAICSA 7046517)**  
**TAN LAI HONG (MAICSA 7057707)**  
Joint Company Secretaries

Selangor Darul Ehsan  
13 October 2016

**Notes:**

1. In regard of deposited securities, only members whose names appear in the Record of Depositors as at 28 October 2016 shall be eligible to attend the EGM and to speak and vote thereat.
2. A member of the Company who is entitled to attend and vote at the EGM shall be entitled to appoint any person as his(her) proxy to attend and vote in his(her) stead. There shall be no restriction as to the qualification of the proxy. A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 need not be complied with. A proxy appointed to attend and vote at the EGM shall have the same rights as the member to speak at the EGM.
3. A member of the Company may appoint not more than two (2) proxies to attend the EGM. Where a member appoints two (2) proxies, he(she) shall specify the proportion of his(her) shareholdings to be represented by each proxy.
4. The instrument appointing a proxy shall be in writing (in the common or usual form) under the hands of the member or of his(her) attorney duly authorised in writing or if the member is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised. If the instrument appointing a proxy is executed by an officer or attorney duly authorised in writing, supporting documents are to be produced on the day of the EGM for verification by the Company Secretary.
5. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account to attend and vote at the EGM.
6. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), such Exempt Authorised Nominee may appoint multiple proxies in respect of each omnibus account it holds. The appointment of multiple proxies shall be invalid unless the authorised nominee or Exempt Authorised Nominee specifies the proportion of its shareholdings to be represented by each proxy it has appointed.
7. To be valid, the Form of Proxy must be completed, signed and deposited at the share registrar's office at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time set for holding the EGM or adjourned meeting.

If you appoint a proxy to vote against the resolution pertaining to the Proposed Acquisition on your behalf (with or without your instructions on the Form of Proxy), the proxy must bring with him your duly completed and signed Request Form to our coming Extraordinary General Meeting ("EGM"), and your proxy must follow the steps as set out in Section 18.1 of the Circular in order for you to be entitled to exercise your rights to require our Company to repurchase your Relevant Shares. The duly completed and signed Request Form must be lodged by your proxy with our share registrar together with the voting slip at our coming EGM.

If you appoint the Chairman as your proxy to vote against the resolution pertaining to the Proposed Acquisition on your behalf, you MUST complete and sign **BOTH** the Form of Proxy (with or without your instructions) **AND** the Request Form, and deposit **BOTH** the duly completed and signed Form of Proxy **AND** the Request Form at our Share Registrar's office not later than 48 hours before the time fixed for our coming EGM (including any adjournment thereof).



**REACH ENERGY BERHAD**  
(1034400-D)

CDS Account No.

**FORM OF PROXY**

I/We \_\_\_\_\_

I.C. No./ Passport No./ Company No. \_\_\_\_\_

being a member of **REACH ENERGY BERHAD** ("**REACH ENERGY**" or "**Company**"), hereby appoint

\_\_\_\_\_

I.C. No./ Passport No. \_\_\_\_\_ of \_\_\_\_\_

or failing him/her, \_\_\_\_\_

I.C. No./ Passport No. \_\_\_\_\_ of \_\_\_\_\_

or failing him/her, the **CHAIRMAN OF THE MEETING** as my/our proxy, to vote for me/us on my/our behalf at the **EXTRAORDINARY GENERAL MEETING** of our Company to be held at Banquet Hall, Level 1, TPC Kuala Lumpur (formerly known as Kuala Lumpur Golf & Country Club (KLGCC)), 10, Jalan 1/70D, Bukit Kiara, 60000 Kuala Lumpur, Malaysia on Friday, 4 November 2016 at 3.30 p.m. or any adjournment thereof, on the following resolutions referred to in the Notice of EGM by indicating an "**X**" in the space provided below:-

	FOR	AGAINST
<b>SPECIAL RESOLUTION – PROPOSED ACQUISITION</b>		
<b>ORDINARY RESOLUTION – PROPOSED PLACEMENT</b>		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2016

Signature/Common Seal	
Number of shares held	
Date	

For appointment of two proxies, percentage of shareholdings to be represented by the proxies			
	No. of Shares	Percentage	
Proxy 1			%
Proxy 2			%
		100	%

**Notes:**

1. In regard of deposited securities, only members whose names appear in the Record of Depositors as at 28 October 2016 shall be eligible to attend the EGM and to speak and vote thereat.
2. A member of the Company who is entitled to attend and vote at the EGM shall be entitled to appoint any person as his(her) proxy to attend and vote in his(her) stead. There shall be no restriction as to the qualification of the proxy. A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 need not be complied with. A proxy appointed to attend and vote at the EGM shall have the same rights as the member to speak at the EGM.
3. A member of the Company may appoint not more than two (2) proxies to attend the EGM. Where a member appoints two (2) proxies, he(she) shall specify the proportion of his(her) shareholdings to be represented by each proxy.
4. The instrument appointing a proxy shall be in writing (in the common or usual form) under the hands of the member or of his(her) attorney duly authorised in writing or if the member is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised. If the instrument appointing a proxy is executed by an officer or attorney duly authorised in writing, supporting documents are to be produced on the day of the EGM for verification by the Company Secretary.
5. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account to attend and vote at the EGM.
6. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), such Exempt Authorised Nominee may appoint multiple proxies in respect of each omnibus account it holds. The appointment of multiple proxies shall be invalid unless the authorised nominee or Exempt Authorised Nominee specifies the proportion of its shareholdings to be represented by each proxy it has appointed.
7. To be valid, the Form of Proxy must be completed, signed and deposited at the share registrar's office at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time set for holding the EGM or adjourned meeting.

Fold this flap for sealing

Then fold here

AFFIX  
STAMP

**COMPANY SECRETARY**  
**REACH ENERGY BERHAD**  
c/o Symphony Share Registrars Sdn. Bhd.  
Level 6, Symphony House  
Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor Darul Ehsan

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**REACH ENERGY BERHAD**  
(Company No. 1034400-D)  
(Incorporated in Malaysia under the Companies Act, 1965)

### **REQUEST FORM**

This Request Form is to be completed and deposited with the Share Registrar of the Company (as defined below) pursuant to Article 47C(6) of the Articles of Association of the Company ("**Articles**") for purposes of exercising the Qualifying Acquisition ("**QA**") Share Repurchase (as defined in the Articles) option by a shareholder who has voted against the Special Resolution relating to the QA tabled at the Extraordinary General Meeting ("**EGM**") held on Friday, 4 November 2016 at 3.30 p.m. (including any adjournment thereof).

#### **IMPORTANT NOTE:**

**The Company will not be obliged to process your request for repurchase of your Relevant Shares (as defined below) UNLESS the procedures and requirements stated in the circular to shareholders dated 13 October 2016 are strictly complied with and such QA Share Repurchase is also subject to verification by the Share Registrar that you have voted against the resolution pertaining to the QA at our coming EGM and are fully entitled to exercise such QA Share Repurchase option. Any request for your Relevant Shares to be repurchased by the Company is irrevocable and, once made, cannot be withdrawn. The lodgment of this Request Form in the manner described above constitutes a valid and binding contract between you and the Company to repurchase your Relevant Shares and you must not subsequently sell or otherwise deal with any of your Relevant Shares, as doing so will constitute a breach of your obligation and the Company reserves the right to claim against you for any loss or damage suffered by the Company as a result of your breach.**

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To: Reach Energy Berhad ("**Reach Energy**" or "**Company**")

1. I/We hereby irrevocably request the Company to repurchase my/our Reach Energy shares (as described in the table below) ("**Relevant Shares**") which are standing to the credit of my/our CDS account for which I/we am/are the owner of such Relevant Shares as at the Record Date.
2. I/We confirm that I/we own such Relevant Shares as at the Record Date and I/we will continue to own such shares through the date of the EGM (including any adjournment thereof) until the day such Relevant Shares are transferred to the Share Custodian's CDS account (pursuant to paragraph 3 below).
3. For purposes of the cancellation of my/our Relevant Shares pursuant to the QA Share Repurchase, I/we have irrevocably agreed and consented to the transfer of my/our Relevant Shares to the Share Custodian's CDS account nominated by the Company for this purpose. The Relevant Shares shall be held in trust pending the full and due completion of the QA.
4. Upon the full and due completion of the QA by the Company as notified by way of public announcement by the Company, the Company and/or Share Custodian is irrevocably authorised to debit my/our Relevant Shares in the Share Custodian's CDS account for the purposes of cancellation pursuant to the QA Share Repurchase.

5. Subject to the terms and conditions of this Request Form, the satisfaction of the purchase consideration - equivalent to a pro-rata portion of the amount then held in the Islamic Trust Account (net of any related taxes and expenses), as referred to in the Articles - for the repurchase of the Relevant Shares by the Company will be effected by the Company within seven Market Days after completion of the QA has taken place by way of a cheque(s) or direct deposit into my/our bank account based on my/our eDividend record stated in the Record of Depositors.

Details of my/our Relevant Shares for the QA Share Repurchase, including details of my/our CDS account as per the records of Bursa Malaysia Depository Sdn Bhd, are set out below:

Name of Shareholder	
I/C No./ Passport No./ Company No.	
Address	
CDS Account No.	
Number of Reach Energy shares to be repurchased	

\_\_\_\_\_  
Signature of Shareholder

Telephone No.: .....

Date: .....

**Notes:**

- (a) *A body corporation completing this Request Form is required to affix its common seal in accordance with its Memorandum and Articles of Association or other regulations.*
- (b) *"CDS" is Central Depository System.*
- (c) *"Share Custodian" refers to the share custodian to be appointed by the Company.*
- (d) *"Share Registrar" is Symphony Share Registrars Sdn. Bhd.*
- (e) *"Record Date" refers to 28 October 2016, being the date specified for the Record of Depositors used for verifying shareholders' rights to attend and vote at the EGM held on 4 November 2016 or any adjournment thereof.*
- (f) *"Market Day" means a day of which the stock market of Bursa Malaysia Securities Berhad is open for trading in securities.*
- (g) *Additional copies of this Request Form can be obtained from the Share Registrar's office during normal business hours from 9:00 a.m. to 6:00 p.m. on Mondays to Fridays (excluding public holidays in Malaysia). The details of the Share Registrar are as follows:*
- Symphony Share Registrars Sdn. Bhd.  
Level 6, Symphony House, Pusat Dagangan Dana 1,  
Jalan PJU 1A/46,  
47301 Petaling Jaya,  
Selangor Darul Ehsan  
Telephone No. 603-7849 0777(Helpdesk)  
Facsimile No. 603-7841 8151/8152*
- (h) ***Faxed copies of the duly executed Request Form are not acceptable.***