

FAQs

EXECUTIVE SUMMARY

The unaudited financial results for the quarter ended 31 December 2017 show that Reach Energy Berhad (“REB”) recorded a revenue of RM49.6 million, representing an increase of RM27.5 million as compared to the immediate preceding quarter. The Group recorded a loss before taxation of RM57.9 million in the current three months period mainly due to higher depreciation and finance cost. The net current liabilities has reduced to RM83 million as compare to the preceding quarter net current liabilities of RM282 million. Currently, the Group recorded a Net Asset Per Share of RM0.75 as compare to the closing market price of RM0.36 per share on 27 February 2018.

Emir-Oil LLP (“Emir-Oil”) has undergone significant improvements since the start of REB’s operatorship in late May 2017. Production has steadily grown throughout 2H of 2017 as a result of our intensive workover program to re-open idle wells and improve existing well productivity. In addition, we expect our development fields, North Kariman and Yessen to be converted into Commercial Production licenses in the near term. Drilling of the North Kariman-3 (NK-3) exploration well has commenced and could potentially double the in-place volumes of the North Kariman field if successful, adding up to 30 million stock tank barrels of oil (MMstb). In addition, REB has continued to implement various cost optimization initiatives that have resulted in significant CAPEX and OPEX savings.

The 2017 Reserves Report has shown that Emir-Oil currently holds 92 MMboe of oil and gas reserves. This is comparable to the 2016 Reserves Audit, re-affirming our belief that the asset was acquired at a competitive value. Significant outcomes to the 2017 Reserves Assessment include the increase of 3P reserves from 116 MMboe (2016) to 150 MMboe (2017) and the upgrade of our significant resources from ‘Prospective’ classification into a higher grade ‘Contingent’ classification (0 MMboe in 2016 and 23 MMboe 2C Resources in 2017). In addition, the Kariman and North Kariman fields are now regarded as one single reservoir unit, following the re-interpretation of available geological data. The updated view of the two fields as one hydrocarbon bearing structure has increased REB’s reserves.

COMPANY PERFORMANCE

1. What is the company's current financial performance?

	Q4 2017 FPE 31 December 2017	Q3 2017 FPE 30 September 2017
	RM'000	RM'000
Revenue	49,647	22,106
Profit/(Loss) After Tax	(100,342)	(20,508)

We recorded approximately RM49.6 million of revenue, an increase of RM27.5 million which was partially attributed to the increase in production levels and partially deferred Q3 revenue from sales recognised in the current quarter.

2. Why is there an increase in Finance Cost?

The Finance Cost comprises Deferred Purchase Consideration, Accrued Interest on the purchase consideration and the Shareholders' Loan.

3. What was the average production volume in 2017?

Our average production volume for 2017 was 2,400 BOPD.

4. What is the OPEX per barrel?

Our OPEX per barrel was approximately USD11.30.

5. Can you share your operating expenses breakdown?

	Q4 2017	Q3 2017
	FPE 31 December 2017	FPE 30 September 2017
	RM'000	RM'000
Depreciation, Depletion and Amortization	(42,508)	(7,687)
Distribution expenses	(8,798)	(4,209)
Employee Compensation Cost	(4,296)	(3,510)
General and administrative expenses	(1,950)	(2,988)
Other operating expenses - Net	(2,127)	-
Geological and geophysical expense	(2,565)	-
Purchases, Services and other direct costs	(6,739)	(4,541)
Taxes other than income taxes	(14,038)	(9,371)
Total operating expenses	(83,021)	(32,306)

6. Can you share your revenue breakdown by geography, if any?

Our revenue is derived from the sale of crude oil and associated gas in the Republic of Kazakhstan and is contributed by external customers. Our major customer is Euro Asian Oil SA (Euro Asian).

7. When do you expect to turn into a profit-making position?

We had assumed full control of Emir-Oil in May 2017. Since then, we have initiated operational and cost efficiency drives by implementing several internal governance systems based on industry best practices to improve our bottomline. The Company is optimistic that the improving external environment coupled with the significant reserves and upside potential of our asset, we will be able to unlock the value of our asset and reward our shareholders in the near term.

8. Do you have a dividend policy in place? Will you be paying dividends?

Yes, we have a dividend policy in place. Although the Management intends to pay dividends to our shareholders in the future, the Company did not declare any dividends in FYE 2017 to conserve our funds to pursue growth opportunities. Any dividends declared in the future will depend on, amongst others, our Company's financial performance, cash flow requirements for operations, financing commitments and CAPEX, availability of adequate distributable reserves and any other factors considered relevant by our Board. The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of the Board and any final dividend for the year is subject to our shareholders' approval.

EMIR-OIL

9. Can you share any updates on Emir-Oil since the completion of acquisition?

Emir-Oil Concession Block currently has four producing fields namely Aksaz, Dolinnoe, Emir and Kariman. The development fields, North Kariman and Yessen fields will soon be converted into Commercial Production licenses, with signing expected in Q3 2018 and Q1 2019 respectively.

By end of Q4 2017, Emir-Oil recorded an average oil production of 3157 barrels of oil per day (bopd) for the month of December 2017. This steady upward trend of oil production (average of 8% increase month by month) is a testament to REB's successful efforts to rejuvenate our existing wells with intensive workover programs, specifically on Kariman field. A similar approach is expected to be applied on other producing fields in the near future.

The North Kariman 3 (NK-3) exploration has recently commenced drilling on the northern section of the North Kariman field. If successful, it could potentially double the in-place volumes of the North Kariman field. There are 5 remaining commitment exploration wells to be drilled from 2018 to 2019, of which we are confident that they will confirm more hydrocarbon bearing structures.

REB has implemented changes in the company development strategy that resulted in both OPEX and CAPEX savings. Emir-Oil will soon move into an alternative oil treatment facility that would increase up to USD 2 per barrel in our sales netback. We have also significantly reduced near term CAPEX by optimizing the evacuation strategy of the produced oil and gas. This has eliminated our need for additional oil and gas pipelines.

10. What is Emir-Oil’s processing capacity?

Our oil processing facilities have a processing capacity of 6,458 bopd. Our gas processing plant has a processing capacity of 5.5 million standard cubic feet per day (MMscf/d). The expected near-term commissioning of the new Central Processing Facility (CPF) would increase Emir-Oil’s processing capacity to 12,000 bopd and 21 MMscf/d.

11. Do you have a target production rate for 2018 or are you planning to maintain the current processing capacity?

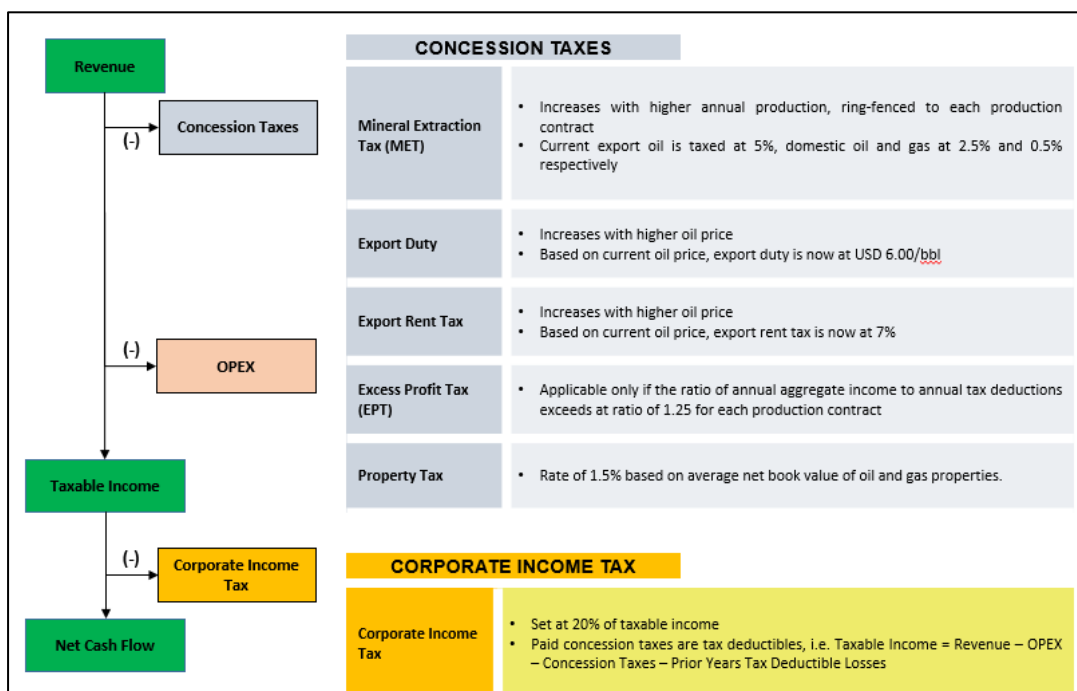
For 2018, we are looking to increase our oil production rate to 5,000 BOPD by the end of the year. We are confident to achieve this from the incoming 2 additional Commercial Production licenses that would jointly contribute up to 2,000 bopd into current oil production rate.

As mentioned earlier, we are planning to commission the new CPF in the near future. This would increase Emir-Oil’s processing capacity to 12,000 bopd and 21 MMscf/d. This facility would allow us to ramp up production.

12. What are the taxes that you’re subjected to, aside from income taxes?

Our E&P business in Kazakhstan is governed by the Concession Regime where produced oil becomes the property of the Subsoil User. This is a different regime from the one implemented in Malaysia which is the Production Sharing Contract (PSC). Under the PSC, produced oil is shared between the Company and the Government.

Under the Concession Regime, apart from income taxes, we are also subjected to other taxes which include:



13. What is your CAPEX allocation this year?

We are looking to invest CAPEX of approximately USD18.0 million for the drilling of 2 exploration wells and to complete the construction of the new CPF. We are still evaluating our wide 805 km² exploration acreage to determine the location of the upcoming 2 wells.

14. What is the CAPEX to drill an exploration well?

The drilling cost of an exploration well is dependent on many factors; i.e. target depth and well design. However, we have observed from historical costs that on average, the CAPEX to drill an exploration well in our location in Emir-Oil is approximately USD 4.5 million.

15. How many wells are in production currently?

As of 31st December 2017, 16 wells are in production. We expect to increase the number of active wells further throughout 2018 by continuing our effort that was initiated in 2017. Based on the encouraging response of the wells to our approach of using modern rejuvenation techniques, this will contribute to achieving our 5,000 bopd in 2018.

16. Are you looking to drill more wells?

We will drill 6 commitment exploration wells throughout 2018 and 2019. We commenced drilling the NK-3 exploration well on 10 February 2018, with two more wells to be drilled in 2018. The remaining 3 wells will be drilled in 2019.

17. Are you looking to increase production this year as oil price looks to be stabilising?

Yes, we are looking to ramp up production this year. The gradual uptrend in number of active wells and improving oil production rate are the result of our intensive workover program to rejuvenate the wells, specifically in the Kariman field. We will continue to re-open idle Kariman wells throughout 2018 to contribute towards our production rate target of 5,000 bopd. In parallel, we are planning to implement similar programs in our other 3 producing fields (Dolinnoe, Aksaz, Emir).

We also expect approximately 2,000 bopd of additional production once North Kariman and Yessen are converted into Commercial Production licenses.

18. What are the challenges you foresee in the coming months for Reach Energy and Emir-Oil?

Given the improving external market conditions, we do not foresee any major challenges for Emir-Oil in the coming months. However, we remain vigilant and are focused in continuously improving production and optimizing costs to ensure that Emir-Oil remains robust to potential fluctuations in market conditions.

19. Will you be looking to acquire any other assets in the near future?

We do not have plans to acquire any new assets as yet, but will not refrain from looking at opportunities coming our way. We are committed and focused to deliver the value of the Emir-Oil asset to our shareholders. We believe that the asset has significant upsides that can be developed further to realize the true potential of our acquisition.

20. How much is still owing to MIE Holdings? Is there any interest incurred on the deferred payment?

Currently, we are still owing some USD44 million to MIE Holdings, which has no fixed repayment period. However, we are incurring interests ranging from 5-14%.

Please refer to Note A8 in our Q4 Bursa Announcement for the breakdown.

21. What is the lifespan of the production oilfield?

Emir-Oil Concession Block has 4 production licenses until 2036. However, we aim to extend this lifespan further by upgrading our significant resources into reserves by obtaining additional Commercial Production licenses. This is observed in our efforts to convert the North Kariman and Yessen fields from Development fields into Production fields.

COMPANY DEVELOPMENT/FUTURE PLANS

22. Why isn't Reach Energy's share price performing like other companies'?

It is essential to note that the Company or its Directors and key management do not have control over the prices of the Company shares trading in the market. The Exploration and Production (E&P) business is a form of long-term investment where rewards are reaped over the long run. This is attributed to the fact that unlike an oil & gas service company, E&P companies undertake a series of laborious processes involving searching for potential underground or underwater crude oil and natural gas fields, drilling of exploratory wells and subsequently drilling and operating the wells to recover and ultimately bring the crude oil or raw natural gas to the surface. Despite the long process and the investment of time, we have full faith in our asset's long-term value, our expertise and our long-term plans hence we encourage our shareholders to accumulate and hold more of Reach Energy's shares and we assure that they will be rewarded over the long run.

23. The Company aborted the Proposed Placement exercise last year which was initially intended to settle the remaining purchase consideration of the acquisition of 60% equity interest in Palaeontol B.V. and 60% of the shareholder loan from MIE Holdings Corporation. What is your next move?

Although we had aborted the Proposed Placement exercise due to prevailing market conditions, we continue to explore other avenues of fundraising which include our active interactions with various local and international financial institutions in order to meet this objective. The Company will announce any developments on this matter via Bursa Malaysia in due course.