



# ENERGY WITHIN REACH



**REACH**  
ENERGY

Annual Report 2018





## ENERGY WITHIN REACH

Globally, substantial oil and gas reserves still remain unreachable or untapped in mature hydrocarbon basins. Our tagline "Energy Within Reach" reflects Reach Energy's goal of rejuvenating brownfields and mature assets in these basins to economically access the remaining hydrocarbon reserves with new techniques and technologies.

## VISION

REACH ENERGY  
aspires to be a  
leading independent  
Malaysian Oil & Gas  
Company

## CORPORATE STRATEGIES

- To build a strong base in the global upstream oil and gas value chain
- To establish an organisation of multidisciplinary teams with the right talent and capabilities to realise our Vision and Mission
- To access world class expertise and resources
- To establish strategic alliances
- To develop a productive relationship with stakeholders
- To create a balanced Exploration and Production (E&P) portfolio
- To manage risks effectively

## MISSION

REACH ENERGY  
aims to be a Global player  
in the Oil & Gas Industry to:

- Grow upstream petroleum reserves
- Deliver robust shareholder value
- Increase oil and gas production
- Develop strong technical base







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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

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**TAN SRI DR. AZMIL KHALILI BIN DATO' KHALID**

(Non-Independent Non-Executive Chairman)

**Ir. SHAHUL HAMID BIN MOHD ISMAIL**

(Executive Director/Chief Executive Officer)

**Y.M. TUNKU DATUK NOORUDDIN BIN TUNKU DATO SRI' SHAHABUDDIN**

(Independent Non-Executive Director)

**IZLAN BIN IZHAB**

(Senior Independent Non-Executive Director)

**NIK DIN BIN NIK SULAIMAN**

(Independent Non-Executive Director)





## CORPORATE INFORMATION

cont'd

### AUDIT COMMITTEE

Nik Din Bin Nik Sulaiman (*Chairman*)  
Y.M. Tunku Datuk Nooruddin Bin Tunku Dato' Sri  
Shahabuddin  
Izlan Bin Izhab

### NOMINATION COMMITTEE

Izlan Bin Izhab (*Chairman*)  
Y.M. Tunku Datuk Nooruddin Bin Tunku Dato' Sri  
Shahabuddin  
Nik Din Bin Nik Sulaiman

### REMUNERATION COMMITTEE

Izlan Bin Izhab (*Chairman*)  
Y.M. Tunku Datuk Nooruddin Bin Tunku Dato' Sri  
Shahabuddin  
Nik Din Bin Nik Sulaiman

### RISK MANAGEMENT COMMITTEE

Y.M. Tunku Datuk Nooruddin Bin Tunku Dato' Sri  
Shahabuddin (*Chairman*)  
Ir. Shahul Hamid Bin Mohd Ismail  
Nik Din Bin Nik Sulaiman

### COMPANY SECRETARIES

Chen Bee Ling (MAICSA 7046517)  
Tan Lai Hong (MAICSA 7057707)

### REGISTERED OFFICE

Level 8, Symphony House  
Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor Darul Ehsan  
Tel No : (603) 7841 8000  
Fax No : (603) 7841 8199

### HEAD OFFICE

D3-5-8, Block D3, Solaris Dutamas  
No. 1, Jalan Dutamas 1  
50480 Kuala Lumpur, Malaysia  
Tel No : (603) 6412 3000  
Fax No : (603) 6412 8005  
Email : info@reachenergy.com.my  
Website : www.reachenergy.com.my

### SHARE REGISTRAR

Boardroom Share Registrars Sdn. Bhd. (378993-D)  
(formerly known as Symphony Share Registrars Sdn. Bhd.)  
Level 6, Symphony House  
Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor Darul Ehsan, Malaysia  
Tel No : (603) 7849 0777  
Fax No : (603) 7841 8151/52

### AUDITORS

PricewaterhouseCoopers PLT  
(LLP0014401-LCA & AF1146)  
Chartered Accountants  
Level 10, 1 Sentral  
Jalan Rakyat  
Kuala Lumpur Sentral  
P.O. Box 10192  
50706 Kuala Lumpur

### PRINCIPAL BANKERS

Hong Leong Islamic Bank Berhad  
BNP Paribas Capital (Malaysia) Sdn Bhd

### STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad  
(Sector: Energy)

### STOCK SHORT NAME AND CODE

REACH 5256 & 5256 WA







## REACH IN THE NEWS

cont'd

► 8 SEPTEMBER 2018 ◀

### Turnaround within Reach?

Oil and gas company may have turned the corner after posting maiden profit

By **ANITA KUMAR**

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REACH ENERGY CEO, DR. RAJESH K. K. SINGH, says the company has turned the corner after posting its maiden profit. He notes that the company's production has increased significantly, and it is now in a position to repay its debt. He also mentions that the company's financial performance has improved, and it is now in a position to pay dividends to its shareholders.

REACH ENERGY CEO, DR. RAJESH K. K. SINGH, says the company has turned the corner after posting its maiden profit. He notes that the company's production has increased significantly, and it is now in a position to repay its debt. He also mentions that the company's financial performance has improved, and it is now in a position to pay dividends to its shareholders.

► 15 SEPTEMBER 2018 ◀



► 19 SEPTEMBER 2018 ◀

► REACH ENERGY BHD				
FYE DEC	FY17	FY18F	FY19F	FY20F
REVENUE (RM mil)	1571	3127	4132	6289
NET PROFIT (RM mil)	-	-147.2	-59.8	30.4
CORE EPS (sen)	-3.2	-2.8	1.4	3.1
PE (x)	NM	NM	25.9	11.8

### Reach Energy plans to raise RM413m fund via debt financing

**Recommendation:**  
**Hold**  
TARGET Price: RM0.35  
by Hong Leong Investment Bank Bhd (Sept 14)

**Highlights**  
WE HAVE a slightly better outlook on Reach Energy Bhd, premising on: i) higher production in 2H18 led by electrical submersible pump (ESP) upgrades, and NK-1 and NK-2 trial production; and ii) cost savings from logistic improvement via new oil terminal.

However, the company is still in need of external funding up to US\$100m (RM413m) to repay its outstanding deferred consideration and discretionary capital expenditure (capex). While keeping our FY18 estimates, we increase FY19-FY20 earnings by 13%-11% on lower cost of operations.

Reach Energy's 60%-owned Emir Oil fields are currently producing circa 3.4k barrels per day (bpd), which is higher than the average 2.9k bpd in 1H18.

We understand that the management is targeting to increase the production to 5k bpd by end-2018 with several growth drivers such as ESP upgrades, and NK-1 and NK-2 trial production period approval. Management has earmarked non-discretionary capex spending of US\$9m and US\$14m for FY18-FY19 respectively, which involves six exploration wells. Note that these amounts are only payable to the service provider 18 months later. Meanwhile, there are also discretionary capex of US\$13m (for completion of central processing facility) and US\$31m (development activities) for FY18-FY19, which are subject to funding availability. Reach Energy is looking to raise funds up to US\$100m to repay the US\$44m outstanding deferred consideration and US\$44m discretionary capex with debt financing being the preferred option. At this juncture, equity funding may not be an attractive option to the company. Cost of production is likely to be similar to 2Q18's US\$8/barrel level in 2H18 with higher workover cost to rejuvenate inactive wells masking cost savings (US\$2/barrel) from logistic improvement via new oil terminal (Angsagan). We maintain our RM36m FY18 loss forecast which already imputes narrowed losses in 2H18 on higher production. We increase our FY19-FY20 earnings by 13%-11% to RM18.3m and RM40.2m respectively on lower cost of production and logistics cost. We reckon that Reach Energy will achieve a breakeven at >4k bpd level after stripping off foreign-exchange fluctuations. Overall, we are positive on the operational improvement in 2H18 and FY19 with higher production, but future growth beyond that is capped unless external funding is secured. We maintain 'Hold' with a higher DCF-derived target price of RM0.35 (from RM0.28).

► 28 SEPTEMBER 2018 ◀

### Reach Energy gets nod for North Kariman field trial production

Sulaiman Suleiman | theedgemarket.com  
September 28, 2018 10:42 pm +08



KUALA LUMPUR (Sept 28): Reach Energy Bhd's producing asset in Kazakhstan, Emir Oil LLC, has obtained authority approval to commence the trial production period of the North Kariman field in Kazakhstan for 15 months.







## PROFILE OF BOARD OF DIRECTORS



Non-Independent Non-Executive Chairman  
59, Male, Malaysian

**DATE OF APPOINTMENT**  
23 January 2017

**TENURE OF DIRECTORSHIP**  
Two (2) years and three (3) months

### ► TAN SRI DR. AZMIL KHALILI BIN DATO' KHALID

#### MEMBERSHIP OF BOARD COMMITTEE:

Nil

#### ACADEMIC/PROFESSIONAL QUALIFICATION(S):

- Doctorate of Science (Honorary), University of Hertfordshire, Hatfield, England
- Masters of Business Administration, California State University, Dominguez Hills
- Bachelors of Science in Civil Engineering, Northrop University, Los Angeles, California
- Bachelors of Science in Civil Engineering, University of Hertfordshire, Hatfield, England

#### WORK EXPERIENCE:

Tan Sri Dr. Azmil Khalili bin Dato' Khalid ("Tan Sri Dr. Azmil") began his career with Tarmac National Construction in the United Kingdom and upon his return to Malaysia worked for Trust International Insurance and Citibank NA. Later, Tan Sri Dr. Azmil joined the AlloyMTD Group where he held the position of General Manager of Corporate Planning before moving on to MTD Capital Bhd in 1993 and assumed the helm as Group Managing Director in 1996. On 1 June 2009, he was re-designated as President and Chief Executive Officer. He concurrently held the same position in the listed subsidiary of MTD Capital Bhd, namely, MTD ACPI Engineering Berhad, and was also the Chairman of MTD Walkers PLC, a foreign subsidiary of MTD Capital Bhd listed on the Colombo Stock Exchange in the Republic of Sri Lanka. Tan Sri Dr. Azmil was the President and Chief Executive Officer of ANIH Berhad, a toll concession company. He is a Trustee of the Perdana Leadership Foundation, and Chairman of the Malaysia-Philippines Business Council (2014). Tan Sri Dr. Azmil also sits on the board of several private limited companies.

#### OTHER INFORMATION:

Tan Sri Dr. Azmil has no conflict of interest with the Company and does not have any family relationships with any Director of the Company. Tan Sri Dr. Azmil is deemed a major shareholder of the Company and his interest is disclosed in the securities of the Company as set out in the Analysis of Shareholdings of this Annual Report. He has not been convicted of any offence within the past five (5) years other than traffic offences, if any. He has attended all six (6) Board meetings held during the financial year ended 31 December 2018.

#### DIRECTORSHIPS IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS:

- ANIH Berhad
- UEM Sunrise Bhd



## PROFILE OF BOARD OF DIRECTORS

cont'd



Executive Director / CEO  
69, Male, Malaysian

### DATE OF APPOINTMENT

7 February 2013

### TENURE OF DIRECTORSHIP

Six (6) years and two (2) months

### ► Ir. SHAHUL HAMID BIN MOHD ISMAIL

#### MEMBERSHIP OF BOARD COMMITTEE:

- Risk Management Committee

#### ACADEMIC/PROFESSIONAL QUALIFICATION(S):

- Bachelor of Engineering (Honours) in Mechanical Engineering, University of Adelaide, Australia
- Master of Engineering Science in Mechanical Engineering, University of Adelaide, Australia
- Member of the Institution of Engineers Australia, Chartered Professional Engineer, Registered Professional Engineer (Australia)
- Member of the Institution of Engineers Malaysia, Professional Engineer (Malaysia), APEC Engineer
- Advanced Management Program - IMD, Lausanne, Switzerland

#### WORK EXPERIENCE:

Ir. Shahul Hamid bin Mohd Ismail ("Ir. Shahul") was the first director of the Company since its inception on 7 February 2013. He has been in the Petroleum Industry for the past 40 years, mainly with Exxon and Shell, and has held a rotation of assignments in Malaysia and overseas covering a wide variety of managerial, technical and commercial aspects of the business. Prior to Reach Energy, Ir. Shahul was technical advisor and board member of several oil & gas services companies. During his tenure as the Group CEO from 2007 to 2009, Ir. Shahul established the Oil & Gas ventures for a Malaysian Group, securing major gas field development opportunities in the Middle East, coupled with LNG business, as well as refinery/petrochemical investments in Malaysia, Indonesia and the Middle East with the value of the opportunities in excess of USD10 billion. He dealt with top level governmental and oil industry personnel in these countries in leading these efforts. Ir. Shahul worked closely with various international consultants on Feasibility Studies, Commercial/Economic Evaluations, Funding, Risk Management, FEED/BED and Detail Design.

Ir. Shahul was a Board Member/Technical Advisor to Ramunia Holdings Berhad from 2005 to 2006. From August 2001 to October 2004, Ir. Shahul was the Managing Director of Shell Refining Company (FOM) Berhad (now

known as Hengyuan Refining Company Berhad) which is a public-listed company in the Main Market of Bursa Malaysia Securities Berhad. He was the first Malaysian to be appointed to this position. Prior to this appointment, he worked as General Manager, Technical Manager, Engineering Manager, Operations Manager and Project Manager roles in Shell and Exxon with core activities cutting across the entire hydrocarbon life cycle covering exploration, appraisal, development, production and decommissioning in very challenging business environments. He also sat on the Boards of Sarawak Shell Berhad and Sabah Shell Petroleum Co. Ltd.

Ir. Shahul was a Colombo Plan scholar and holds Bachelor (Honours) and Master's degrees in Mechanical Engineering from the University of Adelaide in Australia. He has produced many technical reports, papers and reviews. These have been presented in various conferences, workshops, journals and meetings. Ir. Shahul was a member of the Engineering Board of Studies and Industry Advisory Panel at the International Islamic University, Kuala Lumpur and is a Registered Professional Engineer in Malaysia and Australia. He is also a Member of the Institution of Engineers, Malaysia and the Institution of Engineers, Australia.

Ir. Shahul is concurrently the General Director of Emir-Oil LLP in Kazakhstan, of which Reach Energy holds indirect 60% interest.

#### OTHER INFORMATION:

Ir. Shahul has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholders of the Company. He has not been convicted of any offence within the past five (5) years other than traffic offences, if any. Ir. Shahul has attended all six (6) Board meetings held during the financial year ended 31 December 2018.

#### DIRECTORSHIPS IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS:

Nil



## PROFILE OF BOARD OF DIRECTORS

cont'd



Senior Independent Non-Executive Director  
74, Male, Malaysian

### DATE OF APPOINTMENT

1 July 2013

### TENURE OF DIRECTORSHIP

Five (5) years and ten (10) months

## ► IZLAN BIN IZHAB

### MEMBERSHIP OF BOARD COMMITTEE:

- Nomination Committee (Chairman)
- Remuneration Committee (Chairman)
- Audit Committee

### ACADEMIC/PROFESSIONAL QUALIFICATION(S):

- Bachelor of Laws, University of London, UK
- Advanced Management Program, University of Hawaii, USA

### WORK EXPERIENCE:

Encik Izlan Bin Izhah ("Encik Izlan") started his career in 1973 as Assistant Legal Officer with Majlis Amanah Rakyat (MARA). From 1975 to 1978, he was the Company Secretary of Komplek Kewangan Malaysia Berhad. From 1978 to 1984, he was the Company Secretary of Permodalan Nasional Berhad. He spent the next 15 years from 1985 to 2000 with the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia Securities Berhad) as the Executive Vice President, Corporate and Legal Affairs until his retirement. He was responsible for company secretarial functions, legal advisory on capital market laws and regulations and conducted lectures on capital market laws and regulations. From 2004 until May 2013, he was a member of Bursa Malaysia Berhad Appeals Committee. He was an independent director of Ramunia Holdings Berhad (now known as TH Heavy Engineering Berhad) from 2004 to 2008. During that period, he was the Chairman of the Remuneration Committee and Nomination Committee of the said company. On 7 February 2017 he was appointed as the Chairman/Independent Non-Executive Director of Kenanga Investment Bank Berhad which is listed on Bursa Malaysia Securities Berhad. He is also a Non-Executive Director on Non-Listed Public Companies, Sun Life Malaysia Takaful Berhad and Federation of Public Listed Companies Berhad.

### OTHER INFORMATION:

Encik Izlan has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholders of the Company. He has not been convicted of any offence within the past five (5) years other than traffic offences, if any. Encik Izlan has attended all six (6) Board meetings held during the financial year ended 31 December 2018.

### DIRECTORSHIPS IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS:

- Kenanga Investment Bank Berhad and Group
- Sun Life Malaysia Takaful Berhad
- Federation of Public Listed Companies Berhad



## PROFILE OF BOARD OF DIRECTORS

cont'd



Independent Non-Executive Director  
71, Male, Malaysian

### DATE OF APPOINTMENT

1 July 2013

### TENURE OF DIRECTORSHIP

Five (5) years and ten (10) months

### ► NIK DIN BIN NIK SULAIMAN

#### MEMBERSHIP OF BOARD COMMITTEE:

- Audit Committee (Chairman)
- Risk Management Committee
- Remuneration Committee
- Nomination Committee

#### ACADEMIC/PROFESSIONAL QUALIFICATION(S):

- A member of the Malaysian Institute of Accountants (MIA)
- Fellow member of the Association of Chartered Certified Accountants (FCCA), United Kingdom

#### WORK EXPERIENCE:

Encik Nik Din bin Nik Sulaiman ("Encik Nik Din") has more than 36 years' experience in the fields of accounting, auditing and finance. He started his career as an Accountant with Beecham Products (F.E.) Sdn. Bhd. in 1974 before leaving to join Pfizer Pte. Ltd. as Finance Manager. He was subsequently appointed as Group Financial Controller in Kumpulan Perangsang Selangor Berhad, an investment arm of Selangor State Government from 1978 to 1981. He also worked for Promet Berhad from 1982 to 1992 initially as its Financial Controller and later as Finance Director. He served in Sime Darby Group from 1992 to 2004 initially as Finance Director in the Malaysia Region, followed by Finance Director of Tractors Malaysia Holdings Berhad, a subsidiary of Sime Darby Berhad. He was also a director of Sime Bank Berhad. Subsequently, he was the Group Chief Internal Audit Manager and his last position was as Finance Director in Sime Engineering Berhad. He currently holds directorships in MTD ACPI Engineering Berhad, which is listed on Bursa Malaysia Securities Berhad, and MTD Capital Berhad.

#### OTHER INFORMATION:

Encik Nik Din has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholders of the Company. He has not been convicted of any offence within the past five (5) years. Encik Nik Din has attended all six (6) Board meetings held during the financial year ended 31 December 2018.

#### DIRECTORSHIPS IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS:

- MTD ACPI Engineering Berhad
- MTD Capital Berhad



## PROFILE OF BOARD OF DIRECTORS

cont'd



Independent Non-Executive Director  
55, Male, Malaysian

**DATE OF APPOINTMENT**  
11 August 2017

**TENURE OF DIRECTORSHIP**  
One (1) year and eight (8) months

### ► Y.M. TUNKU DATUK NOORUDDIN BIN TUNKU DATO' SRI SHAHABUDDIN

#### MEMBERSHIP OF BOARD COMMITTEE:

- Risk Management Committee (Chairman)
- Audit Committee
- Nomination Committee
- Remuneration Committee

#### ACADEMIC/PROFESSIONAL QUALIFICATION(S):

- Cheltenham College, Gloucestershire, England (1979). O & A Level (Oxbridge)
- B.Sc (Business Administration) United States International University (USIU, now renamed as Alliant University), San Diego, USA. London Campus. (1986)

#### WORK EXPERIENCE:

Y.M. Tunku Datuk Nooruddin Bin Tunku Dato' Sri Shahabuddin ("Y.M. Tunku Datuk Nooruddin") was educated in the United Kingdom. He held positions in and represented companies involved in the Oil & Gas industries including Esso Malaysia Berhad - Downstream (Exxon Mobil) where he was responsible for Refinery products distribution and Government National Accounts. He was the Executive Director of Baker Hughes INTEQ (BHI) plus other Baker Hughes Group of Companies in Malaysia involved in Upstream O&G Exploration and Development Activities. His primary responsibilities were to secure supply of goods and services to O&G Operators locally and international participants in Malaysia. As a PSC licensed service provider to Petronas, its international activities would include BHI Malaysia's participation.

As a director of Alfa Meli Sdn Bhd, which is a supplier of O&G equipment, he was involved in the marketing and promotion of its products and services.

He has acquired extensive business experience from more than a decade long career plus in advisory capacity in international trade representing companies such as Avaria International FZE (UAE), Jotun Paints (Malaysia), Al Madina LLC (Oman), SCS Computer Systems Sdn Bhd, Electrolux (Malaysia), Tideway-Dredging International (Malaysia), Yoshida BM Japan, Paylink Global Sdn Bhd (e-payment platforms), Japan Halal Promotion Association, Malene Insurance Brokers, ERM Property Management, R Zain Associates (Consultant Civil & Structural Engineers), Singapore Precious Metals Exchange (SGPMX Malaysia), and others in South East Asia, UAE, Oman and Kazakhstan.

Y.M. Tunku Datuk Nooruddin was appointed as Honorary Consul for the Republic Of Kazakhstan (East Coast Region of Malaysia) from June 2014.

#### OTHER INFORMATION:

Y.M. Tunku Datuk Nooruddin has no conflict of interest with the Company and does not have any family relationships with any Director and/or major shareholders of the Company. He has not been convicted of any offence within the past five (5) years. Y.M. Tunku Datuk Nooruddin has attended all six (6) Board meetings held during the financial year ended 31 December 2018.

#### DIRECTORSHIPS IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS:

Nil



## PROFILE OF KEY SENIOR MANAGEMENT

### ► Ir. SHAHUL HAMID BIN MOHD ISMAIL (“Ir. SHAHUL”)

*Chief Executive Officer, Reach Energy Berhad*  
69, Male, Malaysian

#### ACADEMIC/PROFESSIONAL QUALIFICATION(S):

- Bachelor of Engineering (Honours) in Mechanical Engineering, University of Adelaide, Australia
- Master of Engineering Science in Mechanical Engineering, University of Adelaide, Australia
- Member of the Institution of Engineers Australia, Chartered Professional Engineer, Registered Professional Engineer (Australia)
- Member of the Institution of Engineers Malaysia, Professional Engineer (Malaysia), APEC Engineer
- Advanced Management Program - IMD, Lausanne, Switzerland

#### WORK EXPERIENCE:

- Ir. Shahul has four decades of experience in the Petroleum Industry, mainly with Exxon and Shell. During this time, he has held a rotation of assignments in Malaysia and overseas covering a wide variety of managerial, technical and commercial aspects of the business.
- He established the Oil & Gas ventures for a Malaysian Group, securing major gas field development opportunities in the Middle East, coupled with LNG business, as well as refinery/petrochemical investments in Malaysia, Indonesia and the Middle East with the value of the opportunities in excess of USD10 billion.
- He was a Board Member/Technical Advisor to Ramunia Holdings Berhad from 2005 to 2006.
- In August 2001, Ir. Shahul made history as the first Malaysian to be appointed as the Managing Director of Shell Refining Company (FOM) Berhad (now known as Hengyuan Refining Company Berhad) which was a public-listed company in the Main Market of Bursa Malaysia Securities Berhad. He stayed on in the position until October 2004.
- At present, Ir. Shahul is concurrently the General Director of Emir Oil LLP in Kazakhstan, of which Reach Energy holds an indirect 60% interest.

### ► TAN SIEW CHAING (“MS. TAN”)

*Director of Finance, Investment and Planning, Reach Energy Berhad*  
51, Female, Malaysian

#### ACADEMIC/PROFESSIONAL QUALIFICATION(S):

- Member of the Malaysian Institute of Accountants (MIA)
- Member of the Chartered Institute of Management Accountants (CIMA), United Kingdom

#### WORK EXPERIENCE:

- Ms. Tan has more than 26 years of experience in the management of large group of companies with diverse businesses in Malaysia and overseas. Her specialty areas include Group reporting, treasury management and budgeting, corporate finance, tax planning, risk management, investment evaluation, business strategies, merger and acquisition, and operations management. Her experience covers various industries such as concession business, real estate, construction, manufacturing and oil and gas services.
- She formerly worked with conglomerate AlloyMTD Group of companies and Syarikat Bekalan Air Selangor Sdn. Bhd.
- She started as a Financial Controller in AlloyMTD in 2007 before moving up the ranks as a Senior Vice President and later was promoted to the position of Executive Vice President, Head of Finance and Treasury of AlloyMTD Group. She was a member of the Management Committee of AlloyMTD Group.



## PROFILE OF KEY SENIOR MANAGEMENT

cont'd

### ► BAYAN NISHAN (“MS. BAYAN”)

*Director of Business Development (Kazakhstan),  
Reach Energy Berhad  
49, Female, Kazakh*

#### ACADEMIC/PROFESSIONAL QUALIFICATION(S):

- Bachelor of Science (Honours) in Marketing, Kazakhstan (1989-1993)
- Bachelor of Science in International Relations, Diplomatic Academy of Ministry of Foreign Affairs of Kazakhstan (1997-1999)
- Master of Business Administration, Staffordshire University, United Kingdom (2009-2010)

#### WORK EXPERIENCE:

- Ms. Bayan has 15 years of Kazakhstan government experience in the different ministries and government agencies, Parliament, National Bank and Kazakhstan Embassies in International Trade & Relationship, Foreign Currency regulations, Export & Import licenses and other Commercial & Industrial aspects.
- Ms. Bayan was a Business Consultant in the Kazakhstan-Malaysia Chamber of Commerce in Kuala Lumpur from 2012 until 2015. During her tenure, she was the key organizer of the business forum and exhibition that was held during the official state visit of the Kazakhstan President to Malaysia in 2012. The visit, which resulted in the deepening of bilateral relationship between Malaysia and Kazakhstan, culminated in the implementation of several Malaysian projects in the agriculture and metallurgy sectors in Kazakhstan.
- Ms. Bayan had a tenure as the Economics Affairs Consultant in the Parliament of Kazakhstan and was responsible for the economic legislation section. As a result of her involvement, more than 300 legislation drafts were implemented from 2001 to 2003. Aside from these, she had also represented Kazakhstan on the European Parliament session in 2002.
- She headed the Commercial Market Affairs Department in the Ministry of Energy, Industry & Trade of the Republic of Kazakhstan from 1999 to 2001 and represented Kazakhstan in Japan on Trade Conferences. She was also a member of the Kazakhstan negotiation team for accession into the World Trade Organisation (WTO).

### ► RIZAL GHAFAR (“ENCIK RIZAL”)

*Techno Commercial Manager, Reach Energy  
Berhad  
44, Male, Malaysian*

#### ACADEMIC/PROFESSIONAL QUALIFICATION(S):

- Bachelor of Engineering (Manufacturing), International Islamic University Malaysia
- Master of Science (Finance), Universiti Utara Malaysia

#### WORK EXPERIENCE:

- Encik Rizal has over 18 years of experience in the Oil & Gas industry during which time he had taken up various technical, commercial and managerial assignments. His experiences span the petroleum industry with roles for both asset owners and technical service providers.
- Encik Rizal started his career as an engineer with Shell before progressing to marketing, planning and business development.
- He then joined a private Malaysian Oil & Gas Group where he was responsible for the development of several refinery and petrochemical projects in the Middle East and South East Asia.
- More recently Encik Rizal had taken up leadership roles in technical consultancies as well as consulting roles for clients looking to invest in the energy industry.



## PROFILE OF KEY SENIOR MANAGEMENT

cont'd

### ► KOH KEE CHEONG ("MR. KOH")

*Finance Manager, Reach Energy Berhad*  
36, Male, Malaysian

#### ACADEMIC/PROFESSIONAL QUALIFICATION(S):

- Bachelor of Business in Accounting & Finance, University of Technology Sydney, Australia (2004)
- Certified Practicing Accountant, CPA Australia (2010)
- Chartered Accountant, Malaysian Institute of Accountants (MIA) (2010)

#### WORK EXPERIENCE:

- Mr. Koh has 14 years of experience in financial and management accounting, including several years in the Big 4 audit firms.
- His responsibilities include maintaining full charge of all accounting functions including cost accounting, financial and management reporting, financial analysis, cost analysis, budgeting, planning and forecasting, and continuous process improvement on the business processes.

### ► IBNI HAJAR BT OMAR ("PUAN IBNI")

*Human Resources & Administration Manager, Reach Energy Berhad*  
50, Female, Malaysian

#### ACADEMIC/PROFESSIONAL QUALIFICATION(S):

- Master of Business Administration (MBA), Universiti Utara Malaysia, Sintok (2010)

#### WORK EXPERIENCE:

- Puan Ibni has 23 years of experience in human resources and administration including five years in the oil and gas industry.
- Her responsibilities include all human resources and administration matters, including recruitment and selection, payroll administration, performance management, compensation and benefits, training and development, employee relations, succession planning and staff induction.
- She also has accumulated experience in supporting Finance and IT Departments on annual budgeting.






# CHAIRMAN'S STATEMENT

► **DEAR VALUED SHAREHOLDERS,**

On behalf of the Board of Directors of Reach Energy Berhad ("Reach Energy"), I am pleased to present the Annual Report and Audited Financial Statements for the Financial Year Ended 31 December 2018 ("FYE 2018").





## CHAIRMAN'S STATEMENT

cont'd

### YEAR 2018 AT A GLANCE

In the wake of our first full-year as the designated operator of Emir-Oil LLP ("Emir-Oil"), we have continued to see several positive changes following the implementation of leaner and meaner and more efficient business operations initiatives. As a result, we have successfully reduced operational costs, enhanced outputs and significantly minimised environmental and regulatory impacts.

As a new and young entity in a country like Kazakhstan with enormous prospects, we are confident of unearthing more reserves potential as well as other business opportunities that will improve our future earnings and create a sustainable value for our shareholders.

### OUR FINANCIAL PERFORMANCE

For the Financial Year Ended 31 December 2018, Reach Energy Berhad recorded a revenue of RM220 million (FYE 2017: RM157 million) from our Oil & Gas activities, an increase of RM63 million or 40% from the previous year. The Earnings before interest, tax, depreciation and amortization ("EBITDA") for the Group was recorded at RM68 million (FYE 2017: RM14 million) in the reporting year. Meanwhile, we recorded a Net Asset Per Share of RM0.78 (FYE 2017: RM0.76).

Moving forward, our priority remains to deliver robust value for our shareholders by strengthening our competitive position and cash generation, leveraging on our know-hows and technological innovation as well as substantial business development opportunities.

### OUR PEOPLE

Our people power our operations and are one of the key elements in the creation of business success. In 2018, we continued to attract talented, dedicated and passionate individuals who strive to build rewarding careers. In order to achieve the required talent pool, we have created a conducive work environment which encourages our people to share knowledge and seek mentorship from their seniors as we look to upskill them for the future of the Company and our recruitment has been strictly on the basis of business needs.

### INDUSTRY OUTLOOK

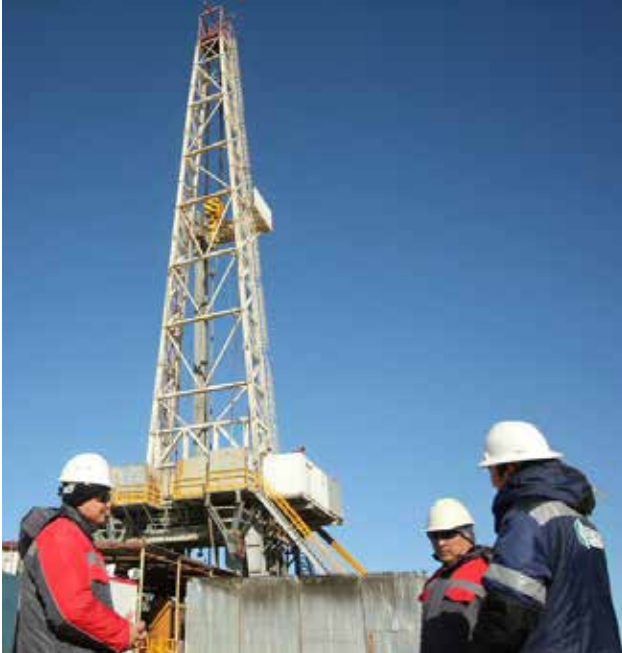
After a turbulent market environment in 2017, the year 2018 showed a more promising outlook with the Brent benchmark oil price experiencing a surge upwards beginning at USD60 per barrel and continuing to climb until it peaked at a four-year high of USD87 per barrel in October 2018. The higher crude price enabled oil producers to generate significantly more cash flow than the previous year. However, the industry experienced a setback when crude price tumbled down by approximately 30% towards USD50 per barrel in December due to oversupply in the market. The intense price volatility had inevitably affected the operations and profit of oil and gas operators around the world.





## CHAIRMAN'S STATEMENT

cont'd



Going into 2019, we are maintaining a prudent view of the industry outlook on the back of the Organisation of the Petroleum Exporting Countries (OPEC) decision to extend oil output cuts until June 2019 which could possibly result in a persistently volatile market. With this in mind, we acknowledge that there is still plenty of hard work and challenges ahead of us and we are not completely out of the woods yet. As such, we cannot afford to be complacent and will continue to pursue our strategies which are premised on our Company's Mission to focus on delivering optimal operational performance while being as cost efficient as possible. Notwithstanding this mission, we also intend to pursue other growth opportunities along the hydrocarbon value chain in order to build a sustainable business.



### ACKNOWLEDGEMENT

Considering the tough operating environment that we are in, and the challenges that we have had to navigate through, the Board, the Management team and I are thankful for the extended support we have received from our stakeholders. We would also like to thank our staff for their continued faith in the Company in these trying and challenging times.

We continue to be optimistic and excited by the prospects of Reach Energy and Emir-Oil that are waiting to be unearthed as we seek further growth, profitability and optimisation opportunities to progress and develop the Company. To our shareholders, we hope you will continue to retain your ownership of our Company as we strive to maximise your value.

**Tan Sri Dr. Azmil Khalili bin Dato' Khalid**  
*Chairman*



# CEO'S REPORT ON BUSINESS ACTIVITIES

► In 2018, we continued our efforts to strengthen our core business through the following clear goals:

- Increase oil and gas production from existing wells
- Reduce production cost
- Mature our development-ready fields into commercial production licenses
- Conduct strategic exploration drilling

I am pleased to announce that the Company has made steady progress in achieving the aforementioned goals.





## CEO'S REPORT ON BUSINESS ACTIVITIES

cont'd

### 2018 ACHIEVEMENTS AND OPERATIONAL HIGHLIGHTS

#### Production Improvement

By end of Q4 2018, average oil production for the quarter was 3,103 bopd, 19% higher compared to Q4 2017, mainly driven by our intensive well remediation activities on current stock of our wells, installing more advanced electric submersible pumps (ESPs), and improving flow assurance management. We are positive by the progress made to date as we believe that the ceiling in terms of production potential from existing wells is much higher than current levels with further efforts on these initiatives. Our day-to-day operational focus has been to continuously improve our understanding of the reservoir and its dynamics with surface facilities and utilized ESPs, which would allow us to further identify opportunities to increase production levels from existing wells. Most of our attention and optimization efforts have been focused on only one of the producing fields in the Emir-Oil Concession Block – the Kariman Field. Moving forward, we are organising to carry this momentum further and conduct similar intensive remediation work on other producing fields in our Concession Block– namely Dolinnoe and Emir fields.

#### Development-ready Fields

We have made good progress in our 2 fields (North Kariman and Yessen) that are close to obtaining Commercial Production Licenses. We have received a Trial Production Period (TPP) License for the North Kariman field for 15 months, commencing from October 2018 until end of 2019. This has allowed us to put 2 wells in the North Kariman field (North Kariman-1 and North Kariman-2) on continuous production throughout the trial period. This TPP represents the final step of the long process before obtaining a Commercial Production License for the North Kariman field, which we expect to obtain in Year 2020. In regards to the Yessen Field, we are working towards obtaining a TPP License that would allow us to produce continuously from two discovery wells, Yessen-1 and Yessen-2. We are confident of obtaining this TPP License for the Yessen field in Year 2019, which would further increase our daily oil and gas production.



#### Prioritizing high 'Probability of Success' Exploration Wells

Our strategy of prioritizing high 'probability of success' (POS) wells in our Exploration campaign is bearing fruit, due to the success of the first commitment exploration well under the current Exploration Contract, namely, the North Kariman-3 (NK-3) well. The well has encountered oil bearing intervals in the Mid-Triassic. We will now proceed to obtain a Test Production License to ascertain the commercial viability of the well. We are confident in its value, as initial pressure measurements indicate that NK-3 is potentially a highly productive well. In addition, it can be seamlessly integrated into our current production network in the near term once we obtain the necessary approvals from the Government due to its close proximity with current producing wells and associated surface facilities.

#### Improving our Cash Netback

Our efforts to revamp the organizational structure and improve the business activities within Emir-Oil since our operational takeover in May 2017 are yielding expected positive results and outcome. We have established a strategic commercial and planning division within the Company to spearhead bottomline improvement. This has allowed us to be more focused in identifying potential cost optimization opportunities throughout the entire exploration and production value chain, driven by project economics. We have successfully moved to a new oil storage terminal and oil export logistics that have significantly simplified our oil evacuation routes for both export and domestic sales with cost savings. We will continue to monitor the market for new cost-effective oil logistics that would further increase our sales netback. Oil lifting costs have also been under close scrutiny and benchmarking to improve the sales netback.



## CEO'S REPORT ON BUSINESS ACTIVITIES

cont'd

### 2018 Reserves Report

The Company's 2P Reserves have increased from the previous year's audit, as our Reserves Assessor, Gaffney, Cline and Associates ("GCA"), has allocated 88 MMBOE of 2P Oil and Gas Reserves as at end of 2018. This represents a 9% increase from previous year's audit by GCA.

Moving forward, we will pursue our field development goals aggressively such as implementing reservoir pressure maintenance programs, drilling new development wells, and removing any surface facilities bottlenecks, leading to further increase of both our 2P Oil and Gas Reserves and daily production rates.

### OUTLOOK

Our outlook is exciting as we have set firm plans to increase our profitability and growth through:

- Drilling new development wells to ramp up production in Emir Oil
- Upgrading production facilities in Emir Oil
- Increasing the reserves base in Emir Oil
- Seeking opportunities for expanding the core business.

### Increase production

We are selecting strategic well candidates for our long-term development drilling program to unlock the reserves and ramp up production in the most effective manner. We estimate an investment of some USD 200 million over the next 7 years in new wells and facilities to recover the reserves in our Concession Block.

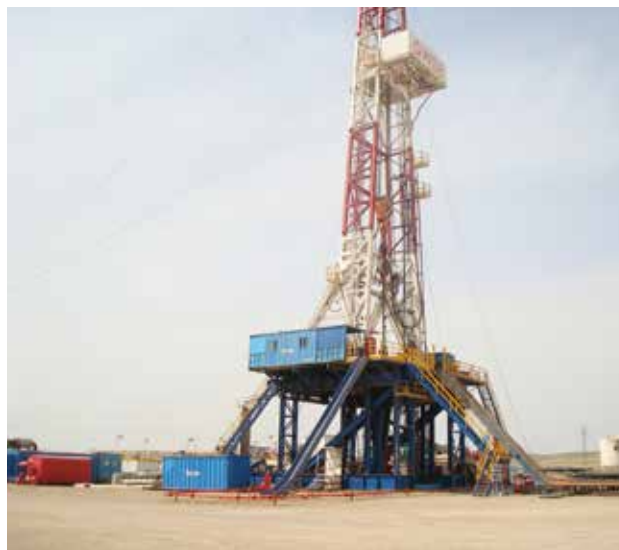
In parallel, we will continue to maximise our current production with effective surveillance and remediation of our existing wells. Our target to innovate our operations with advanced technologies remain, as we automate and digitalise our producing fields.



### Completion of the Central Processing Facility (CPF)

As oil prices have returned to encouraging levels, we believe that 2019 is the ideal time to complete construction of the CPF which remains an important element of our long-term field development plan.

Once completed, the CPF will allow us to produce and process oil and gas up to 12,000 bopd and 20 MMSCFD respectively and also allow us to extract Liquefied Petroleum Gas (LPG) as an additional premium product to diversify our revenue stream.



### Re-energizing our reservoirs

Reservoir pressure maintenance studies are underway and we expect to implement water injection and/or gas injection scheme in 2019/2020. This will re-energize our reservoirs, resulting in increased stable production and hydrocarbon recovery.



## CEO'S REPORT ON BUSINESS ACTIVITIES

cont'd



### A view to expanding our core business

Since our acquisition into Emir-Oil, we have significantly improved our technical and commercial capabilities and track record as a full-fledged Oil and Gas Exploration & Production Company with direct operatorship role through a highly competent team of industry professionals. This has attracted the close attention of other reputable industry players seeking a credible and proven partner to collaborate in global exploration and production ventures. We plan to pursue these opportunities prudently and on the sole merits of each such venture.

### IN APPRECIATION

Considering all that we have accomplished in 2018, we would not have reached where we are today without the support of various people. In this respect, I would like to express our heartfelt gratitude to our partner, our shareholders, our Board of Directors and other stakeholders for continued support and understanding.

As we embark on what continues to be a challenging operating landscape, we shall stay on the course of the Company's strategies while embracing changes in the industry to continue delivering value to our shareholders.

Thank you.

**Ir. Shahul Hamid bin Mohd Ismail**  
Chief Executive Officer



## EMIR-OIL LLP MANAGEMENT TEAM PROFILE

### ► Ir. SHAHUL HAMID BIN MOHD ISMAIL

*General Director, Emir-Oil LLP*  
 69, Male, Malaysian

#### Academic/Professional Qualification(s):

- Bachelor of Engineering (Honours) in Mechanical Engineering, University of Adelaide, Australia (1975)
- Master of Engineering Science in Mechanical Engineering, University of Adelaide, Australia (1982)
- Member of the Institution of Engineers, Australia, Chartered Professional Engineer, Registered Professional Engineer (Australia), APEC Engineer.
- Member of the Institution of Engineers, Malaysia, Professional Engineer (Malaysia), APEC Engineer
- Advanced Management Program - IMD, Lausanne, Switzerland

#### Work Experience:

- Ir. Shahul has four decades of experience in the Petroleum Industry, mainly with Exxon and Shell. During these years, he has held a rotation of assignments in Malaysia and overseas covering a wide variety of managerial, technical and commercial aspects of the business.
- He established the Oil & Gas ventures for a Malaysian Group, securing major gas field development opportunities in the Middle East, coupled with LNG business, as well as refinery/ petrochemical investments in Malaysia, Indonesia and the Middle East with the value of the opportunities in excess of USD 10 billion.
- He was a Board Member/Technical Advisor to Ramunia Holdings Berhad from 2005 to 2006.
- In August 2001, Ir. Shahul made history as the first Malaysian to be appointed as the Managing Director of Shell Refining Company (FOM) Berhad (now known as Hengyuan Refining Company Berhad) which was a public-listed company in the Main Market of Bursa Malaysia Securities Berhad. He stayed on in the position until October 2004.
- At present, Ir. Shahul is concurrently the Chief Executive Officer (CEO) of Reach Energy Berhad which holds an indirect 60% interest in Emir Oil LLP.

### ► AONGHUS O'CARROLL

*Technical Director, Emir-Oil LLP*  
 57, Male, Irish

#### Academic/Professional Qualification(s):

- Bachelor of Science (Honours) in Geology, Trinity College, Dublin (1979 - 1983)
- Master of Science in Petroleum Geology, Imperial College of Science and Technology, London (1983 - 1984)

#### Work Experience:

- Aonghus has 34 years of international geoscience experience with oil companies and major service companies in Europe, Middle East and Asia Pacific. This includes a vast experience in integrated service delivery across the exploration and production spectrum. He was the Global Account Manager with Roxar Ltd. for BP, Shell and Total S.A. accounts focusing on cycle time reduction and technology delivery in modern software infrastructures.
- He was appointed as the Project Director of Lloyd's Register/Senergy from 2013 until early 2017, with a remit to manage and grow the E&P consulting activity. As a Project Director, he was responsible for an extended group of Project Managers covering FDPs to Reserve Audits and directly managed multiple projects covering exploration risk assessment to large scale heavy oil exploitation schemes. His project areas covered Africa, Middle East and Asia.
- In June 2006, he was appointed as the Managing Director of Knowledge Reservoir (UK) Ltd. ("Knowledge Reservoir"), until July 2013. Knowledge Reservoir was an upstream exploration and production consulting firm which provides support in reservoir management and surface systems for oil and gas industry globally. He was responsible for Knowledge Reservoir Group's activities in Europe, Africa, Middle East and Asia Pacific. He has been involved in evaluating E&P assets, reserves assessment/auditing, flow assurance reviews, and reservoir management studies for E&P clients.



## EMIR-OIL LLP MANAGEMENT TEAM PROFILE

cont'd

### ► LI CHANG

*Commercial Director, Emir-Oil LLP*  
40, Male, Chinese

#### Academic/Professional Qualification(s):

- Kazakh Economics University named after T. Ryskulov, Alma-Ata, Kazakhstan (2004)
- Specialisation: Economics

#### Work Experience:

- Li Chang has 18 years of experience in Oil & Gas industry particularly in finance, economics and commercial management.

### ► AITBEK AKHMETZHANOV

*Director of Exploration & Development, Emir-Oil LLP*  
54, Male, Kazakh

#### Academic/Professional Qualification(s):

- Ph.D. in Geophysics, Department of Geological Sciences, Kazakh National Technical University, Almaty, Republic of Kazakhstan (2000)
- Bachelor of Geophysics, Department of Geological Sciences, Kazakh National Technical University, Almaty, Republic of Kazakhstan (1992)

#### Work Experience:

- Aitbek has 33 years of experience in geological area. During these years, he had undertaken diverse practical tasks, supported by in-depth understanding of subsurface seismic and petrophysical data, which allowed providing exploration/production works in a cost saving manner.
- His main responsibilities included G&G data analysis, structural and stratigraphic interpretation, well log data interpretation and integration to 2D/3D seismic data sets, Seismic Inversion and Static Geological Modeling. He was also involved in the preparation of drilling sites for both Exploration prospects and Oil Fields under development. Results of these works were reported to Authorities in the form of technical reports (with discovery records), expert conclusions and recommendations as well as technical publications.
- As an expert in Geology and Geophysics, Aitbek has worked jointly with RPS Group consultants, UK (Russia, West Siberia); Gustavson; Associates consultants, USA (Iraq); Oilfield Production Consultants - OPC, UK (Russia) and local projects. He is also an expert of the State Reserve Committee (SRC) of the Republic of Kazakhstan.
- He has also authored and co-authored technical articles and reports on G&G studies.



## EMIR-OIL LLP MANAGEMENT TEAM PROFILE

cont'd

### ► BAUYRZHAN RYSBAYEV

*Director of Production, Emir-Oil LLP*  
46, Male, Kazakh

#### Academic/Professional Qualification(s):

- Bachelor of Mechanical Engineering, Aktau State University (1994)
- Bachelor of O&G Business, Aktau State University (2012)

#### Work Experience:

- Bauyrzhan has 23 years of experience in the oil and gas industry with oil companies and major service companies in Kazakhstan especially in the drilling of HTHP wells.
- During his tenure with these companies, he held various positions such as Drilling Fluids Engineer, Mud Plant Manager, Drilling Fluids Manager, Operations Leader, Stock Point Manager and Logistics and Infrastructure Manager.

### ► GAZIZ TULESSINOV

*Director of Drilling & Workover Operations, Emir-Oil LLP*  
60, Male, Kazakh

#### Academic/Professional Qualification(s):

- Bachelor of Petroleum Engineer, Oil and Gas Wells Drilling, Kazakh Polytechnic Institute, Almaty, Republic of Kazakhstan (1980)

#### Work Experience:

- Gaziz has 38 years of experience in the oil and gas industry. He has been with Emir-Oil for 15 years.



## EMIR-OIL LLP MANAGEMENT TEAM PROFILE

cont'd

### ► YERBOL TORMANOV

*Chief Financial Officer, Emir-Oil LLP*  
46, Male, Kazakh

#### Academic/Professional Qualification(s):

- Bachelor of Applied Mathematics, Economics from Al Farabi Kazakh State University, Almaty, Kazakhstan (1996)
- Master of Arts in Economics, Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP), Almaty, Kazakhstan (1998)
- Member of the Association of Chartered Certified Accountants (ACCA)

#### Work Experience:

- Yerbol has 20 years of experience in finance predominantly in the oil and gas industry. He has developed technical skills in a wide variety of finance areas such as oil and gas taxation, financial reporting, corporate finance, corporate governance, business valuation, M&A, change management, project management.

### ► ZEINOLLA KALYMBETOV

*Director of Procurement, Emir-Oil LLP*  
42, Male, Kazakh

#### Academic/Professional Qualification(s):

- Bachelor of Arts in International Economic Relations, Zhambyl Technological Institute, Taraz, Republic of Kazakhstan (1997)
- Specialist in International Relations, Diplomatic Academy of the Ministry of Foreign Affairs, Almaty, Republic of Kazakhstan (1999)
- Diplomatic Course of the Ministry of Foreign Affairs of Japan, Japan Foundation Kansai Institute, Osaka, Japan (2002)

#### Work Experience:

- Zeinolla has 20 years of experience in the bank, the government and the consulting sectors.
- His experience includes:
  - Reports on economic and political security issues for government and market researches for corporate service. Provided STASCO with a report on Kazakhstan crude oil exports potential
  - Decision-making, meeting new challenges and use of systematic approach (Government tasks; the first-ever export contract of Kazakhstan wheat flour to South Korea, a contract of oil products domestic shipment to ArcelorMittal Temirtau, arrangement of Tsesna Capital's due-diligence for Meritz Securities)
  - Liaison in public-private partnerships and Government Relations which included bringing South Korean investors to Kazakhstan, lobbying and harmonising stakeholders' interests, establishment of sustainable business-to-government relations and national companies, such as cooperation between Kolon conglomerate and NC KazTransGas on CHG, match-made UK's Special Schools & Academies Trust with Strategic Partnership with Orken, Kazakhstan's National Nazarbayev Intellectual Schools Operating Organisation.



## EMIR-OIL LLP MANAGEMENT TEAM PROFILE

cont'd

### ► FARKHAT TAIMOV

*Director of Sales and Logistics, Emir-Oil LLP*  
35, Male, Kazakh

#### Academic/Professional Qualification(s):

- Caspian State University of Technologies and Engineering, Aktau, Kazakhstan with a specialisation in Oil and Gas Business (Master's degree) (2013)
- Kazakhstan Institute of Management and Strategic Research, Almaty, Kazakhstan with a specialisation in Accounting (Bachelor's degree) (2004)

#### Work Experience:

- Farkhat has 13 years of experience in the Oil & Gas industry in the Republic of Kazakhstan, particularly in the Mangystau region.

### ► SERGEY DAVLETBAYEV

*Director of Legal Affairs, Emir-Oil LLP*  
41, Male, Kazakh

#### Academic/Professional Qualification(s):

- Aktau Lawyer College with a specialisation in "Jurisprudence", qualification "lawyer" (1996)
- Bachelor's degree with a specialisation in "Jurisprudence" from Aktau State University named after Sh. Esenov, Republic of Kazakhstan (2002)

#### Work Experience:

- Sergey has 20 years of experience as a legal counsel in the Republic of Kazakhstan, particularly in the Mangystau region, and 11 years of experience in the Oil & Gas industry.
- Throughout the years, Sergey gained extensive experience in the legal sector, including court proceedings, through his tenure in various law firms.
- His areas of expertise include subsurface legislation, as well as the civil, civil procedural, administrative and other legislations.



## EMIR-OIL LLP MANAGEMENT TEAM PROFILE

cont'd

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### ► MARZHAN KALDYBAEVA

*Director of Human Resource & Admin, Emir-Oil LLP*  
38, Female, Kazakh

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#### Academic/Professional Qualification(s):

- Bachelor of Kazakh Humanitarian, University of Law, Almaty, Republic of Kazakhstan (2002)

#### Work Experience:

- Marzhan has 13 years of experience in the Oil & Gas industry particularly in Human Resource and Legal areas.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Dear Shareholders,

The aim of the Management Discussion and Analysis is to provide shareholders with an overview of the business operations of Reach Energy Berhad ("Reach Energy" or "Reach Energy Group" or "the Group"), the financial review of 2018 and the Group's expectations of the business going into 2019.

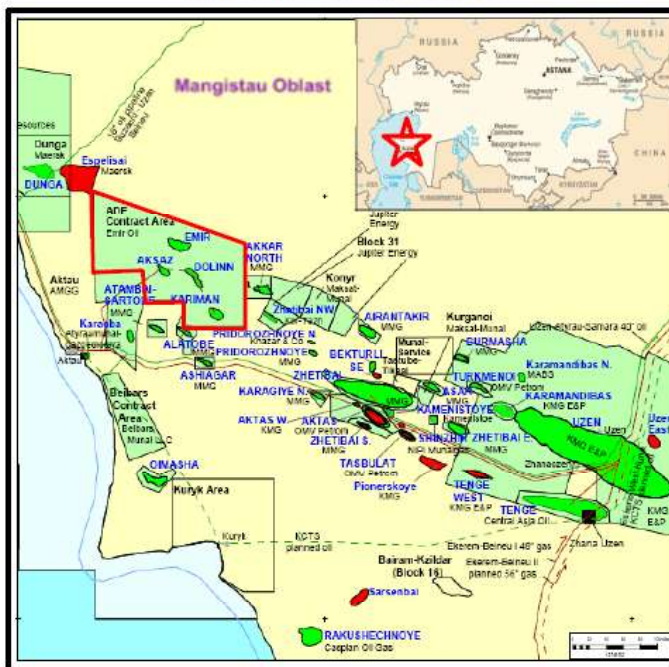
### OVERVIEW OF OUR BUSINESS AND OPERATIONS

Reach Energy was listed as a Special Purpose Acquisition Company ("SPAC") on the main board of the Kuala Lumpur Stock Exchange ("Bursa Malaysia") in August 2014 with the intention of acquiring qualifying oil and gas assets. Reach Energy was the largest SPAC created in Malaysia and raised RM 750 million at listing.

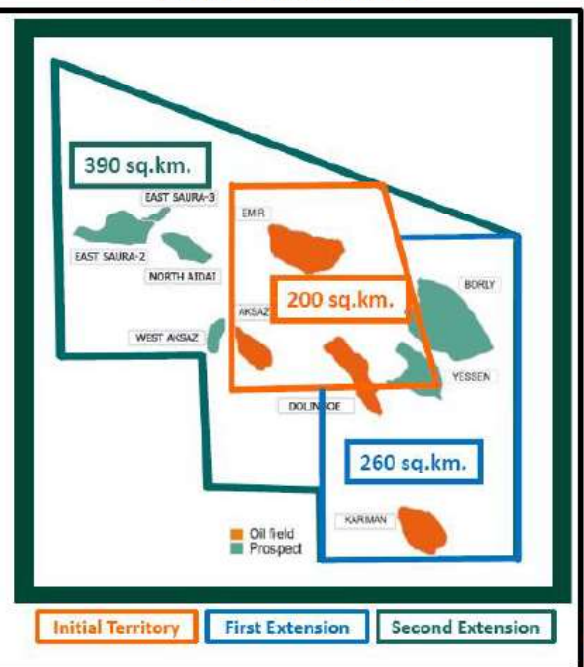
In November 2016, Reach Energy completed the acquisition of a 60% equity interest in Palaeontol B.V. ("PBV") from MIE Holdings Corporation ("MIEH") for USD 175.9 million, with Reach Energy reclassified shortly thereafter from a SPAC to the Energy sector of Bursa Malaysia. Palaeontol B.V. is an investment holding company and is the sole interest holder of Emir-Oil LLP 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 Kazakhstan), about 40 km northeast of the City of Aktau which is Kazakhstan's largest sea-port on the Caspian Sea coast. The Emir-Oil Concession Block has a total contract area of approximately 850.3 km<sup>2</sup>. Reach Energy aspires to be the leading independent Malaysian oil and gas company through increasing reserves and production and developing its strong technical and operating credentials.

**Emir Block Location**



**Emir Block Area**





## MANAGEMENT DISCUSSION AND ANALYSIS

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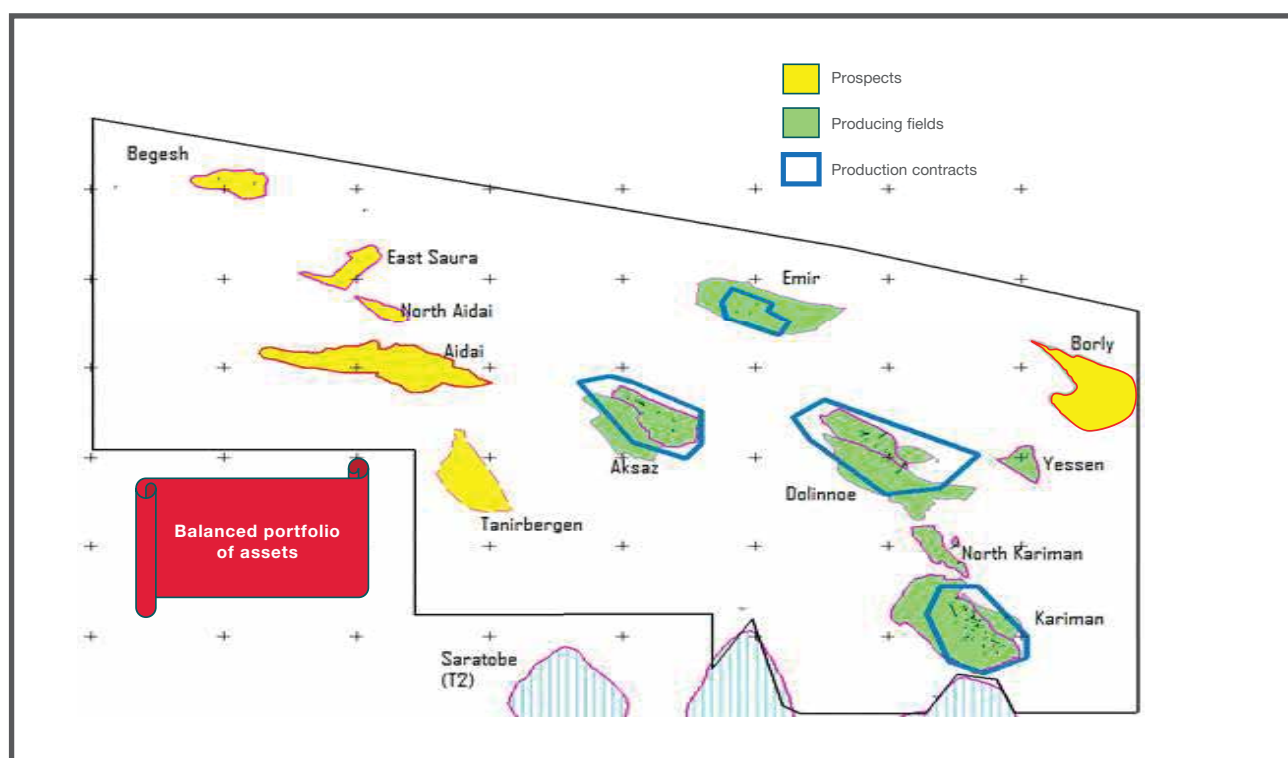
### OVERVIEW OF OUR BUSINESS AND OPERATIONS (CONT'D)

A summary of the components of the Emir-Oil Concession Block is as follows:

Participating interest (indirect interest thru PBV)		60% Reach Energy (Operator); 40% MIEH					
Jurisdiction		Kazakhstan					
Fiscal system		Concession					
Type of Field		Commencement Date	Production Commencement Year	Type of Contract	Remaining Contract Period (years)	Expiry Date	Area (km <sup>2</sup> )
<b>Producing Fields</b>							
Kariman	Oil	9 Sept 2011	2006	Production Contract	18	9 Sept 2036	12.24
Dolinnoe	Oil	9 Sept 2011	2004	Production Contract	18	9 Sept 2036	18.24
Aksaz	Light Oil	9 Sept 2011	2005	Production Contract	18	9 Sept 2036	11.48
Emir	Oil	1 March 2013	2004	Production Contract	12	1 March 2030	3.53
Exploration Area	-	10 Jan 2017	-	Exploration Contract	2	9 Jan 2020 <sup>(1)</sup>	804.81
<b>Total (approximately)</b>							<b>850.30</b>

<sup>(1)</sup> The Exploration Contract is renewable upon expiry, subject to the terms and conditions to be negotiated with the Ministry of Energy of Kazakhstan.

### Production Commencement Year





## MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

### OVERVIEW OF OUR BUSINESS AND OPERATIONS (CONT'D)

Since assuming operatorship, Reach Energy has been successfully implementing major technical and operational improvements and a development plan that includes:

- i. Drilling of further development, appraisal and exploration wells that are expected to add materially to current 2P reserves of 88.44 MMBOE by end 2019;
- ii. Building infrastructure and export facilities to improve gas/LPG and liquids handling by removing production constraints and enhancing the value of the hydrocarbons; and
- iii. Optimising the hydrocarbon value chain by developing access to alternative export and domestic markets thus increasing competition and improving net back pricing.

2P reserves on the licence were estimated by leading international auditors, Gaffney, Cline & Associates ("GCA") at 88.44 MMBOE (as at 31 December 2018), of which 62% are in the Kariman field. GCA estimates 3P reserves at 141.77 MMBOE, suggesting significant upside in the licence. The latest Reserves Audit by GCA as at 31 December 2018 has shown significantly positive results as presented in the subsequent sections of this report.

Approximately 80% of reserves are oil and 20% are gas or LPG. The near-term focus of the Company is exploitation of the 1P and 2P reserves, although there are plans to assess and exploit the potentially material upside in the medium-term through studying seismic interpretations, appraising undrilled structures, developing shallower horizons, exploiting unperforated intervals and side-tracking old wells.

Reach Energy's efforts to date have been encouraging with average daily oil production at 2018 at 2,900 bopd, which Reach Energy aims to increase to 4,000 bopd by end of 2019.

Oil production is currently trucked to a nearby oil terminal, Ansagan Oil Terminal, to be pumped into the state-owned oil trunk-line. This logistics route is a constraint on value generation from the oilfield, so Reach Energy has been constructing a Central Processing Facility ("CPF") on the block that will collect and process oil and gas production. This is currently about 70% complete and fundamental to planned production increases. Reach Energy also expects to realise further value on produced associated gas from an LPG extraction facility in the CPF.

Emir-Oil holds oil production licences that permit at least 70% (but typically c.75%), of the annual oil production to be exported with the buyer of export production predominantly Euro-Asian Oil S.A.. Contract for the oil sales is renewed annual in December, with an option to appoint a new buyer, if considered necessary. Oil has been previously exported via the Russian Black Sea port of Novorossiysk but Reach Energy Group had recently changed the delivery route to the Ust-Luga port cluster in the Baltic Sea Basin, close to the border with Estonia.

The transportation logistics currently require oil to be trucked to a nearby processing terminal at Mangyshlak before being pumped into a state-owned oil trunk-line, from where up to 75% is exported, with a smaller domestic portion currently routed to the Atyrau Refinery. Reach Energy is required to allocate up to 30% of annual production to the domestic Kazakh market, although only around 25% is typically contracted.

Reach Energy is also reviewing commercial options to improve netbacks and recently started deliveries to Ust-Luga. Oil is evacuated via the Uzen-Atyrau-Samara pipeline and onward via either the CPC pipeline to Novorossiysk or via the Baltic Pipeline System to Ust-Luga. Novorossiysk sales are typically priced by a formula linked to the Urals Mediterranean Benchmark, whilst sales at Ust-Luga are linked to the Urals Rotterdam blend, with superior netbacks. Oil exports from the nearby port of Aktau across the Caspian sea to Makhachkala or Baku may be a future option. Associated gas from oil production is sold to state-owned KazTransGas JSC ("KTG").



## MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

### PROSPECTS

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

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

The application for Trial Production Period ("TPP") license for the Yessen Field is ongoing and progressing as planned. We are now awaiting the final approvals for environmental permit and gas usage to allow Emir-Oil to produce from this field. This is expected to increase current oil production. A water injection pilot is part of the development plan for 2019 and is one of the initiatives for reservoir pressure maintenance in our Kariman Field. A debottlenecking surface facilities study on Emir-Oil fields is currently ongoing, which is part of our asset integrity and maintenance efforts. The main objective is to improve our facilities network in order to reduce back-pressures in the system to maximize our daily production throughput. Infrastructure developments include hooking up the North Kariman cluster to the main network, preparing surface facilities for the Yessen TPP and improving internal transport links.

Looking ahead, 2019 presents an exciting arena for Reach Energy, as Emir-Oil is planning a more aggressive development program, consisting of new development wells and the commissioning of the CPF. The CPF will not only increase and upgrade our oil handling capacity and facilities significantly, but it will also deliver immediate cost savings related to oil and gas preparation. The core objectives for 2019 are to attain the planned production level through careful stewardship of wells in conjunction with smart CAPEX and OPEX management, delivering reduced lifting costs and robust bottom-line results.

### RESERVES

The Reserve Assessor, GCA has performed an assessment of the Reserves and Resources of the Emir Block, located in Kazakhstan, as at Effective Date on 31 December 2018. This follows on from a similar assessment made by GCA for the previous year.

As at 31 December 2018, the gross reserves (100% basis) of Emir-Oil Concession Block are summarised in the table below:

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

FIELD	OIL RESERVES (MMSTB)		
	1P (PROVED RESERVES)	2P (PROVED + PROBABLE RESERVES)	3P (PROVED + PROBABLE + POSSIBLE RESERVES)
KARIMAN	12.416	49.990	77.282
DOLINNOE	7.743	15.590	25.369
AKSAZ	0.245	1.440	2.746
YESSEN	2.448	4.970	7.820
EMIR	1.791	3.310	5.621
<b>TOTAL</b>	<b>24.643</b>	<b>75.300</b>	<b>118.838</b>



## MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

### RESERVES (CONT'D)

#### (II) GAS

FIELD	GAS RESERVES (BSCF)		
	1P (PROVED RESERVES)	2P (PROVED + PROBABLE RESERVES)	3P (PROVED + PROBABLE + POSSIBLE RESERVES)
KARIMAN	4.612	26.410	39.051
DOLINNOE	19.835	31.284	52.439
AKSAZ	2.594	18.090	40.549
YESSEN	1.546	2.312	4.047
EMIR	0.502	0.738	1.494
<b>TOTAL</b>	<b>29.089</b>	<b>78.834</b>	<b>137.580</b>

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

FIELD	OIL AND GAS RESERVES (MMBOE)		
	1P (PROVED RESERVES)	2P (PROVED + PROBABLE RESERVES)	3P (PROVED + PROBABLE + POSSIBLE RESERVES)
KARIMAN	13.184	54.392	83.791
DOLINNOE	11.048	20.804	34.109
AKSAZ	0.677	4.455	9.504
YESSEN	2.706	5.355	8.495
EMIR	1.875	3.433	5.870
<b>TOTAL</b>	<b>29.490</b>	<b>88.439</b>	<b>141.769</b>

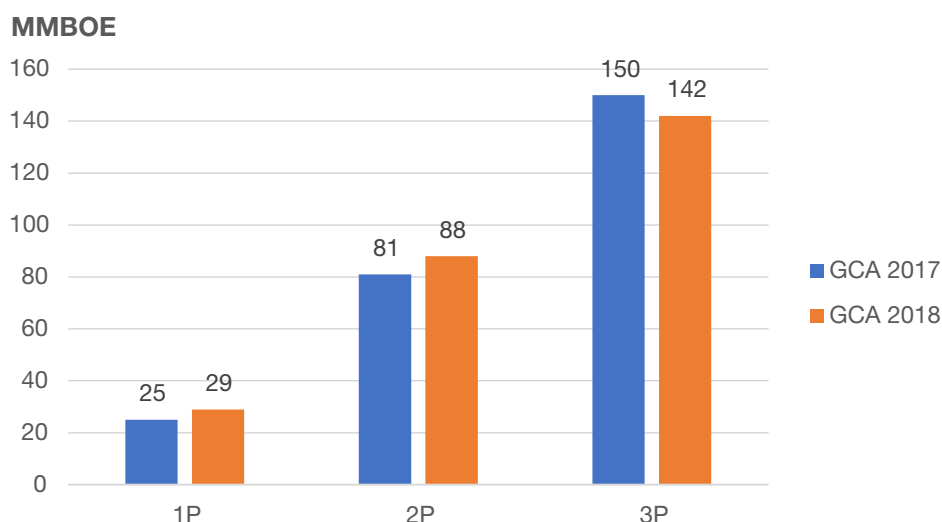


## MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

### Comparing Preceding Year's Assessment Results:

#### Oil & Gas Reserves



As at 31 December 2018, the proved reserves ("1P") is recorded at 29 million barrels of oil equivalent ("MMBOE") as compared to 25 MMBOE in the preceding year's assessment. The proved and probable reserves ("2P") of 88 MMBOE has also increased by 7 MMBOE or 8.6% from 81 MMBOE in the previous year's assessment. For the past years, we have focused more in developing our 2P oil & gas reserves. Moving forward, our target and objectives are not only to develop our reserves but also to focus on developing our prospective resources.

#### Average daily oil production 2018 vs 2017



### PRODUCTION

The production has increased by 20.8% to 2,900 bopd in FYE 2018 as compared to 2,400 bopd in FYE 2017. Reach Energy will continue its efforts to improve current production to meet our target for 2019.



# MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

## GROUP FINANCIAL PERFORMANCE REVIEW

- Summary Statement of Comprehensive Income

	<b>REB Group</b>	<b>REB Group</b>
	<b>1.1.2018 -</b>	<b>1.1.2017 -</b>
	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Revenue	220,284	157,115
Operating expenses	(212,413)	(207,325)
Profit/(loss) from operations	7,871	(50,210)
Finance income	8,671	6,474
Finance cost	(55,249)	(77,969)
Finance cost-net	(46,578)	(71,495)
<b>Loss before income tax</b>	<b>(38,707)</b>	<b>(121,705)</b>
Income tax expense	(17,318)	(25,481)
<b>Loss during the financial year</b>	<b>(56,025)</b>	<b>(147,186)</b>
<b>Loss attributable to:</b>		
Owners of the Company	(41,727)	(87,836)
Non-controlling interest	(14,298)	(59,350)

Benefiting from the increased production and oil prices, for the current financial year to date, the Group recorded a higher revenue of RM220.3 million as compared to RM157.1 million in the previous financial year, representing an increase of RM63.2 million or 40.2%. The Group had achieved a Profit from Operations of RM7.9 million, an increase of 115% from the preceding year's Loss from Operations of RM50.2 million. The improvement of operation profit had reduced the Group's Loss before Income Tax from RM121.7 million in FYE 2017 to RM38.7 million in FYE2018 primarily due to higher revenue and lower finance costs. Loss after Tax decreased to RM56.0 million as compared to RM147.2 million recorded in the financial year ended 31 December 2017.

No dividends were declared, paid or proposed in FYE 2018 given that the Group is still aggressively pursuing growth opportunities.

### i) EBITDA

EBITDA refers to earnings before finance income, finance cost, income tax and depreciation, depletion and amortisation.

We have included EBITDA as we believe EBITDA is a commonly used measure in the oil and gas industry. EBITDA is used as a supplemental financial measure by our management as well as by investors, research analysts, bankers and other external parties, to assess our operating performance, cash flow and return on capital as compared to those of other companies in the oil and gas industry. EBITDA should not be considered in isolation or seen as an alternative to profit from operations or any other measure of performance or as an indicator of our operating performance or profitability. EBITDA does not also consider any functional or legal requirements of the business that may require us to conserve and allocate funds for any purposes.



## MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

### GROUP FINANCIAL PERFORMANCE REVIEW (CONT'D)

#### • Summary Statement of Comprehensive Income (Cont'd)

##### i) EBITDA (Cont'd)

The following table presents a reconciliation of EBITDA from continuing operations for FYE 31 December 2018 and for FYE 31 December 2017:

	<b>REB Group</b> <b>1.1.2018 -</b> <b>31.12.2018</b> <b>RM'000</b>	<b>REB Group</b> <b>1.1.2017 -</b> <b>31.12.2017</b> <b>RM'000</b>
Loss before income tax	(38,707)	(121,705)
Finance income	(8,671)	(6,474)
Finance cost	55,249	77,969
Depreciation, depletion, amortisation	59,902	64,314
<b>EBITDA from continuing operations</b>	<b>67,773</b>	<b>14,104</b>

The Group's EBITDA was RM67.8 million for FYE 2018 and RM14.1 million for FYE 2017. The higher EBITDA in FYE 2018 was mainly due to higher revenue and efficient cost control.

##### ii) REVENUE ANALYSIS

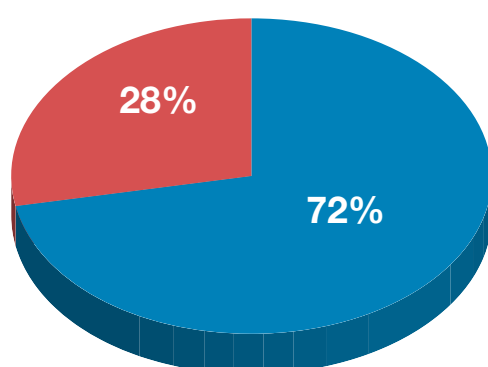
The revenue of the Group is derived 100% from the sale of crude oil and gas produced by Emir-Oil under the Production Contracts and Exploration Contracts. Revenue is recognised on the transfer of risk and rewards of ownership or in the case of gas, it is recognised when the gas arrives at the gas pipeline. The revenue of PBV Group is denominated in US Dollar ("USD") for export sales and Kazakhstani Tenge ("KZT") for domestic sales.

No revenue is recorded for Reach Energy, Reach Energy Ventures Sdn. Bhd. ("REV") and PBV.

For the FYE 31 December 2018, the Group recorded a revenue of RM220.3 million (USD54.6 million) as compared to RM157.1 million (USD36.7 million) in FYE 31 December 2017. The improvement in revenue is mainly attributed to the increase in production volume.

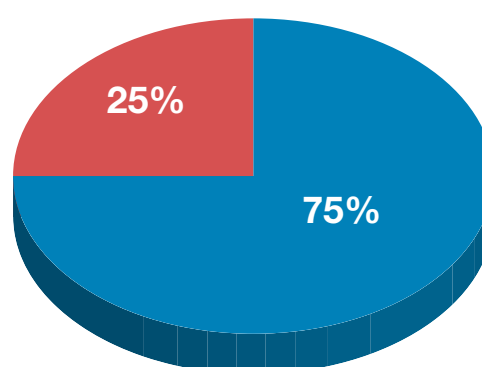
The breakdown of the revenue by product and geographical market for FYE 31 December 2018 is set out as below:

**Year 2018 Oil Sales  
By Geographical Market**



■ Export ■ Domestic

**Year 2017 Oil Sales  
By Geographical Market**



■ Export ■ Domestic



## MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

### GROUP FINANCIAL PERFORMANCE REVIEW (CONT'D)

#### ii) REVENUE ANALYSIS (Cont'd)

##### Oil Sales

For FYE 2018, the Group recorded RM216.9 million (USD53.7 million) of revenue from the sale of crude oil. The revenue from the crude oil depends primarily on the global oil price at the point of sale and the production by Emir-Oil.

Revenue from export sales continued to make the largest contribution to the Group's revenue at RM192.1 million (USD47.6 million). Revenue from domestic contributed RM24.8 million (USD6.1 million) for FYE 2018.

The weighted average realised oil price per barrel for both export and domestic sales is RM222.8 (USD55.2) per barrel for FYE 2018. The average oil price from export sales was RM274.1 (USD67.9) per barrel and RM91.6 (USD22.7) per barrel for domestic sales. Overall higher average oil price was due to higher world crude oil price and better domestic price. In order to improve the oil price for domestic sales, Emir-Oil has implemented a competitive bidding process for its domestic crude sales whereby the highest bidder is selected taking into account transportation costs, payment terms, etc.

The Group's oil sales volume for FYE 2018 was 972,897 barrels which consisted of the export sales volume of 702,679 barrels and domestic sales volume of 270,218 barrels. The average daily oil production for FYE 2018 was 2,900 bbl/d.

##### Gas Sales

The revenue from gas sales for FYE 2018 is RM3.4 million (USD0.8 million). The revenue from gas sales is in line with the average gas price of RM2.4/Mscf (USD0.59/Mscf) for FYE 2018 as well as the gas sales volume which totalled 1,432,736 Mscf for the whole of 2018. The average daily production for FYE 2018 was 3,925 Mscf.

#### iii) OPERATING EXPENSES

The Group recorded total operating expenses of RM212.4 million (USD52.6 million) for FYE 31 December 2018.

##### Staff Cost

The Group incurred employee compensation costs amounting to RM14.3 million (USD3.5 million) in which PBV Group recorded a total of RM9.7 million (USD2.4 million) while REV and Reach Energy recorded a total of RM4.6 million (USD1.1 million). The employee compensation costs comprise wages, salaries, allowances, welfare and other expenses.

##### Purchases, services and other direct costs

The purchases, services and other direct costs comprise 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.

The Group incurred a cost totalling RM30.2 million (USD7.5 million) during the year and it is solely from Emir-Oil.

##### Depreciation, Depletion and Amortization

During the year, the Group recorded a total of RM59.9 million (USD14.8 million) for Depreciation, Depletion and Amortisation. The cost of O&G properties is amortised at the field level based on the unit of production method. Depreciation on other assets are calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives.



## MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

### GROUP FINANCIAL PERFORMANCE REVIEW (CONT'D)

#### iii) OPERATING EXPENSES (Cont'd)

##### Distribution expense

The Group's distribution expense amounted to a total of RM25.7 million (USD6.4 million) in line with the increase in revenue. The distribution expenses comprise pipeline, transport and the engagement of a third-party intermediary (i.e., shipping company) to transport the commodity to the purchaser (i.e., customer).

##### Taxes other than income taxes

The Group also incurred taxes other than income tax expenses totalling RM74.6 million (USD18.5 million) which were solely from Emir-Oil. The taxes consist of Mineral Extraction Tax ("MET"), Export Duty, Export Rent Tax and Property Tax which are directly related to our oil and gas activities.

##### Export Rent Tax

Export Rent Tax is payable on export oil and is calculated based on the realised prices for crude oil. Export Rent Tax rate ranges from 0% (if export price is less than USD40.0 per barrel) to 32% (if export price is higher than USD180.0 per barrel).

##### Mineral Extraction Tax ("MET")

For production of less than 250,000 tons per annum, MET is payable at a rate of 5% for export oil and 2.5% on domestic oil. MET for export oil is based on barrels of oil produced less barrels of domestic oil and barrels of internally consumed oil, multiplied by world price per barrel. World price shall be taken as Brent Dated. MET for domestic oil is calculated based on barrels of domestic oil multiplied by production cost per barrel multiplied by 120%.

##### Rent Export Duty Expenditure

Rent export duty expenditure is payable on barrels of oil exported. Effective 1 March 2016, the rent export duty expenditure is progressive and ranges from USD0 per mt when average market price of crude oil is less than USD25.0 per barrel up to USD236.0 per mt if average market price of crude oil is above USD185.0 per barrel.

##### Property Tax

Property tax is payable on oil and gas assets, which have been granted a production license at the rate of 1.5% based on the average balance of oil and gas properties.

##### Withholding Tax

Represents the withholding tax on interests charged on intercompany loans and transportation cost from Euro-Asian Oil SA.

##### Notes:

The average of middle rates for RM/USD on the daily basis of the month of December in Malaysia as published by BNM for the FYE 31 December 2018 is as follows:

**FYE 31 December 2018**

**Average exchange rate (RM/USD): 4.0362**



## MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

### GROUP RISK FACTORS REVIEW

- Risk Factors**

The Group is exposed to both operational and business risks. The Risk Management Committee ("RMC") is responsible to monitor the risks that may impact the Group and proposes measures to mitigate these risks where possible. The table below is a summary of five key risk factors, and the mitigating measures that are being implemented by the Group.

Risk Factor	Description	Mitigation Measures
<b>Production Performance</b>	Production performance may drop due to well behaviour.	Optimising production through maximising uptime is administered through a systematic daily well surveillance and regular production analysis. An intensive workover program has been implemented to re-open idle wells and improve existing well productivity.
<b>Subsoil User Contract (SUC) Obligations</b>	Failure to meet contractual obligations may lead to licenses terminations (for both production and exploration contracts).	The Group has assigned a team led by the Emir-Oil CFO to monitor the yearly work programme (WP) and to ensure the WP is aligned with our available resources, business needs, and financial planning while also fulfilling commitments to the Government.
<b>Oil Price Fluctuations</b>	Any adverse movement in oil prices will reduce our profitability and any volatility in the outlook in these commodities will also affect our planning decisions for future investments and production budget.	The Group will continue to study and implement cost reduction measures to lower its production cost base, ensuring financial sustainability in the face of oil price fluctuations and to improve netback per barrel.
<b>Foreign Exchange Rates</b>	<p>Most of the revenue of the PBV Group is denominated in USD, while the production, purchases and other expenses are transacted in KZT. The reporting currency of our Company is in Ringgit Malaysia (RM).</p> <p>In view of that, the fluctuation in foreign exchange rates could have a significant adverse effect on the financial results of our enlarged Group with the consolidation of the financial results of the PBV Group. However, this is common in the global oil &amp; gas sector as most of the transactions are conducted in USD.</p>	The Group is constantly alert to its exposure to foreign exchange risks and monitors its exposure by performing sensitivity analysis on the financial position of the Group.
<b>Asset Integrity</b>	Asset Integrity can be defined as the ability for an asset to perform its required function effectively and efficiently whilst protecting health, safety, and the environment.	The plant-wide preventive and planned maintenance program will be enhanced and executed soon. This enhanced program aims to ensure the technical integrity of our facilities, including processing systems, pipelines and structures.



## MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

### GROUP RISK FACTORS REVIEW (CONT'D)

- Risk Factors (Cont'd)

Risk Factor	Description	Mitigation Measures
Health, Safety, Security & Environmental ("HSSE") Performance	We are potentially exposed to a wide range of HSSE risks given the operating environment, the geographical range and the technical complexity of our operations. Our capability to manage our assets safely, securely and with consideration towards the health of our employees, stakeholders and care for the environment is a primary consideration of a host government when allowing us to operate in a jurisdiction.	Enhance HSSE visibility and awareness and provide appropriate training to staff to ensure HSSE competence is maintained and, where appropriate, further developed.



## SUSTAINABILITY STATEMENT

### SUSTAINABILITY: OUR APPROACH

Sustainability has always been an integral part of our way of doing business and a guiding principle in our decision-making and development processes. During our first year of reporting, the Company had undertaken various efforts to improve the five pillars of our sustainability initiatives - Code of Conduct, Health and Safety, Our People, Our Environment and Our Communities.

This is our second year of formally disclosing our sustainability strategies, and our statement illustrates our on-going commitment and resolve to an economic, environmental and social performance that will steer us to continued prosperity while simultaneously generating sustainable value for all our stakeholders.

Our Sustainability Statement covers the activities of our businesses located in Malaysia and the Republic of Kazakhstan where we currently operate.

### OUR FIVE PILLARS OF SUSTAINABILITY

#### Code of Conduct

Honesty and integrity are fundamental to our philosophies, values, and business practices. We encourage, support and value practices that adhere to the highest standards of moral and ethical conduct. Our Code of Conduct reflects our commitment to sustainability as well as serves as a guide for our management and staff practices. It contains our company's policies on fighting deceptive or corrupt practices including bribery, extortion and fraud as well as compliance with applicable laws and anti-corruption guidelines of every country in which we operate. To further reiterate the importance of the Code of Conduct, all employees are obligated to participate in our meetings held every quarter as well as internal seminars on corporate ethics. Not only that, the implementation of the Code of Conduct also extends to other external parties such as vendors and suppliers through contractual clauses which have been embedded in all our contracts.

We take an active approach to the application of our Code of Conduct, and promote its implementation through effective communication of its contents to our employees both in Reach Energy Bhd and in Emir-Oil LLP. Application of the Code is monitored internally. We have also established an official whistleblowing channel which allows any employee to report potential misconduct relating to the Code of Conduct or other policies. Any employee found to be in breach of our Code of Conduct or any applicable law and regulations will be subject to internal investigation and further disciplinary measures, in the event such person is found guilty of the offence in relation to this matter.

#### Promoting Health & Safety

Our Health, Safety, Security and Environment (HSSE) Policy safeguards our employees, visitors and other relevant stakeholders. Given the nature of the potentially hazardous materials and processes we use in our operations, exemplary standards of occupational health and safety are essential. In order to ensure our HSSE Policy adheres to the highest standards of health and safety, it is reviewed annually by the HSSE Department which consists of the Corporate HSSE Manager, Health and Safety Engineer, Ecology Engineer, HSSE Specialist, Security Manager and Field HSSE Coordinators.

We place great importance in creating a "Safety-First" culture at work. Our leaders play a significant role in understanding the critical safety risks they are accountable to manage, and to ensure their teams understand these risks and their respective responsibilities. A series of in-house training program on safety and health have been conducted where 100% of our employees get involved. We also provide adequate health-care such as medical check-ups which have involved a total of 165 employees or 94% of our employee pool.

Aside from this, we have acknowledged the increasingly important aspect of cybersecurity in the workplace. Failure to secure ourselves against cyber risks or threats can adversely impact our business by way of data breaches or malicious software, amongst others. As such, we have taken the initiative to exercise the same care and attention to this issue in order to prevent any serious damage that could be caused by a successful cyberattack. In 2018, a total of 6,825 email threats were received in the form of malicious attachments, links to malicious web pages and enticements to perform transactions. However, all threats were successfully prevented by our antivirus system. In 2018, we maintained a full compliance of HSSE Policy to ensure safe environment and zero-accident workplace.



## SUSTAINABILITY STATEMENT

cont'd

### Empowering Our People

At Reach Energy, we strongly believe that equal opportunity at work will help us shape a better organisation. Our employment policies and practices create an inclusive working environment to ensure that all our stakeholders, regardless of gender, ethnic background and skin colour, are treated fairly. We welcome a plurality of ideas and perspectives amongst all levels of our organisation to work harmoniously to help us overcome challenges.

In an effort to achieve this, we have created a diverse workforce that varies in cultural backgrounds, ages, genders, experience, skill sets, thoughts and perspectives. To date, we have a total of 180 employees in Kazakhstan and 12 in Kuala Lumpur. Men made up 76% of our workforce with women forming 24%. In 2018, about 16% of our employees were between 20 and 29 years of age, 48% were between 30 and 39 years, 21% were between 40 and 49 years and 15% were above 50 years.

As an organisation that values its people and their voices, we have implemented an open communication policy which aims to foster closer bonds between the management and our employees to ultimately help us achieve our growth targets. As such, we have a labour union for our employees in Emir-Oil LLP to maintain an open channel of communication which we believe is the foundation for a happier and more productive workforce.

We have been hosting employee engagement activities such as festival celebrations and team get-togethers which help to sustain morale and improve interpersonal relationships amongst all members of our organisation. Every year, we celebrate Nauryz or the Kazakh New Year. During this celebration, we hold a festive dinner with competitions where many employees are awarded gift certificates for their enthusiastic participation. We also take the occasion to present gifts to the children of Emir-Oil employees as well as to some orphans in the surrounding community. In addition to festive celebrations and get-togethers, we have also extended financial assistance to our employees who are parents of first graders as well as to those who experienced the death of a relative. Continuing on with this theme, we have also rewarded bonus to our employees in conjunction with Independence Day, International Women's Day, Defender of the Fatherland Day and Oilman's Day occasions as a token of our appreciation. In order to promote productivity and commitment towards their work, we provide monetary benefits such as lunch allowance, transportation allowance as well as material assistance for employees who have been with us for more than three years.





## SUSTAINABILITY STATEMENT

cont'd

At Emir-Oil, we embrace our employees and their families as our own especially the younger generation. As future leaders, we understand the importance of shaping these young minds and instilling positive values such as cooperation, perseverance, courage and compassion amongst other values. As such, we have sponsored 20 children of Emir-Oil employees to attend the Tau-Samal Camp in Almaty. During the 10-day programme, participants were involved in physical activities such as hiking, excursions to Aquapark as well as various sporting activities, thematic talks and game sessions under the supervision of experienced instructors and trainers.





## SUSTAINABILITY STATEMENT

cont'd



### Protecting the Environment

Environmental factors such as resource usage and waste management are key indicators of efficiency, as well as being indispensable in safeguarding the quality and health of the natural environment. Given the nature of our business, managing environmental factors is material for operations in reducing our environment footprints. In line with this, we have maintained continued compliance with Kazakhstan's regulations on waste disposal to collect and dispose wastes in good order.

In our business of oil and gas production, emission of greenhouse gases including carbon dioxide, methane, and nitrous oxide occur naturally. In 2018, the amount of greenhouse gases our operations emitted is shown in the table below:

Gas	Emission in tonnes
Methane (C1)	27,209
Nitrogen Oxide	57
Perfluorocarbons	145
Oxides of Nitrogen (Nitrogen Dioxide and Nitric Oxide)	29,303



## SUSTAINABILITY STATEMENT

cont'd

For the total operating hours of 8,760 our operations emitted a total of 0.000718 mg of inorganic dust comprising 20% to 70% silica and 0.620019 mg of inorganic dust comprising below 20% silica. We fully understand that the management of these emissions is pertinent to the sustainability of the environment. Moving forward, as part of our environmental stewardship effort to reduce the release of these emissions, we will continue to monitor and report carbon emissions from our operations and to perform measurements.

In addition to the management of these emissions, Reach Energy Group ensures continued compliance with the respective national legislations on waste disposal to collect and dispose waste. An estimated 1,435 cubic metre (m<sup>3</sup>) of domestic sewage was generated in 2018. Meanwhile, in 2018 we had also discharged 6,553 tonnes of associated water. In order to dispose hazardous wastes, we engaged a licensed company in accordance with the Ecology Code which requires such company to acquire permit for landfill and waste disposal.

We collected 1,478,720 tonnes of waste materials from our drilling and production operations, and returned these to landfill for disposal. We used a total of 17,015 m<sup>3</sup> of water of which 9,452 m<sup>3</sup> was used in our operations and the balance was used for drinking. Approximately 17,640 kilowatt hour (kWh) of electric power was consumed throughout the year.

In our projects and operations, one of our primary aims is to avoid impacts on biodiversity and ecosystem services. Where avoidance is not possible, we aim to minimise our impact. In line with this, we had identified six significant operating sites namely Aksaz, North Kariman, Dolinnoe, Yessen, Emir and Kariman, where biodiversity risks have been assessed and monitored. To-date, our operations do not have any significant impact on the biodiversity surrounding the area. In fact, our operations are run in accordance with the ecology permits and requirements.

Ensuring environmental compliance remains to be an increasingly important issue. As such, we have developed a Compliance Programme to ensure compliance with legal and regulatory requirements. At the end of 2018, the Company recorded only one penalty totalling Kazakhstani Tenge (KZT) 135 or MYR 1.46 for non-compliance with environmental laws and regulations.

### Supporting Local Communities

Our operations are located close to several local communities. Hence it is important for us to work with them to understand their priorities and concerns as well as to manage our impact on them in order to be a responsible company. To this end, we have employed several approaches such as encouraging local businesses to be a part of our supply chain, providing useful skills training as well as charitable assistance.

We prioritise procurement of goods and services from local suppliers who meet the standards we require. As such, we take measures to assess new and existing suppliers to ensure that no social impacts are inflicted on the society in the supply chain. While our operations can provide direct employment opportunities, we also encourage local businesses to be part of our supply chain. In 2018, 82% of our budget was expended on local contractors and suppliers.

As a part of the local community, we are investing in supporting and building up the local community to improve their welfare.

### Moving Forward

Our success as an organisation depends on the strong and continuing support of our customers, suppliers, business partners as well as governments and regulatory bodies. We believe that being an outstanding corporate citizen and contributing to the vitality of our marketplace are the best ways to command our stakeholders' respect and confidence. One of the ways to achieve this is continuing to improve our sustainability initiatives. Therefore, as we look forward to more growth, we vow to continue embracing and prioritising sustainability initiatives in our core strategies to ensure that we operate safely, efficiently and responsibly while bringing wider benefits to the environment we operate in.





# FINANCIAL STATEMENTS

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## DIRECTORS' REPORT

for the financial year ended 31 December 2018

The Directors hereby submit their report and the audited financial statements of the Group and Company for the financial year ended 31 December 2018.

### PRINCIPAL ACTIVITIES

The principal activity of Company is that of investment holding. The Group is principally engaged in the exploration, development and sale of crude oil and other petroleum products.

The principal activities of the subsidiaries are set out in Note 15. There have been no significant change in the nature of these activities during the financial year.

### FINANCIAL RESULTS

	Group RM'000	Company RM'000
Loss for the financial year attributable to:		
- Owners of the Company	(41,727)	(6,581)
- Non-controlling interest	(14,298)	-
Loss for the financial year	(56,025)	(6,581)

### RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are disclosed in the financial statements.

### DIRECTORS

The Directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

Tan Sri Dr. Azmil Khalili Bin Dato' Khalid  
Shahul Hamid Bin Mohd Ismail  
Izlan Bin Izhab  
Nik Din Bin Nik Sulaiman  
Y.M. Tunku Datuk Nooruddin Bin Tunku Dato' Sri Shahabuddin

In accordance with Article 70 of the Constitution of the Company, Shahul Hamid Bin Mohd Ismail and Izlan Bin Izhab retire at the forthcoming Sixth Annual General Meeting and, being eligible, offers himself for re-election.

### DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than the benefits shown under Directors' Remuneration) by reason of a contract made by the Company or by a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except that certain Directors received remuneration from its related corporations.

Neither during nor at the end of the financial year was the Company or any of its subsidiaries a party to any arrangements whose object was to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



## DIRECTORS' REPORT

for the financial year ended 31 December 2018  
cont'd

### DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Company, its subsidiaries or any related corporations during the financial year except as follows:

	Number of ordinary shares/warrants			
	At 1.1.2018	Bought	Sold	At 31.12.2018
<b>Interest in the Company</b>				
Shahul Hamid Bin Mohd Ismail				
- ordinary shares	766,000	40,000	-	806,000
- warrants	1,000,000	-	-	1,000,000
Nik Din Bin Nik Sulaiman				
- ordinary shares	400,000	-	-	400,000
Tan Sri Dr. Azmil Khalili Bin Dato' Khalid				
- ordinary shares	43,631,400	-	-	43,631,400
<b>Deemed interest/ Indirect interest in the Company</b>				
Shahul Hamid Bin Mohd Ismail				
- ordinary shares	263,003,300*	-	(7,403,100)	255,600,200
- warrants	255,600,000**	-	-	255,600,000
Nik Din Bin Nik Sulaiman				
- ordinary shares	350,000***	-	-	350,000
Y.M. Tunku Datuk Nooruddin Bin Tunku Dato' Sri Shahabuddin				
- ordinary shares	2,000,000****	-	-	2,000,000
- warrants	2,000,000****	-	-	2,000,000
Tan Sri Dr. Azmil Khalili Bin Dato' Khalid				
- ordinary shares	40,000,000*****	-	-	40,000,000
- warrants	40,000,000*****	-	-	40,000,000

\* Includes deemed interest by virtue of the interest in Reach Energy Holdings Sdn. Bhd., via nominee shareholders pursuant to Section 8(4)(c) of the Companies Act 2016.

\*\* Deemed interest by virtue of his interests in Reach Energy Holdings Sdn. Bhd. pursuant to Section 8(4)(c) of the Companies Act 2016.

\*\*\* Indirect interest by virtue of the interest of his spouse, Nik Aminah Binti Nik Abdullah pursuant to Section 59(11)(c) of the Companies Act 2016.

\*\*\*\* Deemed interest by virtue of his directorship in Malene Insurance Brokers Sdn. Bhd. pursuant to Section 8(4)(a) of the Companies Act 2016.

\*\*\*\*\* Indirect interest by virtue of the interest of his spouse, Puan Sri Nik Fuziah Binti Tan Sri Dr. Nik Hussein, pursuant to Section 59(11)(c) of the Companies Act 2016.

Other than as disclosed above, according to the Register of Directors' Shareholdings, the Directors in office at the end of the financial year did not hold any interest in the shares and/or options over shares in the Company or in its related corporations during the financial year.



## DIRECTORS' REPORT

for the financial year ended 31 December 2018  
cont'd

### DIVIDENDS

No dividend has been paid, declared or proposed since the end of the previous financial period. The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2018.

### DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 12 to the financial statements. During the financial year, the total amount of indemnity coverage and insurance premium paid for the Directors and the officers of the Group and of the Company was RM5,017,673.

### OTHER STATUTORY INFORMATION

- (a) Before the financial statements of the Group and of the Company were prepared, the Directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets, which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Group and of the Company had been written down to an amount which the current assets might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances:
- (i) which would render the amounts written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; or
  - (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
  - (iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (c) At the date of this report:
- (i) there are no charges on the assets of the Group and of the Company which have arisen since the end of the financial year which secures the liabilities of any other person; and
  - (ii) there are no contingent liabilities in the Group and in the Company which have arisen since the end of the financial year.
- (d) No contingent or other liability of any company in the Group has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Company and its subsidiaries to meet their obligations when they fall due.
- (e) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the respective financial statements misleading.
- (f) In the opinion of the Directors:
- (i) the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
  - (ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.



## DIRECTORS' REPORT

for the financial year ended 31 December 2018  
cont'd

### SUBSIDIARIES

Details of subsidiaries are set out in Note 15 to the financial statements.

### AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 11 to the financial statements.

### AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

This report was approved by the Board of Directors on 26 March 2019.

Signed on behalf of the Board of Directors:



SHAHUL HAMID BIN MOHD ISMAIL  
DIRECTOR



IZLAN BIN IZHAB  
DIRECTOR

Kuala Lumpur



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

for the financial year ended 31 December 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue	6	220,284	157,115	-	-
Operating expenses					
Taxes other than income taxes	7	(74,578)	(47,049)	-	-
Purchases, services and other direct costs		(30,231)	(26,370)	-	-
Geological and geophysical expense		284	(2,566)	-	-
Depreciation, depletion and amortisation	16	(59,902)	(64,314)	(22)	(83)
Distribution expense		(25,673)	(29,926)	-	-
Employee compensation costs	8	(14,300)	(16,971)	(4,613)	(5,936)
General and administrative expenses		(8,781)	(11,511)	(2,729)	(1,915)
Net loss on impairment of financial instruments		(455)	-	-	-
Other operating income/(expenses)					
– net	9	1,223	(8,618)	(8)	(3)
Total operating expenses		(212,413)	(207,325)	(7,372)	(7,937)
Profit/(Loss) from operations		7,871	(50,210)	(7,372)	(7,937)
Finance income	10	8,671	6,474	791	1,106
Finance cost	10	(55,249)	(77,969)	-	-
Finance (cost)/income – net	10	(46,578)	(71,495)	791	1,106
Loss before income tax	11	(38,707)	(121,705)	(6,581)	(6,831)
Income tax (expense)/benefit	13	(17,318)	(25,481)	-	29
Loss for the financial year		(56,025)	(147,186)	(6,581)	(6,802)
Loss attributable to:					
Owners of the Company		(41,727)	(87,836)	(6,581)	(6,802)
Non-controlling interests		(14,298)	(59,350)	-	-
Loss for the financial year		(56,025)	(147,186)	(6,581)	(6,802)
Basic loss per ordinary share (RM)	14	(0.04)	(0.08)		
Diluted loss per ordinary share (RM)	14	(0.04)	(0.08)		

The notes set out on pages 59 to 115 form an integral part of these financial statements.



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the financial year ended 31 December 2018  
cont'd

Note	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Loss for the financial year	(56,025)	(147,186)	(6,581)	(6,802)
Other comprehensive income, net of tax Items that will be reclassified subsequently to profit or loss:				
Foreign currency translation differences	4,996	(43,595)	-	-
Total comprehensive expense for the financial year	(51,029)	(190,781)	(6,581)	(6,802)
Total comprehensive expense attributable to:				
Owners of the Company	(21,376)	(114,360)	(6,581)	(6,802)
Non-controlling interests	(29,653)	(76,421)	-	-
Total comprehensive expense for the financial year	(51,029)	(190,781)	(6,581)	(6,802)

The notes set out on pages 59 to 115 form an integral part of these financial statements.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Investment in subsidiaries	15	-	-	610,037	610,037
Property, plant and equipment	16	1,577,947	1,569,791	18	35
Intangible assets		2,067	579	-	-
Prepayments and other receivables	17	2,357	3,254	-	-
Restricted cash	19	6,936	7,357	-	-
		1,589,307	1,580,981	610,055	610,072
<b>CURRENT ASSETS</b>					
Inventories		3,073	7,382	-	-
Trade receivables	18	14,241	14,381	-	-
Prepayments and other receivables	17	13,233	15,829	206	200
Amount due from subsidiary	20	-	-	1,715	2,161
Amount due from corporate shareholder in a subsidiary	20	2,080	671	2,080	671
Amount due from corporate shareholder	20	209	173	209	173
Deposits, cash and bank balances	19	49,007	27,519	18,340	25,987
Tax recoverable		164	153	164	153
		82,007	66,108	22,714	29,345
<b>CURRENT LIABILITIES</b>					
Trade payables	25	33,026	53,388	-	-
Accruals and other payables	26	17,822	22,239	901	968
Amounts due to corporate shareholder in a subsidiary	20	306,686	72,796	-	-
Tax payable		4,439	1,080	-	-
		361,973	149,503	901	968
NET CURRENT (LIABILITIES)/ASSETS		(279,966)	(83,395)	21,813	28,377
TOTAL ASSETS LESS CURRENT LIABILITIES		1,309,341	1,497,586	631,868	638,449

The notes set out on pages 59 to 115 form an integral part of these financial statements.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

cont'd

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
NON CURRENT LIABILITIES					
Deferred tax liabilities	24	123,672	106,349	-	-
Amounts due to corporate shareholder in a subsidiary	20	293,534	532,019	-	-
Trade payables	25	22,350	-	-	-
Accruals and other payables	26	2,112	11,983	-	-
Provisions	27	13,533	9,348	-	-
		455,201	659,699	-	-
NET ASSETS		854,140	837,887	631,868	638,449
EQUITY					
Capital	22	488,975	488,975	488,975	488,975
Other reserves	23	258,388	187,742	199,735	199,735
(Accumulated losses)/Retained earnings		(55,703)	(13,976)	(56,842)	(50,261)
Equity attributable to owners of the company		691,660	662,741	631,868	638,449
Non-controlling interests		162,480	175,146	-	-
TOTAL EQUITY		854,140	837,887	631,868	638,449

The notes set out on pages 59 to 115 form an integral part of these financial statements.



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the financial position 31 December 2018

Group	Note	Attributable to owners of the Company						
		Capital RM'000	Warrant reserve RM'000	Share based payment reserves RM'000	Foreign exchange reserve RM'000	Capital contribution RM'000	Accumulated losses RM'000	Total RM'000
							Non- controlling interest RM'000	Total equity RM'000
As at 1 January 2018	22	488,975	198,914	821	(26,396)	14,403	(13,976)	662,741
Loss for the financial year		-	-	-	-	-	(41,727)	(41,727)
Other comprehensive income-net of tax								
- Foreign currency translation		-	-	-	3,367	-	-	3,367
- Gain from extinguishment of debt		-	-	-	-	67,279	-	67,279
Total comprehensive income/(expense) for the financial year		-	-	-	3,367	67,279	(41,727)	28,919
As at 31 December 2018		488,975	198,914	821	(23,029)	81,682	(55,703)	691,660
							162,480	854,140

The notes set out on pages 59 to 115 form an integral part of these financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial position 31 December 2018

cont'd

Attributable to owners of the Company										
Group	Note	Capital redemption reserves					Share based payment reserves		Foreign exchange reserve	
		Capital RM'000	redemption reserves RM'000	Warrant reserve RM'000	based payment reserves RM'000	Foreign exchange reserve RM'000	Capital contribution RM'000	Accumulated losses RM'000	Total RM'000	Non-controlling interest RM'000
										Total equity RM'000
As at 1 January 2017	22	488,651	324	198,914	821	128	-	73,860	762,698	251,567
Transition to no-par value regime on 31 January 2017	22	324	(324)	-	-	-	-	-	-	-
Loss for the financial year		-	-	-	-	-	-	(87,836)	(87,836)	(59,350)
Other comprehensive income-net of tax										
- Foreign currency translation		-	-	-	-	(26,524)	-	-	(26,524)	(17,071)
Total comprehensive expense for the financial year		-	-	-	-	(26,524)	-	(87,836)	(114,360)	(76,421)
Capital contribution due to restructuring of loans	23	-	-	-	-	-	14,403	-	14,403	-
As at 31 December 2017		488,975	-	198,914	821	(26,396)	14,403	(13,976)	662,741	175,146
										837,887

The notes set out on pages 59 to 115 form an integral part of these financial statements.



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the financial position 31 December 2018

cont'd

		Non-distributable					
	Note	Capital RM'000	Capital redemption reserves RM'000	Warrant reserve RM'000	Share based payment reserves RM'000	Accumulated losses RM'000	Total RM'000
Company							
As at 1 January 2018	22	488,975	-	198,914	821	(50,261)	638,449
Total comprehensive expense/loss for the financial year		-	-	-	-	(6,581)	(6,581)
As at 31 December 2018		488,975	-	198,914	821	(56,842)	631,868
As at 1 January 2017	22	488,651	324	198,914	821	(43,459)	645,251
Total comprehensive expense/loss for the financial year		-	-	-	-	(6,802)	(6,802)
Transition to no-par value regime on 31 January 2017 under Companies Act 2016		324	(324)	-	-	-	-
As at 31 December 2017		488,975	-	198,914	821	(50,261)	638,449

The notes set out on pages 59 to 115 form an integral part of these financial statements.



## CONSOLIDATED STATEMENT OF CASH FLOWS

for the financial position 31 December 2018

Note	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Loss before income tax	(38,707)	(121,705)	(6,581)	(6,831)
Adjustments for:				
Depreciation, depletion and amortisation	59,902	64,314	22	83
Unrealised foreign exchange (gain)/loss	(12,273)	33,712	(5)	(3)
Finance cost	55,249	44,257	-	-
Finance income	(1,645)	(6,474)	(785)	(1,103)
Loss in disposal of assets	668	75	-	-
Write off of inventory	1,454	-	-	-
Write off of property, plant and equipment	155	-	-	-
Net provision for impairment of trade receivables	-	(159)	-	-
Net provision for inventory obsolescence	1,497	2,384	-	-
	66,300	16,404	(7,349)	(7,854)
Changes in working capital:				
Inventories	2,822	(3,139)	-	-
Trade receivables	400	(6,336)	-	-
Prepayment and other receivables	4,900	12,014	(5)	13
Trade payables	(3,727)	9,455	-	-
Other payables and accruals	(12,864)	(95,180)	(65)	(4,275)
Amount due to corporate shareholder in a subsidiary	417	(1,312)	(1,409)	(671)
Cash flows generated/(used in) from operating activities	58,248	(68,094)	(8,828)	(12,787)
Income tax paid	(11)	(2,632)	(11)	(2,632)
Net cash generated/(used in) from operating activities	58,237	(70,726)	(8,839)	(15,419)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property, plant and equipment	(35,014)	(11,173)	(7)	(24)
Finance income received	2,837	2,016	783	1,174
Contribution to a subsidiary	-	-	-	(30)
Advances to a subsidiary	-	-	446	(2,156)
Advances to corporate shareholder	(36)	(130)	(35)	(130)
Movement in restricted cash	546	(1,156)	-	-
Net cash (used in)/generated from investing activities	(31,667)	(10,443)	1,187	(1,166)

The notes set out on pages 59 to 115 form an integral part of these financial statements.



**CONSOLIDATED STATEMENT OF CASH FLOWS**for the financial position 31 December 2018  
cont'd

	Note	Group		Company	
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid		(2,596)	-	-	-
Payment of amount due to corporate shareholder in a subsidiary		(1,738)	-	-	-
Net cash used in financing activities		(4,334)	-	-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		22,236	(81,169)	(7,652)	(16,585)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		27,519	105,725	25,987	42,572
EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS		(748)	2,963	5	-
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	19	49,007	27,519	18,340	25,987

Reconciliation of liabilities arising from financing activities:

**2018**

2018	Non-cash changes					
	At 1.1.2018 RM'000	Cash flows RM'000	Interest expense RM'000	Capital contribution RM'000	Foreign exchange movement RM'000	At 31.12.2018 RM'000
Amount due to corporate shareholder in a subsidiary	604,815	(4,334)	53,342	(67,279)	13,676	600,220
Total liability arising from financing activities	604,815	(4,334)	53,342	(67,279)	13,676	600,220

**2017**

	Non-cash changes					
	At 1.1.2017 RM'000	Cash flows RM'000	Interest expense RM'000	Capital contribution RM'000	Foreign exchange movement RM'000	At 31.12.2017 RM'000
Amount due to corporate shareholder in a subsidiary	635,168	-	40,205	(14,403)	(56,155)	604,815
Total liability arising from financing activities	635,168	-	40,205	(14,403)	(56,155)	604,815

The notes set out on pages 59 to 115 form an integral part of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018

### 1 GENERAL INFORMATION

The Company is incorporated and domiciled in Malaysia. The addresses of the principal place of business and registered office of the Company are as follows:

Principal place of business

D3-5-8, Block D3  
Solaris Dutamas  
No.1, Jalan Dutamas 1  
50480 Kuala Lumpur

Registered office

Level 8, Symphony House  
Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
Petaling Jaya  
Selangor

The Company listed its shares and warrants as a Special Purpose Acquisition Company ("SPAC") on the Main Market of Bursa Malaysia Securities Berhad on 15 August 2014.

On 16 December 2016, the Company was reclassified from a SPAC to Industrial Products sector.

The principal activity of Company is that of investment holding. The Group is principally engaged in the explorations, development, production and sale of crude oil and other petroleum products.

The principal activities of the subsidiaries are set out in Note 15. There have been no significant change in the nature of these activities during the financial year.

### 2 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 26 March 2019.

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been used consistently in dealing with items that are considered material in relation to the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 3.1 Basis of preparation

The consolidated financial statements of the Group and Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in this significant accounting policies.

The preparation of consolidated financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Group and Company'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 financial statements are disclosed in Note 5.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.1 Basis of preparation (Cont'd)

The Group and the Company reported a loss of RM56.0 million and RM6.6 million respectively for the financial year ended 31 December 2018 (2017: RM147.2 million and RM6.8 million). At that date, the Group's current liabilities exceeded its current assets by RM280.0 million (2017: RM83.4 million) and the Company recorded net current assets of RM21.8 million (2017: RM28.4 million). The financial statements of the Group have been prepared on the assumption that the Group will continue as a going concern. The net current liabilities is mainly attributed by amount due to corporate shareholder in a subsidiary and disclosed in Note 20(b). The appropriateness of preparing the financial statements on the going concern basis is dependent on the support from the corporate shareholder in a subsidiary as disclosed in Note 4.1(c) and on it attaining sufficient cash inflows to sustain its operations. In view of the financial support from the corporate shareholder in a subsidiary the Directors have prepared the financial statements on a going concern basis.

3.1.1 Amendments to published standards that are effective and applicable for the Group and Company's financial year beginning on 1 January 2018

No	Malaysian Financial Reporting Standards
1	MFRS 9 'Financial Instruments'
2	MFRS 15 'Revenue from Contracts with Customers'
3	Amendments to MFRS 2 'Share-based Payment – Classification and Measurement of Share-based Payment Transactions'
4	IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'

The Group and Company applied MFRS 15 for the first time in the 2018 financial statements with the date of initial application of 1 January 2018 by using the modified retrospective transition method. Under the modified retrospective transition method, the Group and Company apply the new policy retrospectively only to contracts that are not completed at the date of initial application. Accordingly, the 2017 comparative information was not restated and the cumulative effects of initial application of MFRS 15 will be, if any recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018. The comparative information continues to be reported under the previous accounting policies governed under MFRS 118 'Revenue'. In addition, the Group and the Company have elected the practical expedient not to retrospectively restate contracts that were modified before the date of initial application. The impact of change in this accounting policy is insignificant.

The Group and Company have applied MFRS 9 at the date of initial application of 1 January 2018. In accordance with the transitional provisions provided in MFRS 9, comparative information for 2017 was not restated and continued to be reported under the previous accounting policies governed under MFRS 139. The cumulative effects of initially applying MFRS 9 were recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018.

The detailed impact of change in accounting policies are set out in Note 31.

Other than that, the adoption of other amendments listed above did not have any impact on the current period or any prior period and is not likely to affect future periods.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.1 Basis of preparation (Cont'd)

- 3.1.2 New standards, Interpretation Committee (IC) Interpretation and amendments to published standards that are applicable to the Group and Company but not yet effective

The Group and the Company will apply the new standards and amendments in the financial year beginning on or after 1 January 2019:

- (i) MFRS 16 'Leases' supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" ("RoU") of the underlying asset and a lease liability reflecting future lease payments for most leases. The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in profit or loss.

The standard will affect primarily the accounting for the Group's and Company's leases previously recognised as operating leases under MFRS 117 disclosed in Note 28(ii). The Group and Company intend to apply the simplified transition approach and will not restate comparatives for the year prior to first adoption. All lease liabilities will be measured at the present value of the remaining lease payments while all RoU assets will be measured at the amount equal to the lease liability.

The application of MFRS 16 on 1 January 2019 is expected to increase the Group and Company's assets and liabilities as a result of the recognition of RoU and lease liabilities.

Additionally, the Group and Company's net current asset is expected to decrease as the lease payments for the coming 12 months of the operating leases are recognised as current liabilities whilst the corresponding right-of-use assets for the affected operating leases remain classified as Non-Current Assets.

- (ii) IC Interpretation 23 'Uncertainty over Income Tax Treatments' provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

- (iii) Annual Improvements to MFRSs 2015 – 2017 Cycle:

Amendments to MFRS 123 'Borrowing Costs' clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

Aside from MFRS 16, the other standards, amendments to published standards and interpretations to existing standards that are not yet effective are not expected to have a material impact on the Group and the Company.



## NOTES TO THE FINANCIAL STATEMENTS

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cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.1 Basis of preparation (Cont'd)

- 3.1.3 New standards and amendments to published standards that are not relevant and not yet effective for the Group's and Company's operations

No	Malaysian Financial Reporting Standards	Effective dates for financial year beginning
1	Amendments to MFRS 128 'Long-term Interests in Associates and Joint Ventures'	1 January 2019
2	Amendments to MFRS 9 'Prepayment features with negative compensation'	1 January 2019
3	Annual Improvements to MFRSs 2015 – 2017 Cycle: <ul style="list-style-type: none"> <li>• Amendments to MFRS 3 'Business Combinations'</li> <li>• Amendments to MFRS 11 'Joint Arrangements'</li> <li>• Amendments to MFRS 112 'Income Taxes'</li> </ul>	1 January 2019
4	Amendments to MFRS 119 'Plan amendment, curtailment or settlement'	1 January 2019
5	MFRS 15 'Insurance Contracts'	1 January 2021

#### 3.2 Consolidation and subsidiaries

##### (a) Consolidation

Subsidiaries are entities (including structured entities) 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 to direct the relevant activities of the entity. Subsidiaries are fully 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 and fair value of any pre-existing equity interest in the subsidiary. 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.

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.

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.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.2 Consolidation and subsidiaries (Cont'd)

##### (b) Business combination (Cont'd)

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 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Inter-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

##### (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 transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Group.

##### (d) Disposal of subsidiaries

When the Group ceases to consolidate because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes 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.

Gains or losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the subsidiaries sold.

#### 3.3 Investments in subsidiaries, joint ventures and associates in separate financial statements

In the Company's separate financial statements, investments in subsidiaries are carried at cost less accumulated impairment losses. On disposal of investments in subsidiaries the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

The amount due from subsidiaries of which the Company does not expect repayment in the foreseeable future are considered as part of the Company's investments in the subsidiaries.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.4 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.

#### 3.5 Foreign exchange currency

##### (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 Ringgit Malaysia ("RM"), which is the Company'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 relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss on a net basis within 'Other operating expenses - net'.

##### (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



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.5 Foreign exchange currency (Cont'd)

(c) Group companies (Cont'd)

- (iii) all resulting exchange differences are recognised as a separate component of 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.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income under 'foreign exchange reserve'.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences relating to that foreign operation recognised in other comprehensive income and accumulated in the separate component of equity are reclassified to profit or loss, as part of the gain or loss on disposal. In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

#### 3.6 Property, plant and equipment

Property, plant and equipment, including oil and gas properties, are stated at historical cost less accumulated depreciation, depletion 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 Company 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 and non-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 furniture and equipment	3 to 15 years
Leasehold improvement	2 years
IT Network equipment	2 years
Motor vehicles	5 to 7 years
Production equipment	up to 10 years
Buildings	up to 12 years



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.6 Property, plant and equipment (Cont'd)

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.

#### 3.7 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.

#### 3.8 Intangible assets

Intangible assets represent 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.

#### 3.9 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 carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal 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 which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.9 Impairment of non-financial assets (Cont'd)

The impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus reserve.

#### 3.10 Financial assets

Accounting policies applied from 1 January 2018

##### (a) Classification

From 1 January 2018, the Group and Company classify their financial assets measured at amortised cost ("AC"). The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group and Company classify their financial assets as at amortised cost only if both of the following criteria are met:

- (i) The asset is held within a business model whose objective is to collect the contractual cash flows; and
- (ii) The contractual terms give rise to cash flows that are solely payments of principal and interest ("SPPI").

The Group and Company reclassify debt investments when and only when its business model for managing those assets changes.

##### (b) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group and the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group and the Company has transferred substantially all the risks and rewards of ownership.

##### (c) Measurement

###### (i) Initial recognition

At initial recognition, the Group and Company measures a financial asset at its fair value.

###### (ii) Subsequent measurement

Subsequent measurement of debt instruments depends on the Group's and the Company's business model for managing the asset and the cash flow characteristics of the asset.

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost. Interest income from these financial assets is included in other operating income using the effective interest rate method. Any gain or loss arising on de-recognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.10 Financial assets (Cont'd)

##### Accounting policies applied from 1 January 2018 (Cont'd)

##### (d) Impairment

##### (i) Impairment of debt instruments

From 1 January 2018, the Group and the Company assess on a forward looking basis the expected credit loss ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group and Company have only 1 type of financial instruments that are subject to the ECL model:

- Trade receivables
- Other receivables
- Amount due from subsidiary
- Amount due from corporate shareholder in a subsidiary
- Amount due from corporate shareholder

The cash and cash equivalents are also subject to the impairment requirements of MFRS 9. The identified impairment loss is disclosed in Note 19.

ECL represents a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Group and Company expect to receive, over the remaining life of the financial instrument.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For trade receivables, the Group applies the simplified approach permitted by MFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, except for those which are in default or credit-impaired are assessed individually.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.10 Financial assets (Cont'd)

Accounting policies applied from 1 January 2018 (Cont'd)

(d) Impairment (Cont'd)

(i) Impairment of debt instruments (Cont'd)

For non-trade receivables and deposits, cash and bank balances, the Group and Company use the three stages approach which reflect their credit risk and how the loss allowances are determined for each of those stages:

Description	Stage 1 – Performing	Stage 2 – Underperforming	Stage 3 – Non-performing
Basis for recognising ECL	12 month ECL	Lifetime ECL	Lifetime ECL (credit impaired)
Amount due from subsidiary/ corporate shareholder/ corporate shareholder in a subsidiary.	Related entity that has a low risk of default and a strong capacity to meet contractual cash flows where there is positive operating cash flows.	Related entity for which there is a significant increase in credit risk where it is in negative operating cash flows or in net tangible liabilities.	There is evidence indicating the asset is credit-impaired.
Other receivables	Active contracts	Inactive contracts and amounts outstanding less or equal to 6 months	Inactive contracts and amounts outstanding more than 6 months
Deposits, cash and bank balances	Financial institution with a low or some risk of default	Financial institution with a significant increase in risk of default	There is evidence indicating the asset is credit-impaired

Note 4.1 provides for details about the impact of the impairment for the current year.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

A significant increase in credit risk is presumed if the financial asset is past due in making a contractual payment.

The Group and Company consider a financial asset to be in default when the counterparty fails to make contractual payment when they fall due or is in significant financial difficulty. Financial instruments that are credit-impaired are assessed on individual basis.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
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### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.10 Financial assets (Cont'd)

##### Accounting policies applied from 1 January 2018 (Cont'd)

##### (d) Impairment (Cont'd)

##### (ii) Write-off

##### Trade and other receivables

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and the Company, and a failure to make contractual payments for a period of greater than 30 days past due.

Impairment losses on trade and other receivables assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The Group and Company write off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. The Group and Company may write-off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in impairment gains.

##### Accounting policies applied until 31 December 2017

##### (a) Classification

Until 31 December 2017, the Group and Company classify their financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'other receivables', 'restricted cash', 'cash and cash equivalents', 'amount due from subsidiary', 'amount due from corporate shareholder' and 'amount due from corporate shareholder in a subsidiary' 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 commit 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.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.10 Financial assets (Cont'd)

##### Accounting policies applied until 31 December 2017 (Cont'd)

##### (c) Subsequent measurement - Impairment of financial assets

Assets carried at amortised cost

The Group assess 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.

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 'loans and receivables' 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.

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.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

##### (d) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group have transferred substantially all risks and rewards of ownership.

#### 3.11 Financial liabilities

MFRS 9 retains most of the MFRS 139 requirements for financial liabilities. From 1 January 2018, the Group and Company classify its financial liabilities at amortised cost ("AC").

##### Accounting policies applied from 1 January 2018

Financial liabilities are recognised initially at fair value plus or minus, any directly attributable transaction costs incurred at the acquisition or issuance of financial instrument.

Subsequent to initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.11 Financial liabilities (Cont'd)

##### Accounting policies applied until 31 December 2017

The Group classify their 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 'amount due to corporate shareholder in a subsidiary' in the consolidated statement of financial position. Financial liabilities 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). Otherwise, they are presented 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.

#### 3.12 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.

#### 3.13 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.

#### 3.14 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash in hand, deposits held at call with financial institutions or other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### 3.15 Share capital

##### (i) Classification

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 substance of the contractual arrangement of the particular instrument.

##### (ii) Share issue costs

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



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
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### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.15 Share capital (Cont'd)

##### (iii) Dividend distribution

Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

Distributions to holders of an equity instrument is recognised directly in equity.

##### (iv) Warrants reserve

The warrants reserve arose from the proceeds from issuance of warrants and is non-distributable by way of dividends. Warrants reserve is transferred to share premium upon exercise of warrants and the warrants reserve in relation to the unexercised warrants at the expiry date of the warrants period will be transferred to retained earnings.

##### (v) Share-based payment reserve

The fair value of the warrants granted to a shareholder is recognised as operating expenses with a corresponding increase in the share-based payment reserve over the vesting period.

The fair value of the warrants is measured using Bloomberg Trinomial Lattice Model. Measurement inputs include subscription price on grant date, exercise price of the warrants, tenure of the warrants, risk-free interest rate, expected dividend yield and the expected volatility based on the historical volatility of a similar listed entity.

#### 3.16 Current and deferred income tax

Tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also not accounted for if it arises from 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 tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.



## NOTES TO THE FINANCIAL STATEMENTS

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cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.16 Current and deferred income tax (Cont'd)

Deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the parent 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 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 deductible temporary difference can be utilised.

Deferred and 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 taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### 3.17 Provisions

Provisions are recognised when the Group and Company have 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 a reliable estimate of the amount can be made.

Where the Group and Company expect a provision to be reimbursed by another party, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

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.

Provisions are measured at the present value of management's best estimate 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 finance cost expense.

##### Provision for 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.

Changes in the obligation due to revised estimates of the amount or timing of cash flows required to settle the future liability is recognised by increasing or decreasing the carrying amount of the asset retirement obligation ("ARO") liability and the ARO asset. The adjustments to the asset are restricted, that is to say the asset cannot decrease below zero and cannot increase above its recoverable amount. The amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss.

Changes due solely to the passage of time (i.e: accretion of the discounted liability) is recognised as an increase in the carrying amount of the liability and is recognised as accretion expense in the profit or loss under finance cost. This accretion expense is recognised based on the effective interest method during the useful life of the related oil and gas properties.

The effects of foreign exchange differences resulted from the re-measurement of ARO in foreign currencies is recognized by increasing or decreasing the carrying amount of the ARO liability and ARO asset.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.17 Provisions (Cont'd)

##### Provision for asset retirement obligations (Cont'd)

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.

#### 3.18 Employee benefits

##### (i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

##### (ii) Defined contribution plans

The Group's contributions to defined contribution plans are charged to profit or loss in the period to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. Once the contributions have been paid, the Company has no further payment obligations.

##### (iii) 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.

#### 3.19 Revenue recognition

##### Accounting policies applied from 1 January 2018

Revenue from contracts with customers is measured at its transaction price, being the amount of consideration which the Group expect to be entitled in exchange for transferring promised goods or services to a customer, net of estimated returns, discounts, commissions, rebates and taxes. Discounts and rebates are measured using the most likely amount method and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

Transaction price is allocated to each performance obligation on the basis of the relative standalone selling prices of each distinct good promised in the contract.

Revenue from the sale of crude oil and gas are recognised at a point in time when the control of the product is transferred to the customer.

The Group does not expect any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group and Company does not adjust any of the transaction prices for the time value of money.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.19 Revenue recognition (Cont'd)

##### Accounting policies applied until 31 December 2017

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.

#### 3.20 Interest income

##### Accounting policies applied from 1 January 2018

MFRS 9 requires interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

##### Accounting policies applied until 31 December 2017

Under MFRS 139, interest income is recognised using the effective interest rate method.

#### 3.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### 3.22 Operating leases

Leases of assets where 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 statement of comprehensive income on a straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.23 Contract liabilities

Contract liabilities of the Group represent advance receipts from customers on sales that have yet to be rendered or completed. Contract liabilities are named as advance payments and classified under other payables and accruals.

All other contract liabilities are expected to be recognised as revenue over the next 12 months.

#### 3.24 Earnings per share

##### Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

##### Diluted earnings per share

Diluted earnings per share adjusts the figures in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### 4 FINANCIAL RISK MANAGEMENT

#### 4.1 Financial risk factors

The Group and Company'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 and Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group and Company's financial performance.

The Group and Company have established risk management policies, guidelines and procedures in order to manage its exposure to these financial risks. The following sections provide details regarding the Company's exposure to the above mentioned financial risks and the objectives, policies and processes for the management of these risks.

##### (a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices that will affect the Group's and the Company's financial position or cash flows.

##### (i) Foreign exchange risk

The Group and the Company are exposed to foreign currency risks on trade and other receivables, trade and other payables, cash and cash equivalents and amount due to and amount due from corporate shareholder in a subsidiary that are denominated in currency that is different from the functional currency. The currency giving rise to this risk is primarily United States Dollars ("USD") and Kazakhstan Tenge ("KZT").

The Group and Company do not hedge their foreign currency denominated obligations.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 4 FINANCIAL RISK MANAGEMENT (CONT'D)

#### 4.1 Financial risk factors (Cont'd)

##### (a) Market risk (Cont'd)

##### (i) Foreign exchange risk (Cont'd)

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's and Company's currency exposure profile is as follows:

Group	Denominated in KZT		Denominated in USD	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Financial assets</b>				
Restricted cash	6,936	7,357	-	-
Other receivables	1,276	1,002	-	-
Trade receivables	827	1,181	-	-
Cash and cash equivalents	957	43	18	18
Amount due from corporate shareholder in a subsidiary	-	-	2,080	671
	9,996	9,583	2,098	689
<b>Financial liabilities</b>				
Trade payables	45,045	41,116	-	-
Accruals and other payables	3,687	1,069	-	-
Amount due to corporate shareholder in a subsidiary	-	-	205,604	184,698
	48,732	42,185	205,604	184,698
<b>Company</b>				
<b>Financial asset</b>				
Cash and cash equivalents	-	-	18	18
Amount due from corporate shareholder in a subsidiary	-	-	2,080	671
	-	-	2,098	689



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 4 FINANCIAL RISK MANAGEMENT (CONT'D)

#### 4.1 Financial risk factors (Cont'd)

##### (a) Market risk (Cont'd)

##### (i) Foreign exchange risk (Cont'd)

The table below summarises the change in foreign currency rate to the Group and the Company's loss before taxation. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

	Effect on profit/(loss) before taxation and equity	
	Company	
	2018	2017
	RM'000	RM'000
<b>Increase/Decrease in foreign exchange rate</b>		
USD strengthened/weakened by:		
+ 10%	210	69
- 10%	(210)	(69)

	Effect on profit/(loss) after taxation and equity	
	Group	
	2018	2017
	RM'000	RM'000
<b>Increase/Decrease in foreign exchange rate</b>		
USD strengthened/weakened by:		
+ 10%	(20,351)	(18,401)
- 10%	20,351	18,401
KZT strengthened/weakened by:		
+ 10%	(3,873)	(3,260)
- 10%	3,873	3,260

##### (ii) Interest rate risk

The Group and Company have no significant interest bearing cash assets. The Group and Company'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 20. The Group and Company's deposits that are placed in financial institution are not exposed to significant interest rate risk.

##### (iii) Price risk

The Group and Company are not subject to significant price risk.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 4 FINANCIAL RISK MANAGEMENT (CONT'D)

#### 4.1 Financial risk factors (Cont'd)

##### (b) Credit risk

Financial assets that are primarily exposed to credit risks are trade and other receivables, amount due from subsidiary, amount due from corporate shareholder, amount due from corporate shareholder in a subsidiary and cash and bank balances. Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group and Company. At the reporting date, the Group and Company's maximum exposure to credit risk is represented by carrying amounts of each class of financial assets recognised in the statement of financial position.

##### Trade receivables

The Group applies the MFRS 9 three-stage approach to measure expected credit losses ("ECL") of its trade receivables.

The expected loss rates are based on the payment profiles of sales over a period of 3 years before 31 December 2017 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. No significant changes to estimation techniques or assumptions were made during the reporting period.

The Group has one customer which in aggregate accounts for more than 80% (2017: 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 ("Euro-Asian Oil"), one of the largest trading companies in Mangistau region of Western Kazakhstan.

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (upon adoption of MFRS 9) was determined using the 12 months ECL methodology under Stage 1 as they are deemed to be of low risk and performing. The detail of the loss allowance is disclosed in Note 18.

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model under MFRS 139. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly.

##### Other receivables

Credit risk of other receivables are mainly arising from interest receivables from financial institutions which are low risk.

As at the end of the reporting period, the maximum exposure to credit risk arising from other receivables are represented by the carrying amounts in the statement of financial position.

The Group uses the three stages approach for other receivables which reflect their credit risk and how the loss allowances are determined for each of those stages. The Group determines the probability of default for these other receivables considering historical data and macroeconomic information.

Other receivables are assessed using the 12-month ECL methodology under Stage 1 as they are low risk and performing. On that basis, there is no impairment recognised during the year.

##### Amount due from subsidiary, corporate shareholder and corporate shareholder in a subsidiary

The Company enters into non-trade transactions with its subsidiary, corporate shareholder and corporate shareholder in a subsidiary. As at 31 December 2018, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 4 FINANCIAL RISK MANAGEMENT (CONT'D)

#### 4.1 Financial risk factors (Cont'd)

##### (b) Credit risk (Cont'd)

Amount due from subsidiary, corporate shareholder and corporate shareholder in a subsidiary (Cont'd)

The Company uses the three stages approach for intercompany balances which reflect their credit risk and how the loss allowances are determined for each of those stages. The Company determines the probability of default for these amounts due from subsidiaries individually using internal information available.

These intercompany balances are assessed using the 12 months ECL methodology under Stage 1 as they are low risk and performing. On that basis, there is no impairment recognised during the year.

##### Deposits, cash and bank balances

The Group and Company place its restricted cash and deposits, cash and bank balances with various creditworthy financial institutions. As at the end of the reporting period, the maximum exposure to credit risk arising from restricted cash and cash and cash equivalents are represented by the carrying amounts in the consolidated statement of financial position.

The Group and Company use the three stages approach for deposits, cash and bank balances which reflect their credit risk and how the loss allowances are determined for each of those stages. The Group and Company determine the probability of default for these balances considering historical data and macroeconomic information (such as market interest rates).

The analysis of the credit exposure of deposits, cash and bank balances for which an ECL allowance is recognised is disclosed in Note 19.

##### (c) Liquidity risk

The Group and Company's liquidity risk management involve 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. The Group has taken a number of positive actions to ensure they will continue to have sufficient funds to meet all its operational and financial obligations as and when they fall due in the coming financial year.

This includes the re-assessment of the timing of the settlement of the purchase consideration deferred as at 31 December 2018.

The table below analyses the Group and Company'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.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 4 FINANCIAL RISK MANAGEMENT (CONT'D)

#### 4.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

	Contractual undiscounted cash flows					
	Carrying amount RM'000	Less than 1 year RM'000	Between 1 and 2 years RM'000	Between 2 and 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Group</b>						
<b>2018</b>						
Trade payables	55,376	33,026	22,350	-	-	55,376
Accruals and other payables (excluding statutory liabilities)	6,148	4,076	1,200	2,328	-	7,604
Amount due to corporate shareholder in a subsidiary	600,220	331,187	-	285,247	440,714	1,057,148
<b>2017</b>						
Trade payables	53,388	53,388	-	-	-	53,388
Accruals and other payables (excluding statutory liabilities)	26,344	14,361	11,983	4,003	-	30,347
Amount due to corporate shareholder in a subsidiary	604,815	93,075	343,489	199,867	433,669	1,070,100
<b>Company</b>						
<b>2018</b>						
Accruals and other payables (excluding statutory liabilities)	703	703	-	-	-	703
<b>2017</b>						
Accruals and other payables (excluding statutory liabilities)	825	825	-	-	-	825



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
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### 4 FINANCIAL RISK MANAGEMENT (CONT'D)

#### 4.2 Fair value estimation

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

	Group	
	Carrying amount RM'000	Fair value RM'000
<b>At 31 December 2018</b>		
Trade payables	22,350	20,081
Amount due to corporate shareholder in a subsidiary	600,220	652,188
<b>At 31 December 2017</b>		
Amount due to corporate shareholder in a subsidiary	604,815	641,553

#### Valuation principles

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market as of the measurement date. The Group and Company determine the fair value based on discounted estimated future cash flows using the prevailing market rates for similar credit risks and remaining year of maturity. Management judgement is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving at fair value.

The disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

#### Valuation technique

The fair value of the amount due to corporate shareholder in a subsidiary as disclosed is measured based on level 2 fair value measurement hierarchy.

#### 4.3 Capital risk management

The Group and Company's objectives when managing capital are to safeguard the Group and Company'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 and Company monitor 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.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 4 FINANCIAL RISK MANAGEMENT (CONT'D)

#### 4.3 Capital risk management (Cont'd)

The Debt over EBITDA ratios of the Group as follows:

	2018 RM'000	2017 RM'000
Total borrowings	600,220	604,815
Loss before income tax	(38,707)	(121,705)
Finance income	(8,671)	(6,474)
Finance cost	55,249	77,969
Depreciation, depletion and amortisation	59,902	64,314
EBITDA	67,773	14,104
Debt over EBITDA ratio	8.86	42.88

### 5 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 and Company make 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 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 crude oil and liquefied petroleum gas 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.



## NOTES TO THE FINANCIAL STATEMENTS

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cont'd

### 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

#### (a) Estimation of proved and probable oil reserves (Cont'd)

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.

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. 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 16.

Changes to the Group's estimates of proved-plus-probable developed reserves also affect the amount of depreciation, depletion and amortisation recorded in the financial statements for property, plant and equipment. These changes can, for example, be the result of production and revisions. A reduction in proved-plus-probable reserves will increase the rate of depreciation, depletion and amortisation charges (assuming constant production) and reduce income. If the proved-plus-probable developed reserves estimate increase by 10% the depreciation, depletion and amortisation charges will decrease by RM4,247,701. Decreasing the proved-plus-probable developed reserve estimate by 10% will increase the depreciation, depletion and amortisation charges by RM5,146,241.

Changes to the Company's estimates of proved-plus-probable reserves could also impact assumptions used in determining deferred tax asset recognition and impairment.

#### (b) Depletion, depreciation and amortisation of property, plant and equipment

The Group determines the estimated useful lives and related depreciation and amortisation charges for other property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

Management will adjust the estimated useful lives where useful lives vary from previously estimated useful lives.

#### (c) 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. Details of the estimates and judgements are set out in Note 17 to the financial statements.

#### (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 judgements about the economic viability of the exploratory wells. If there is a change in one of these judgements 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.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

#### (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 judgement 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 judgement. 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 Directors of the Group and Company are of the opinion that there are no probable liabilities 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.

The Group used the most recent Government bonds (2017: Government bonds) interest rate as the basis to calculate the discount rate to determine the present value of the cash flows. The discount rate of 2018 ranges from 5.5% to 8.8% (2017: 7.1% to 9.2%). A 2% increase in discount rate will reduce the provision by RM2,693,969. A 2% decrease in discount rate will increase the provision by RM3,618,693.

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

The Group and the Company are subject to income taxes in Malaysia, 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 and the Company 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.

#### (g) Impairment of investment in subsidiaries

Investment in subsidiaries 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 investment is impaired involve management estimates and judgements such as future prices of crude oil, estimation of proved and probable oil reserves and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans.

Details of the estimates and judgements are set out in Note 15 to the financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 6 REVENUE

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Sales of crude oil	216,876	152,919	-	-
Sales of gas	3,408	4,196	-	-
	220,284	157,115	-	-

#### Unsatisfied long-term performance obligations

The Group has applied expedients whereby the transaction price allocated to unsatisfied or partially unsatisfied performance obligations:

- (a) as at 31 December 2017, and
- (b) for contracts that have an expected duration of one year or less are not disclosed.

The Group and Company did not enter into any contract with an expected duration of more than one year.

### 7 TAXES OTHER THAN INCOME TAXES

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Rent export tax	30,954	15,523	-	-
Rent export duty expenditure	25,560	16,577	-	-
Mineral extraction tax	12,624	8,401	-	-
Property tax	5,440	6,548	-	-
	74,578	47,049	-	-

### 8 EMPLOYEE COMPENSATION COSTS

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Wages, salaries and allowances	11,050	12,939	3,753	4,657
Welfare and other expenses*	3,250	4,032	860	1,279
	14,300	16,971	4,613	5,936

\* Includes share based payment disclosed in Note 23 (b).



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 9 OTHER OPERATING INCOME/(EXPENSES) – NET

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Qualifying acquisition related expense	-	(30)	-	-
Write off of inventory	(1,454)	-	-	-
Write off of property, plant and equipment	(155)	-	-	-
Foreign exchange gain/(expense) on operation - net	5,182	(3,286)	(8)	(3)
Net provision for inventory obsolescence	(1,497)	(2,384)	-	-
Others	(853)	(2,918)	-	-
	1,223	(8,618)	(8)	(3)

Foreign exchange arising from purchases and services procured are classified as part of operating expenditure.

### 10 FINANCE (COSTS)/ INCOME – NET

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
<b>Finance income</b>				
Profit income from deposits with licensed islamic banks	824	1,103	785	1,103
Interest income from deposits with other licensed banks	784	957	-	-
Accretion gain on asset retirement obligations, net (Note 27)	-	4,414	-	-
Foreign exchange gain, net	7,026	-	6	3
Other finance income	37	-	-	-
Finance income, net	8,671	6,474	791	1,106
<b>Finance costs</b>				
Interest expenses on loan from corporate shareholder (Note 21)	(33,381)	(34,654)	-	-
Interest expense on deferred consideration (Note 21)	(19,961)	(5,551)	-	-
Accretion of asset retirement obligations (Note 27)	(808)	-	-	-
Other finance cost	(1,046)	(4,052)	-	-
Foreign exchange loss, net	(53)	(33,712)	-	-
Finance costs, net	(55,249)	(77,969)	-	-
Finance (costs)/income, net	(46,578)	(71,495)	791	1,106

Foreign exchange arising from cash and bank balance is classified as part of finance cost-net.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 11 LOSS BEFORE INCOME TAX

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Loss before taxation is arrived at after charging/ (crediting):				
Auditor remuneration:				
- Statutory audit fees				
- PricewaterhouseCoopers, Malaysia	321	309	289	297
- Member firm of PricewaterhouseCoopers International Limited*	561	616	-	-
- Non audit fees:				
- PricewaterhouseCoopers, Malaysia	-	90	-	90
- Member firm of PricewaterhouseCoopers International Limited*	46	243	-	-
Employee compensation cost (Note 8)	14,300	16,971	4,613	5,936
Depreciation of property, plant and equipment (Note 16)	59,843	64,244	22	83
Amortisation of intangible assets	58	70	-	-
Professional fees	2,728	3,203	1,597	714
Realised foreign exchange (gain)/loss	(23)	6	(8)	2
Unrealised foreign exchange (gain)/loss	(12,280)	36,998	(5)	-
Taxes other than income tax (Note 7)	74,578	47,049	-	-
Office rental	373	652	285	295

\* PricewaterhouseCoopers PLT Malaysia and other member firms of PricewaterhouseCoopers International Limited are separate and independent legal entities.

### 12 DIRECTORS' REMUNERATION

The aggregate amount of emoluments receivable by Directors during the financial year was as follows:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Directors' fee	285	294	285	294
Remuneration and other emoluments	1,589	1,891	1,589	1,891
Defined contribution plans	170	206	170	206
	2,044	2,391	2,044	2,391



**NOTES TO THE FINANCIAL STATEMENTS**for the financial position 31 December 2018  
cont'd**13 INCOME TAX EXPENSE/(BENEFIT)**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Current income tax				
Malaysian income tax:				
- Current year	-	-	-	-
- Over accrual in prior year	-	(29)	-	(29)
Foreign income tax:				
- Current year	1,729	166	-	-
- Under provision prior year	624	-	-	-
	2,353	137	-	(29)
Deferred income tax (Note 24)				
Origination and reversal of temporary difference	14,965	25,344	-	-
	17,318	25,481	-	(29)

The explanation of the relationship between tax expense and loss before income tax is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Loss before income tax	(38,707)	(121,705)	(6,581)	(6,831)
Tax calculated at the statutory tax rates of 24% (2017: 24%)	(9,308)	(29,209)	(1,579)	(1,639)
Tax effects of:				
- Income not subject to tax	(13,764)	(12,538)	(8)	(10)
- Expenses not deductible for tax purposes	30,331	31,728	1,587	1,649
- Difference in overseas tax rates and tax base	80	3,049	-	-
- Re-measurement of deferred tax due to change in the applicable profit tax rate	13,332	34,334	-	-
- Adjustments to deferred tax due to currency exchange rate movements	(3,353)	(1,854)	-	-
- Over accrual in prior year-net	-	(29)	-	(29)
Income tax expense/(benefit)	17,318	25,481	-	(29)



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 13 INCOME TAX EXPENSE/(BENEFIT) (CONT'D)

Deferred tax in Kazakhstan has been re-measured to reflect the changes in excess profit tax rate that will be applicable in the periods in which the deductible/taxable temporary differences are expected to reverse.

Income in Kazakhstan is taxed at the excess profit tax rate which 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 estimation of amounts and periods when deductible/taxable temporary differences existing at the reporting date are reversed/settled.

### 14 LOSS PER ORDINARY SHARE

#### Basic earnings per ordinary share

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

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
Loss attributable to ordinary shareholders (RM'000)	(41,727)	(87,836)
Weighted average number of ordinary shares ('000)	1,096,412	1,096,412
Basic loss per ordinary share (RM)	(0.04)	(0.08)
Diluted loss per ordinary share (RM)	(0.04)	(0.08)

The Group and Company present basic and diluted profit per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

#### Diluted earnings per ordinary share

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, which comprise free convertible warrants granted to the shareholders.

The assumed conversion from the exercise of warrants would be anti-dilutive.

### 15 INVESTMENTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Unquoted shares - at cost*	-	-
Cost of investment	25,646	25,646
Advance to subsidiary treated as quasi-investment**	-	584,391
Capital contributions to a subsidiary****	584,391	-
	<b>610,037</b>	<b>610,037</b>



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 15 INVESTMENTS IN SUBSIDIARIES (CONT'D)

The details of the subsidiaries are as follows:

Name of subsidiary	Group's interest		Country of incorporation	Principal activities
	2018 %	2017 %		
Reach Energy Ventures Sdn. Bhd.	100	100	Malaysia	Investment holding company
<b>Subsidiary held through Reach Energy Ventures Sdn. Bhd.</b>				
Palaeontol B.V.	60	60	Netherlands	Investment holding company
<b>Subsidiary held through Palaeontol B.V.</b>				
Emir-Oil LLP***	100	100	Republic of Kazakhstan	Exploration, development, production and sale of crude oil and other petroleum products

The financial year end of the subsidiaries fall on 31 December.

\* Denotes RM2

\*\* Advance to subsidiary treated as quasi-investment is denominated in Ringgit Malaysia, unsecured and interest free.

\*\*\* Audited by a member firm of PricewaterhouseCoopers International Limited which is a separate and independent legal entity from PricewaterhouseCoopers PLT Malaysia.

\*\*\*\* During the financial year, the advance to a subsidiary was converted to capital contribution.

#### Summarised financial information for subsidiary

Set out below are the summarised financial information for Palaeontol B.V. Group ("PBV Group"):

#### Summarised statement of financial position

	2018 RM'000	2017 RM'000
Non-current assets	1,589,288	1,580,946
Current assets	60,960	38,923
Current liabilities	(359,792)	(148,520)
Non-current liabilities	(249,596)	(475,405)
Net assets	1,040,860	995,944
Accumulated non-controlling interests at 40%	416,344	398,378



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 15 INVESTMENTS IN SUBSIDIARIES (CONT'D)

Summarised financial information for subsidiary (Cont'd)

Set out below are the summarised financial information for Palaeontol B.V. Group ("PBV Group"): (Cont'd)

Summarised statement of comprehensive income

	2018 RM'000	2017 RM'000
Revenue	220,284	157,115
Depreciation, depletion and amortisation	(59,879)	(64,231)
Other operating expenses	(144,126)	(133,308)
Operating loss	16,279	(40,424)
Finance cost- net	(34,707)	(33,266)
Loss before income tax	(18,428)	(73,690)
Income tax expense	(17,318)	(25,511)
Loss for the financial year/period	(35,746)	(99,201)
Loss allocated to non-controlling interests	(14,298)	(39,680)

Other than the restricted cash set aside for environmental remediation relation to its operations as disclosed in Note 19, there is no restriction on the Group's ability to access or use the assets or settle the liabilities of the PBV Group.

Summarised statement of cash flows

	2018 RM'000	2017 RM'000
Loss before income tax	(18,428)	(73,690)
Adjustments for:		
Depreciation, depletion and amortisation	59,879	64,231
Unrealised foreign exchange gain	(5,431)	(46)
Finance cost	35,287	38,707
Finance income	(822)	(5,370)
Loss in disposal of assets	668	75
Reversal provision for impairment of trade receivables	-	(159)
Net provision for inventory obsolescence	1,497	2,384
Write off of inventory	1,454	-
Write off of property, plant and equipment	155	-
	74,259	26,132



# NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

## 15 INVESTMENTS IN SUBSIDIARIES (CONT'D)

Summarised financial information for subsidiary (Cont'd)

Set out below are the summarised financial information for Palaeontol B.V. Group ("PBV Group"): (Cont'd)

Summarised statement of cash flows (Cont'd)

	2018 RM'000	2017 RM'000
Changes in working capital:		
Inventories	2,822	(3,139)
Prepayment and other receivables	4,900	12,001
Trade receivables	418	(6,336)
Trade payables	(3,727)	9,445
Other payables and accruals	(14,828)	(91,225)
Cash flows generated/(used in) from operating activities	63,844	(53,122)
Income tax paid	-	-
Net cash generated/(used in) from operating activities	63,844	(53,122)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(35,014)	(11,149)
Finance income received	2,199	842
Movement in restricted cash	546	(1,156)
Net cash used in investing activities	(32,269)	(11,463)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loans received from corporate shareholder	(1,738)	-
Net cash used in financing activities	(1,738)	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	29,837	(64,585)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,532	63,154
EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(747)	2,963
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	30,622	1,532



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
 cont'd

### 15 INVESTMENTS IN SUBSIDIARIES (CONT'D)

#### Impairment assessment of investment in REVS

As a result of the continued challenging operating environment of the Group and continuing losses during the financial year, management has performed an assessment to identify whether an impairment exists with regards to the Company's investment in REVS.

The recoverable amount of investment in REVS is determined based on the FVLCD method. The key assumptions used in determining the recoverable amount is as follows:

Period of projection	2019 - 2036
Selling price	USD63 – USD94 (at end of projection period)
Reserve volume	75.3 MMBbl
Inflation rate (USD)	2.1% - 2.4%
Inflation rate (KZT)	2.2% - 7.2%
Cost of equity (USD)	13.11%
Cost of equity (KZT)	14.11%
Capital expenditure	USD 200.4 million over the projection period
Repayment of debt	Over the projection period
Overhead costs	Based on past performance and expected inflation

The Company did not record an impairment as the carrying value of the investment exceeds its recoverable amount.

The Company's review includes an impact assessment of changes in key assumptions. Based on the sensitivity analysis performed, the Directors concluded that no reasonable change in the base case assumptions would cause the carrying amount of the investment to exceed its recoverable amount.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

## 16 PROPERTY, PLANT AND EQUIPMENT

Group	Exploration and evaluation assets RM'000	Oil and gas properties RM'000	Leasehold, buildings and improvements RM'000	Vehicles, office and other production equipment RM'000	Information technology network equipment RM'000	Construction in progress RM'000	Total RM'000
<b>2018</b>							
<b>Cost</b>							
At 1 January	65,809	1,240,595	7,497	7,836	63	315,685	1,637,485
Additions	23,208	3,960	9	726	-	13,443	41,346
Disposal	(652)	-	-	-	-	(1,166)	(1,818)
Transfer in/(out)	(8,856)	44,506	657	-	-	(36,307)	-
Write-off	-	-	(1,025)	(1,818)	-	-	(2,843)
Foreign exchange translation	1,922	24,750	107	115	-	4,925	31,819
At 31 December	81,431	1,313,811	7,245	6,859	63	296,580	1,705,989
<b>Accumulated depreciation</b>							
At 1 January	-	64,184	1,742	1,705	63	-	67,694
Charge for the financial year	-	57,638	791	1,410	-	-	59,839
Disposal	-	-	(1,045)	(1,675)	-	-	(2,720)
Foreign exchange translation	-	2,777	248	204	-	-	3,229
At 31 December	-	124,599	1,736	1,644	63	-	128,042
<b>Net book value</b>							
At 31 December	81,431	1,189,211	5,509	5,215	-	296,580	1,577,947

The non-cash purchases of property plant and equipment is RM 35,013,612.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 16 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group	Exploration and evaluation assets RM'000	Oil and gas properties RM'000	Leasehold, buildings and improvements RM'000	Vehicles, office and other production equipment RM'000	Information technology network equipment RM'000	Construction in progress RM'000	Total RM'000
<b>2017</b>							
<b>Cost</b>							
At 1 January	135,541	1,257,156	7,943	8,436	63	375,238	1,784,377
Additions	2,412	1,458	29	154	-	7,120	11,173
Disposal	-	-	(6)	(393)	-	-	(399)
Transfer in/(out)*	(64,816)	109,514	158	-	-	(44,856)	-
Foreign exchange translation	(7,328)	(127,533)	(627)	(362)	-	(21,817)	(157,667)
At 31 December	65,809	1,240,595	7,497	7,836	63	315,685	1,637,485
<b>Accumulated depreciation</b>							
At 1 January	-	2,822	539	350	63	-	3,774
Charge for the financial year	-	61,362	1,209	1,673	-	-	64,244
Disposal	-	-	(6)	(318)	-	-	(324)
At 31 December	-	64,184	1,742	1,705	63	-	67,694
<b>Net book value</b>							
At 31 December	65,809	1,176,411	5,755	6,131	-	315,685	1,569,791

\* A restatement on reclassification of asset class was performed to better reflect the underlying nature of wells.



**NOTES TO THE FINANCIAL STATEMENTS**for the financial position 31 December 2018  
cont'd**16 PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Leasehold, buildings and improvements RM'000	Vehicles, office and other production equipment RM'000	Information technology network equipment RM'000	Total RM'000
<b>Company</b>				
<b>Cost</b>				
At 1 January 2018	403	296	63	762
Additions	-	5	-	5
At 31 December 2018	403	301	63	767
<b>Accumulated depreciation</b>				
At 1 January 2018	403	261	63	727
Charge for the financial year	-	22	-	22
At 31 December 2018	403	283	63	749
<b>Net book value</b>				
At 31 December 2018	-	18	-	18
<b>Cost</b>				
At 1 January 2017	403	272	63	738
Additions	-	24	-	24
At 31 December 2017	403	296	63	762
<b>Accumulated depreciation</b>				
At 1 January 2017	401	180	63	644
Charge for the financial year	2	81	-	83
At 31 December 2017	403	261	63	727
<b>Net book value</b>				
At 31 December 2017	-	35	-	35



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 16 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

In accordance with MFRS 136 'Impairment of assets', the recoverable amount of assets is the greater of its value in use and its fair value less costs to sell. During the financial year ended 31 December 2018, following the revision of reserves volume reported from an independent reserves engineer, the Group performed an assessment of the recoverability of the Group's oil and gas properties. 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:

#### 2018

Period of projection	2019 - 2036
Selling price	USD63 – USD94 (at end of projection period)
Reserve volume	75.3 MMBbl
Inflation rate (USD)	2.1% - 2.4%
Inflation rate (KZT)	2.2% - 7.2%
Weighted average cost of capital (USD)	11.6%
Weighted average cost of capital (KZT)	13.7%
Capital expenditure	USD 200.4 million over the projection period

#### 2017

Period of projection	2018 - 2036
Selling price	USD65 – USD89 (at end of projection period)
Reserve volume	68.9 MMBbl
Inflation rate (USD)	1.7% - 2.7%
Inflation rate (KZT)	2.8% - 7.1%
Weighted average cost of capital (USD)	11.3%
Weighted average cost of capital (KZT)	13.4%
Capital expenditure	USD 264.4 million over the projection period

The Group did not record an impairment for oil and gas properties due to a surplus between the carrying value of the oil and gas properties and the present value of cash flows expected to be generated from proved and probable reserves of certain oil fields, being the determined cash generating unit ("CGU").

If the average oil price had been USD6/bbl lower than management's estimates, the surplus of the FVLCD calculation would reduce to RM1,885.7 million and would result in a deficit of RM8.2 million.

If the inflation rate had been 1% lower than management's estimates, the surplus of the FVLCD calculation would reduce to RM2,092.0 million and would result in a deficit of RM1.9 million.

If the estimated WACC used in determining the after-tax discount rate applied to the discounted cash flows had been 1% higher than management's estimates, the surplus of the FVLCD calculation would reduce to RM1,974.9 million and would result in a deficit of RM4.4 million.



**NOTES TO THE FINANCIAL STATEMENTS**for the financial position 31 December 2018  
cont'd**17 PREPAYMENTS AND OTHER RECEIVABLES**

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Advances to external parties	4,611	5,484	22	20
Value-added tax recoverable	9,515	12,417	-	-
Total prepayments	14,126	17,901	22	20
Other receivables	1,327	1,047	48	45
Deposits	137	135	136	135
Total deposits, prepayments and other receivables	15,590	19,083	206	200
Represent:				
Non-current	2,357	3,254	-	-
Current	13,233	15,829	206	200
	15,590	19,083	206	200

As at 31 December 2018, substantially all other receivables are denominated in KZT. All other receivables are unsecured, interest free and have no fixed term of repayment. The fair values of other receivables approximate their carrying amounts.

**18 TRADE RECEIVABLES**

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Trade receivables	14,251	14,391	-	-
Less: loss allowance	(10)	(10)	-	-
Trade receivables – net	14,241	14,381	-	-

The Group's trade receivables have credit terms of between 30 days to 60 days.

There is no contract asset recognised during the year.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 18 TRADE RECEIVABLES (CONT'D)

The aging analysis of trade receivables were as follows:

Group

	Gross RM'000	Individual impairment RM'000	Average Expected loss rate %	Collective impairment RM'000	Net RM'000
<b>31.12.2018</b>					
Not past due	14,150	-	0%	-	14,150
Past due 60 to 180 days	-	-	0%	-	-
Past due more than 180 days	101	(10)	0%	-	91
	14,251	(10)		-	14,241
	Gross RM'000	Individual impairment RM'000	Average Expected loss rate %	Collective impairment RM'000	Net RM'000
<b>1.1.2018</b>					
Not past due	14,066	-	0%	-	14,066
Past due 60 to 180 days	7	-	0%	-	7
Past due more than 180 days	318	(10)	0%	-	308
	14,391	(10)		-	14,381

In the prior financial year, the aging analysis of trade receivables were as follows:

	Group 2017 RM'000	Company 2017 RM'000
Not past due	14,066	-
Past due 60 to 180 days	7	-
Past due more than 180 days	318	-
	14,391	-
Less: loss allowance of trade receivables	(10)	-
	14,381	-



**NOTES TO THE FINANCIAL STATEMENTS**for the financial position 31 December 2018  
cont'd**18 TRADE RECEIVABLES (CONT'D)**

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

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
United States Dollar ("USD")	13,414	13,200	-	-
Kazakhstani Tenge ("KZT")	827	1,181	-	-
At 31 December	14,241	14,381	-	-

The movement in the Group and Company's provision for impairment of trade receivables is as follows:

	Group	
	2018	2017
	RM'000	RM'000
At 1 January	10	169
Net reversal during the financial year	-	(159)
At 31 December	10	10

The creation and release of provision for impaired receivables have been included as a net loss on impairment in the consolidated statements of comprehensive income. Subsequent recoveries of amounts previously written off are credited against the same line item.

**19 DEPOSITS, CASH AND BANK BALANCES**

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	31,172	1,654	50	122
Deposits with licensed financial institution	25,226	33,222	18,290	25,865
	56,398	34,876	18,340	25,987
Less: Loss allowance	(455)	-	-	-
	55,943	34,876	18,340	25,987
Less: Deposits with licensed financial institution/banks which are restricted in use*	(6,936)	(7,357)	-	-
Total cash and cash equivalents at the end of financial year	49,007	27,519	18,340	25,987

\* 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.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 19 DEPOSITS, CASH AND BANK BALANCES (CONT'D)

The movement in the Group's loss allowance for cash and bank balances is as follows:

	Group 2018 RM'000
Opening loss allowance as at 1 January 2018	-
Increase in loss allowance	455
As at the end of the financial year	455

The following table contains an analysis of the credit risk exposure of deposits and other receivables for which an ECL allowance is recognised:

Group	ECL rate	Basis for recognition of ECL provision	Estimated gross carrying amount at default RM'000	Loss allowance RM'000	Carrying amount (net of ECL provision) RM'000
internal credit rating					
<b>As at 31 December 2018</b>					
Stage 1	1%	12 month ECL	56,398	(455)	55,943

The remaining days to maturity and effective interest rate for the fixed deposits with licensed banks as at the period end ranges from 3 to 58 days (2017: ranges from 4 to 59 days).

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
United States Dollar ("USD")	29,684	1,506	18	18
Kazakhstan Tenge ("KZT")	7,893	7,401	-	-
Euro ("EUR")	1	1	1	1
Malaysian Ringgit ("MYR")	18,365	25,968	18,321	25,968
	55,943	34,876	18,340	25,987



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 20 AMOUNTS DUE FROM SUBSIDIARY, AMOUNTS DUE FROM/(TO) CORPORATE SHAREHOLDER IN A SUBSIDIARY AND AMOUNT DUE FROM CORPORATE SHAREHOLDER

(a) Amount due from subsidiary

The amount due from subsidiary is denominated in Ringgit Malaysia. The amount is non-interest bearing, unsecured and has no fixed terms of repayment.

(b) Amounts due to corporate shareholder in a subsidiary

The amounts due to corporate shareholder in a subsidiary is denominated in United States Dollars, is unsecured, with the repayment terms and interest exposure as follows:

Amount RM'000	Interest	Repayment terms
182,281	Ranging from 10% to 14%	No fixed repayment period
247,585	5%	Due in 2019
51,313	Interest free	Due in 2019
67,378	4.86%	Due in 2036
18,630	Interest free	Due in 2036
7,788	Interest free	Repayable on demand
1,608	5%	Due in 2023
314	Interest free	Due in 2023
23,323	Interest free	No fixed repayment period
600,220		

The amount due from corporate shareholder is denominated in Ringgit Malaysia. The amount is non-interest bearing, unsecured and is repayable on demand.

### 21 SIGNIFICANT RELATED PARTY DISCLOSURES

The related party transactions of the Group and the Company comprise mainly transactions between the Company and its subsidiaries and corporate shareholders.

The related parties and their relationship with the Company are as follows:

Companies	Relationship
Reach Energy Ventures Sdn Bhd ("REVSb")	Subsidiary
Palaeontol B.V. ("PBV")	Subsidiary
MIE Holdings Corporation ("MIEH")	Corporate shareholder in a subsidiary
Reach Energy Holdings Sdn Bhd ("REHSB")	Corporate shareholder



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 21 SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D)

All related party transactions were carried out on agreed terms with the related parties. The significant related party transactions of the Group and the Company are shown below:

(a) Details of significant transactions arising during the financial year with the related companies are as follows:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
(i) Transactions with subsidiaries				
Payments on behalf	-	-	(67)	2,187
(ii) Transactions with corporate shareholder in a subsidiary				
Capital contribution due to restructuring of loans	-	14,403	-	-
Technical and other service income	1,409	671	1,409	671
Repayment of interest on deferred consideration	2,596	-	-	-
Repayment of shareholder loan principal	1,738	-	-	-
Interest expenses on loans	33,381	34,654	-	-
Interest expenses on deferred consideration	19,961	5,551	-	-
Gain from extinguishment of debt	67,279	-	-	-
Service fee	829	1,802	-	-
(iii) Transactions with corporate shareholder				
Payments on behalf	36	130	36	130

(b) Significant net period end balances owing (to)/from related parties are as follows:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Amounts due from corporate shareholder	209	173	209	173
Amounts due (to)/from corporate shareholder in a subsidiary	(600,220)	(604,815)	2,080	671
Amounts due from subsidiary	-	-	1,715	2,161
Investment in subsidiary	-	-	610,037	610,037



**NOTES TO THE FINANCIAL STATEMENTS**for the financial position 31 December 2018  
cont'd**21 SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D)**

All related party transactions were carried out on agreed terms with the related parties. The significant related party transactions of the Group and the Company are shown below: (Cont'd)

**(c) Key management personnel**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Directors:				
-Fees	285	294	285	294
-Remuneration and other emoluments	1,589	1,891	1,589	1,891
-Defined contribution plans	170	206	170	206
	2,044	2,391	2,044	2,391
Other key management personnel:				
-Remuneration and other emoluments	1,520	100	1,520	100
-Defined contribution plans	55	79	55	79
	1,575	179	1,575	179
	3,619	2,570	3,619	2,570

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Company either directly or indirectly. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

**22 CAPITAL**

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Total capital</b>		
Total share capital	678,968	678,968
Proceeds of shares allocated to warrant reserves	(189,993)	(189,993)
	488,975	488,975



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 22 CAPITAL (CONT'D)

The movement in the share capital of the Group and of the Company are as follows:

#### Share capital

	2018		2017	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
<b>Group and Company</b>				
Issued and fully paid:				
At the beginning of financial year	1,096,412	678,968	1,096,412	10,964
Transition to no-par value regime on 31 January 2018 under Companies Act 2016*	-	-	-	668,004
At the end of financial year	1,096,412	678,968	1,096,412	678,968

The movement in the share premium of the Group and of the Company are as follows:

#### Share premium

Share premium comprises the premium paid on subscription of shares in the Group and in the Company over and above the par value of the shares. The movements in the share premium of the Company are as follows:

	Group and Company	
	2018 RM'000	2017 RM'000
At the beginning of financial year	-	668,004
Transition to no-par value regime on 31 January 2017 under Companies Act 2016*	-	(668,004)
At the end of financial year	-	-

\* The new Companies Act 2016 (the "Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, any amount standing to the credit of the capital redemption reserve account of RM323,991 becomes part of the Company's share capital pursuant to the transitional provisions set out in Section 618 (2) of the Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition. Prior to 31 January 2017, the application of the share premium account was governed by Sections 60 and 61 of the Companies Act, 1965. In accordance with the transitional provisions set out in Section 618 (2) of the Act, on 31 January 2017 any amount standing to the credit of the Company's share premium account has become part of the Company's share capital. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use the amount standing to the credit of its share premium and capital redemption reserve account of RM668,003,825 and RM323,991 for purposes as set out in Section 618 (3) of the Act.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 23 OTHER RESERVES

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Warrants reserve	(a)	198,914	198,914	198,914	198,914
Share-based payment reserve	(b)	821	821	821	821
Foreign exchange reserve	(c)	(23,029)	(26,396)	-	-
Capital contribution reserve	(d)	81,682	14,403	-	-
		258,388	187,742	199,735	199,735

#### (a) Warrants reserve

The movements in the warrants reserve of the Group and of the Company are as follows:

	2018		2017	
	Number of warrants	Amount RM'000	Number of warrants	Amount RM'000
At 1 January/31 December	1,277,822	198,914	1,277,822	198,914

Each warrant shall entitle the holder to subscribe for one new ordinary share of RM0.75 at the exercise price at any time during the exercise period and shall be subject to adjustments in accordance with the provision of the warrants deed poll. The warrant holders are not entitled to any voting rights or to participate in any distribution and/or offer of further securities in the Company until and unless such warrant holders exercise their warrants into new shares.

The new shares arising from the exercise of warrants shall, upon allotment and issue, rank pari passu with the then existing shares, save and except that they will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which precedes the date of allotment of the new shares.

The warrants shall be transferable in the manner in accordance with the warrants deed poll subject always to the provisions of the SICDA (Securities Industry (Central Depositories) Act) and the rules of Bursa depository and any appendices.

The expiry date of the warrants is on 15 August 2022.

#### (b) Share-based payment reserve

The movements in the share-based payment reserve of the Group and Company are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At 1 January/31 December	821	821	821	821



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 23 OTHER RESERVES (CONT'D)

#### (b) Share-based payment reserve (Cont'd)

The subscription of ordinary shares by the previous holding company, Reach Energy Holdings Sdn. Bhd. in the previous years was with free detachable warrants with the following features:

- (i) 1 free warrant for 1 ordinary share of RM1 each;
- (ii) Exercise price for each warrant is RM0.75; and
- (iii) There is a moratorium in place whereby the warrants are not transferable during the moratorium period which is from the date of listing until the Company has commenced commercial production and generated one full financial year of audited operating revenue.

Upon Reach Energy generating one full financial year of audited operating revenue, the warrants may thereafter sell, transfer or assign up to a maximum of 50% per annum (on a straight line basis).

As at 19 November 2018, Reach Energy had obtained its approval from Securities Commission of uplifting of moratorium for 50% of security.

It is deemed that the free warrants were issued for payment of service.

The fair values of share-based payment were estimated using the Trinomial Lattice Model based on the following key assumptions:

	Tranche 1	Tranche 2
(i) Grant date	31 July 2013	30 June 2014
(ii) Subscription price	RM0.045 per share	RM0.099 per share
(iii) Exercise price	RM0.75 per warrant	RM0.75 per warrant
(iv) Tenure of the Warrant	8 years	8 years
(v) Risk free interest rate	3.222%	3.222%
(vi) Expected dividend yield	0%	0%
(vii) Expected share price volatility	56.65%	34.11%
(viii) Number of share options issued	113,600,000	142,000,000
(ix) Fair value at grant date	RM0.0046 per warrant	RM0.0021 per warrant
(x) Expiry date	30 July 2021	29 June 2022

#### (c) Forex exchange reserve

The foreign exchange reserve arises from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

#### (d) Capital contribution reserve

During the year, the corporate shareholder of a subsidiary had confirmed the capitalisation of an amount due to them of RM 67,279,013 with no change in proportionate shareholding of the subsidiary. The capitalisation of RM 67,279,013 has been recorded in the capital contribution reserve.

In the prior financial year, the management re-negotiated the shareholders loan agreement terms with a corporate shareholder in a subsidiary, MIE Holdings Corporation ("MIEH") to revise the interest rate from 7.855% to 5%. The reduction in interest rates is deemed to be capital contribution from MIEH.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 24 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:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Deferred tax liabilities to be settled after more than 12 months	(123,672)	(106,349)	-	-

The movements during the financial year relating to deferred tax are as follows:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
At 1 January	(106,349)	(90,978)	-	-
Forex exchange translation	(2,357)	9,973	-	-
Credited/ (Charged) to profit or loss (Note 13)				
- tax losses	6,354	(741)	-	-
- provisions	992	(452)	-	-
- property, plant and equipment	(22,024)	(24,526)	-	-
- intangible assets	(288)	375	-	-
At 31 December	(123,672)	(106,349)	-	-
Subject to income tax				
Deferred tax assets (before offsetting):				
- tax losses	138,189	129,239	-	-
- provisions	5,568	4,466	-	-
	143,757	133,705	-	-
Offsetting	(143,757)	(133,705)	-	-
Deferred tax assets (after offsetting)	-	-	-	-



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 24 DEFERRED TAX LIABILITIES (CONT'D)

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Deferred tax liabilities (before offsetting):				
- property, plant and equipment	(260,269)	(233,474)	-	-
- intangible assets	(7,160)	(6,580)	-	-
	(267,429)	(240,054)	-	-
Offsetting	143,757	133,705	-	-
Deferred tax liabilities (after offsetting)	(123,672)	(106,349)	-	-

### 25 TRADE PAYABLES

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

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Kazakhstan Tenge ("KZT")	45,044	41,116	-	-
United States Dollars ("USD")	10,332	12,272	-	-
	55,376	53,388	-	-
Represent:				
Non-current	22,350	-	-	-
Current	33,026	53,388	-	-
	55,376	53,388	-	-

### 26 ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Advance payments	426	22,656	-	-
Withholding and other tax payable	12,142	6,452	-	-
Salary and welfare payable	1,218	1,426	198	143
Accruals and other payables	6,148	3,688	703	825
Total accruals and other payables	19,934	34,222	901	968
Represent:				
Non-current	2,112	11,983	-	-
Current	17,822	22,239	901	968
	19,934	34,222	901	968



**NOTES TO THE FINANCIAL STATEMENTS**for the financial position 31 December 2018  
cont'd**27 PROVISIONS**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Asset retirement obligations	13,533	9,348	-	-
Movements of asset retirement obligations are as follows:				
At 1 January	9,348	14,949	-	-
Foreign exchange translation	(1,042)	(1,187)	-	-
Changes in estimates	4,419	(5,608)	-	-
Accretion expenses of asset retirement obligations	808	1,194	-	-
At 31 December	13,533	9,348	-	-

**28 COMMITMENTS**

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

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Authorised but not contracted for	32,934	22,751	-	-
Contracted but not provided for	48,977	6,779	-	-
	81,911	29,530	-	-

- (ii) Operating lease commitments

The Group has operating lease commitments related to its non-cancellable operating leases for offices and none of the lease includes contingent rentals. The future aggregate minimum lease payments under these operating leases are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<1 year	1,929	1,991	278	123
1-2 years	152	1,910	116	-
	2,081	3,901	394	123



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 28 COMMITMENTS (CONT'D)

- (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:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
<1 year	134,989	109,719	-	-
1-2 years	591,461	136,537	-	-
2-5 years	814,124	853,010	-	-
>5 years	2,218,666	2,681,846	-	-
	3,759,240	3,781,112	-	-

The minimum work program includes capital expenditure of RM829 million (2017: RM1,091 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.

### 29 FINANCIAL INSTRUMENTS BY CATEGORY

The table below provides an analysis of financial instruments categorised as follows:

- (a) Financial assets at amortised costs;  
(b) Financial liabilities at amortised costs

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
<b>Financial assets at amortised costs (previously classified as loans and receivables)</b>				
Trade receivables	14,241	14,381	-	-
Other receivables (excluding prepayments)	1,461	1,182	184	180
Deposits, cash and bank balances	55,943	34,876	18,340	25,987
Amount due from corporate shareholder	209	173	209	173
Amount due from subsidiary	-	-	1,715	2,161
Amount due from corporate shareholder in a subsidiary	2,080	671	2,080	671
	73,934	51,283	22,528	29,172
<b>Financial liabilities at amortised costs</b>				
Trade payables	55,376	53,388	-	-
Accruals and other payables (excluding statutory liabilities)	2,843	26,344	703	825
Amounts due to corporate shareholder in a subsidiary	600,220	604,815	-	-
	658,439	684,547	703	825



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 30 SEGMENTAL INFORMATION

Management has determined the operating segments based on the reports reviewed by the Executive Management (Chief Operating decision maker).

During the financial year 2018, the Group has one single operating segment, which operates the exploration, development, production and sales of oil and other petroleum products in the Republic of Kazakhstan. The segment information is consistent with the financial position and financial performance as shown in the statement of financial position and statement of comprehensive income including related notes to the financial statements.

The reportable operating segment derive all revenue from the sale of crude oil in the Republic of Kazakhstan (the "Kazakhstan"). All revenue of the operating segment is contributed by external customer. The major customer, Euro Asian Oil SA ("Euro Asian") is one of the largest trading companies in Mangistau region of Western Kazakhstan. Euro Asian contributes revenue of RM192.1 million (2017: RM157.1 million)

	Malaysia RM'000	Kazakhstan RM'000	Total RM'000
<b>Statement of financial position</b>			
<b>2018</b>			
<b>Non-current assets</b>			
Property, plant and equipment	18	1,577,929	1,577,947
Intangible assets	-	2,067	2,067
Total	18	1,579,996	1,580,014
<b>2017</b>			
<b>Non-current assets</b>			
Property, plant and equipment	35	1,569,756	1,569,791
Intangible assets	-	579	579
Total	35	1,570,335	1,570,370

### 31 CHANGES IN ACCOUNTING POLICIES

#### (a) Impact of adoption of MFRS 9 on the financial statements

MFRS 9 replaces the provisions of MFRS 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. Apart from those explained below, there is no material change in the Group's and Company's accounting policies arising from the new standard.

#### Classification and measurement

The classification and measurement of financial instruments upon adoption of the new standard are disclosed in Note 3.10 and 3.11.



## NOTES TO THE FINANCIAL STATEMENTS

for the financial position 31 December 2018  
cont'd

### 31 CHANGES IN ACCOUNTING POLICIES (CONT'D)

- (a) Impact of adoption of MFRS 9 on the financial statements (Cont'd)

Impairment of financial assets

The changes in the Group's and Company's accounting policies with regards to the impairment of financial assets are disclosed in Note 3.10(d).

- (b) Impact of adoption of MFRS 15 on the financial statements

The Group and Company have adopted MFRS 15 from 1 January 2018 which resulted in changes in accounting policies. The adoption of MFRS 15 did not have any impact on the current and prior period's financial statements.

The Group and Company used the following practical expedients as permitted under the Standard:

- effects of significant financing component are disregarded if at contract inception the period between customer payment and the transfer of goods or services is expected to be one year or less;
- revenue is recognised at the invoice amount if billing corresponds directly with performance to date;
- completed contracts at the beginning of the earliest period presented is not restated.



## STATEMENT BY DIRECTORS

pursuant to section 251(2) of the Companies Act 2016

We, Shahul Hamid Bin Mohd Ismail and Izlan Bin Izhab, two of the Directors of Reach Energy Berhad, hereby state that, in the opinion of the Directors the accompanying financial statements set out on pages 59 to 115 are drawn up so as to give a true and fair view of the financial position of the Group and Company as at 31 December 2018 and financial performance of the Group and of the Company for the financial year ended 31 December 2018 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 26 March 2019.



**SHAHUL HAMID BIN MOHD ISMAIL**  
DIRECTOR




**IZLAN BIN IZHAB**  
DIRECTOR

Kuala Lumpur

## STATUTORY DECLARATION

pursuant to section 251(1) of the Companies Act 2016

I, Shahul Hamid Bin Mohd Ismail, the Officer responsible for the financial management of Reach Energy Berhad, do solemnly and sincerely declare that the financial statements set out on pages 59 to 115 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



**SHAHUL HAMID BIN MOHD ISMAIL**

Subscribed and solemnly declared by the abovenamed Shahul Hamid Bin Mohd Ismail, at Kuala Lumpur in Malaysia on 26 March 2019, before me.

COMMISSIONER FOR OATHS



D4-U3A-13A, Solaris Dutamas,  
Jalan Dutamas 1,  
50480 Kuala Lumpur.



## INDEPENDENT AUDITORS' REPORT to the members of REACH ENERGY BERHAD

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Our opinion

In our opinion, the financial statements of Reach Energy Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

#### What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 59 to 115.

#### Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

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

#### Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

#### Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of the Group and the Company. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group and of the Company, the accounting processes and controls, and the industry in which the Group and the Company operate.



## INDEPENDENT AUDITORS' REPORT

to the members of REACH ENERGY BERHAD  
cont'd

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
<p><b>Impairment assessment of oil and gas assets</b></p> <p>As at 31 December 2018, the Group recorded property, plant and equipment of RM1,577.9 million, the majority of which relates to oil and gas assets of RM1,284.7 million.</p> <p>The recoverable amount of the Group's oil and gas assets is determined at the fair value less costs of disposal which is based on the discounted cash flow model.</p> <p>The assessment of the recoverable amount of the oil and gas assets, or for the relevant cash-generating units ("CGU"), incorporates significant judgement and estimates in respect of factors such as future oil prices, future production levels, revenue discount amounts, operating costs/capital expenditure and economic assumptions such as discount rates and inflation rates. These forward looking estimates are inherently difficult to determine with precision.</p> <p>We focused on this area due to the significance of the oil and gas assets balance (being 81 percent of the Group's total assets) and the significant estimates in determining the inputs used by management in determining the recoverable amount of the oil and gas assets.</p> <p>There were no impairment recorded as at year end as a result of the impairment assessment.</p> <p>Refer to Note 5 in the critical accounting estimates and judgements and Note 16 of the consolidated financial statements.</p>	<p>Our audit procedures to evaluate the reasonableness of key assumptions used in the determination of the recoverable amount of oil and gas assets comprised the following:</p> <ul style="list-style-type: none"> <li>• Tested the key assumptions used in determining the recoverable amount of the oil and gas assets by: <ul style="list-style-type: none"> <li>- Comparing the forecast oil prices against available independent market data and estimates;</li> <li>- Comparing the revenue discount amounts against historical trend;</li> <li>- Comparing the inflation and discount rates against industry data;</li> <li>- Comparing the level of oil and gas reserves and expected capital expenditures against the management's external expert reserves report;</li> </ul> </li> <li>• Evaluated the competency and objectivity of the experts used by the Group who produced the reserve estimates used in the valuations by reference to their professional qualifications and experience.</li> <li>• Engaged our valuation expert in testing the appropriateness of methodology and the discount rates adopted in the assessment of the recoverable amounts of oil and gas assets.</li> <li>• Assessed reliability of management's forecast through the review of past trends of actual sales volume of crude oil against the forecast production profile and forecast capital expenditure against actual capital expenditure incurred.</li> <li>• Assessed adequacy and reasonableness of the disclosures in the financial statements.</li> </ul> <p>We did not identify any material exceptions from the procedures performed.</p>



## INDEPENDENT AUDITORS' REPORT

to the members of REACH ENERGY BERHAD  
cont'd

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

#### Key audit matters (Cont'd)

Key audit matters	How our audit addressed the key audit matters
<p><b>Liquidity risk of the Group</b></p> <p>As at 31 December 2018, the Group's current liabilities exceeded their current assets by RM279.9 million.</p> <p>Management identified that the key assumptions in assessing the Group's liquidity risk were the expected cash inflows from the operations of Emir Oil. The cash flow projections required management to make critical judgements and estimates on the net cash inflows generated from the oil and gas assets.</p> <p>We focused on this area due to the significant management's judgement involved in preparing the cash flow projections of the Group.</p> <p>Refer to Note 4.1c and Note 28 of the consolidated financial statements on liquidity risk and commitments respectively.</p>	<p>In assessing the liquidity risk of the Group, we assessed the cash flow requirements of the Group over the next 12 months from the end of the reporting date based on the Group's forecasts. We obtained an understanding of forecast expenditure which were committed as well as loan repayment terms. We also discussed with management and checked that the amount and timing of settlement of the amount due to a corporate shareholder in a subsidiary used in the cash flow projections is consistent with the contractual terms.</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>- Testing key assumptions used by management including forecast oil prices, revenue discount amounts, planned capital expenditure, inflation rate and discount rate.</li> <li>- Comparing the level of oil and gas reserves and expected capital expenditures against the management's external expert reserves report.</li> <li>- Reviewing key loan agreements to assess the availability of funds and to estimate the future cash outflows from loan repayment.</li> <li>- Performing sensitivity analysis on management's key assumptions, including applying potential downside scenarios such as lower oil prices and lower production profile.</li> </ul> <p>We held discussions with management to understand the timing of the cash flows from the existing operations of Emir Oil based on their scheduled or planned progress and the availability of funds as well as the deferment of payment for purchase consideration which is in accordance with the contractual terms.</p> <p>Where there were significant variances between actual and prior year's forecasted cash flows as a result of changes in assumptions used in the cash flow projections, we have discussed with management to incorporate these changes to the cash flow projections.</p> <p>Based on the procedures performed, we noted no significant exceptions.</p>



## INDEPENDENT AUDITORS' REPORT

to the members of REACH ENERGY BERHAD  
cont'd

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

#### Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises Directors' Report and Statement on Risk Management and Internal Control, which we obtained prior to the date of this auditors' report, and the complete 2018 Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

#### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



## INDEPENDENT AUDITORS' REPORT to the members of REACH ENERGY BERHAD cont'd

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

#### Auditors' responsibilities for the audit of the financial statements (Cont'd)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b) Obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



## INDEPENDENT AUDITORS' REPORT

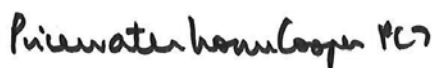
to the members of REACH ENERGY BERHAD  
cont'd

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 15 to the financial statements.

### OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



PRICEWATERHOUSECOOPERS PLT  
LLP0014401-LCA & AF 1146  
Chartered Accountants



NURUL A'IN BINTI ABDUL LATIF  
02910/02/2019 J  
Chartered Accountant

Kuala Lumpur  
26 March 2019



## STATEMENT ON DIRECTORS' RESPONSIBILITY

The Companies Act, 2016, ("the Act") requires the Board to prepare financial statements which give a true and fair view of the state of affairs together with the results and cash flows of the Company. As required by the Act and the Main Market Listing Requirements of Bursa Securities, the financial statements for the financial year ended 31 December 2018 ("FY2018") have been prepared in accordance with the applicable approved Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

In preparing the financial statements for the FY2018 set out in this Annual Report, the Directors consider that the Company has adopted appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates.

The Directors have the responsibility in ensuring that the Company maintains accounting records that disclose the financial position of the Company with reasonable accuracy to ensure that the financial statements are in compliance with the Act. The Directors also have the overall responsibility to take such steps that are reasonably available to them to safeguard the assets of the Company as well as to prevent any irregularities.



## CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (“the Board”) of Reach Energy Berhad (“Reach Energy” or “the Company”) is entrusted with the responsibility of safeguarding the Company’s resources in the interest of its shareholders by exercising due and reasonable care. The Board recognises that its primary role is to protect and promote the interests of its shareholders, with the overriding objective of enhancing the long-term value of Reach Energy. The Board remains focused and committed to maintaining high standards of corporate governance and management of risks.

The Board continues to review its existing corporate governance practices and policies throughout the Group in ensuring full application of key corporate governance principles as set out in the Malaysian Code of Corporate Governance 2017 (“MCCG”).

This statement which is made pursuant to paragraph 15.25 of the Main Market Listing Requirements (“Listing Requirements”) of Bursa Malaysia Securities Berhad (“Bursa Securities”), sets out the manner in which the Group has applied the principles and recommendations of MCCG. It must be read together with the Corporate Governance Report published in Reach Energy’s website at [www.reachenergy.com.my](http://www.reachenergy.com.my).

### PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS

#### I. Board Responsibilities

The Board is cognizant of its responsibilities by ensuring proper control of the economics and financial management of the Company and validates the strategic directions proposed by the Management for implementation.

The Board will act in the best interests of Reach Energy, honestly, fairly and diligently and in accordance with the duties and obligations imposed upon it by the Constitution of Reach Energy and the prevailing regulatory requirements.

The Board also serves as a panel to provide effective guidance on the assessment of principal risks and the appropriate systems to manage these risks, as well as to review the adequacy and integrity of the Company’s internal control system in safeguarding shareholder interests and the Company assets.

The Board’s role and responsibilities include, but are not limited to, the following:-

- Setting and reviewing the objectives, goals and strategic plans for the Company with a view to maximising shareholders’ value.
- Adopting and monitoring progress of the Company’s strategies, budgets, plans and policies.
- Overseeing the conduct of the Company’s businesses to evaluate whether the businesses are properly managed.
- Identifying principal risks of the Company and ensuring the implementation of appropriate systems to mitigate and manage these risks.
- Considering Management’s recommendations on key issues including acquisitions, divestments, restructuring, funding and significant capital expenditure.
- Implementing succession planning for senior management.
- Reviewing the adequacy and integrity of the Company’s internal control systems and management information systems.

To ensure the effective discharge of its functions and responsibilities, the Board has in place, business authority limits which sets out relevant matters which the Board has delegated to the Management Team led by the Group Chief Executive Officer. These authority limits are reviewed and revised as and when required, to ensure an optimum structure for efficient and effective decision-making in the Group.

There is a schedule of matters reserved specifically for the Board’s decision, including the approval of corporate plans and budgets, acquisition and disposal of major investments, changes to the management and control structure of the Company and issues in respect of key policies, procedures and authority limits. The Executive Directors and the Management are tasked to ensure compliance with this.



## CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

### PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

#### I. Board Responsibilities (Cont'd)

It is also the Directors' responsibility to declare to the Board whether they have any potential or actual conflict of interest in any transactions or in any contract or proposed contract with the Company or any of its related companies. Where issues involve conflict of interest, the Directors will abstain from discussion and voting on the matters as well as abstain from any other decision-making process in relation to these transactions.

The Board delegates certain responsibilities to the Board Committees, all of which operate within defined terms of reference.

The roles of the Chairman and Group Chief Executive Officer remain separate and distinct. The Chairman plays an important leadership role and is responsible for:

- Setting the agenda for meetings of the Board that focus on strategic direction and performance.
- Maintaining on-going dialogue and relationship of trust with and between the Directors and Management.
- Ensuring clear and relevant information is provided to Directors in a timely manner.
- Ensuring sufficient time is allowed for the discussion of complex or critical issues.
- Cultivating good governance and compliance practices throughout the Group.

A Corporate Code of Conduct, formalised in December 2014 by the Board, sets out the standard business and ethical conduct of the Board, Management and Employees of the Company in the performance and execution of respective responsibilities.

The Board Charter, which was formalised in 2013 and revised in March 2018 to be in line with MCCG, sets out inter alia, the roles and responsibilities of the Board and Board Committees, the procedures for convening Board meetings, financial reporting, investor relations and shareholder communication. The Charter which serves as a source of reference for new Directors, will be reviewed and updated periodically in accordance with the needs of the Company and any new regulations that may have an impact on the discharge of the Board's responsibilities.

The Board Charter and Corporate Code of Conduct are available for reference at the Company's website at [www.reachenergy.com.my](http://www.reachenergy.com.my).

The Whistleblowing Policy, which was adopted by the Group in June 2014, is intended to cover protection for staff who raise concerns in relation to irregular and unlawful practices.

The Senior Independent Director will receive whistle-blower reports made by employees or external parties as prescribed under the Whistleblowing Policy.

The details of the procedures and lodgement channels of the Whistleblowing Policy are available on the Company's website at [www.reachenergy.com.my](http://www.reachenergy.com.my).

Additionally, the following key policies are also available for reference at the Company's website at [www.reachenergy.com.my](http://www.reachenergy.com.my):-

- Health, Safety, Security and Environment Policy – Sets out health, safety, security and environment standards in all business activities conducted.
- Quality Policy – Sets out quality standards in all business activities conducted.

The Board members have full access to the two (2) Company Secretaries, both of whom are professionally qualified and play an advisory role to the Board in relation to the Company's constitution, Board's policies and procedures as well as compliance with the relevant guidelines, regulatory and statutory requirements, corporate governance and best practices.

The Company Secretaries are also responsible in organising and attending all Board and Board Committee Meetings, ensuring adherence to Board policies and procedures and that all statutory records are well maintained at the registered office of the Company. The Company Secretaries also ensure that the deliberations and decisions made at the Board and Board Committee Meetings are well captured and minuted.



## CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

### PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

#### II. Board Composition

The Board of Directors of Reach Energy Berhad determines the strategic directions of the Company activities and monitors their implementation. The Board is currently made up of five (5) members comprising three (3) Independent Non-Executive Directors, one (1) Non-Independent Non-Executive Chairman and one (1) Executive Director. This is in compliance with the Listing Requirements of at least two (2) Directors of the Board to be independent.

The presence of Independent Non-Executive Directors fulfils a pivotal role in corporate accountability. The roles of these Independent Non-Executive Directors are particularly important to provide unbiased and independent views, advice and judgment. This is to protect the interests of shareholders, employees, various other stakeholders and the communities where the Company operates.

The Chairman is responsible for ensuring Board effectiveness and conduct while the Group Chief Executive Officer is responsible for the organisational and operational effectiveness and implementation of Board policies and decisions.

The Board takes cognisance of the recommendation to have gender diversity on the Board and will through its Nomination Committee ("NC") take steps to ensure that women candidates are sought as part of its recruitment exercise. NC will endeavour to consider women candidates in the recruitment exercise, when the need arises.

The Board also recognises the requirement for Independent Directors with good experience in the Exploration & Production Sector of the Oil & Gas Industry. The NC will endeavour to consider same in the recruitment exercise when the need arises.

In maintaining the independence of the Independent Directors, annual assessment is performed in order to mitigate risks arising from conflict of interests or undue influence affecting their independence. The assessment is conducted via the Assessment Sheet for each of the Independent Directors of the Company to ensure that the Director is able to exercise independent judgment, impartiality and objectivity in the best interest of the Company.

The details on the activities of the NC are described in the Corporate Governance Report 2018. The disclosures in relation to Practice 4.2 of the MCCG are disclosed in the Corporate Governance Report 2018.

#### III. Remuneration

The Board believes in a competitive and transparent remuneration framework that supports the Directors' and Senior Management's responsibilities and fiduciary duties in managing the Company to achieve its long term objectives and enhance stakeholders' value.

The remuneration of Directors is determined at levels which enable the Company to attract and retain Directors with the relevant experience and expertise to govern the Group effectively. In the case of Executive Directors, the remuneration is structured to link rewards to corporate and individual performance based on key performance indicators. For Non-Executive Directors, the level of remuneration reflects their experience and level of responsibilities.

The disclosures on Practice 6.2 and 7.1 to 7.3 of the MCCG are disclosed in the Corporate Governance Report 2018.



# CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

## PRINCIPLE B : EFFECTIVE AUDIT AND RISK MANAGEMENT

### I. Audit Committee

The Audit Committee ("AC") comprises three (3) members, all of whom are Independent Non-Executive Directors and is chaired by an Independent Non-Executive Director.

The composition of the AC is reviewed by the NC annually and recommended to the Board for approval. In safeguarding an independent and effective AC whilst taking guidance from the MCCG, the membership for AC consists of at least one (1) member who is financially literate and possesses appropriate level of expertise, experience and strong understanding of the Company's business.

The disclosures on Practise 8.1 to 8.5 of the MCCG are disclosed in the Corporate Governance Report 2018.

### II. Risk Management and Internal Control Framework

The Board understands that the ultimate responsibility for ensuring a sound internal control system which provides reasonable assurance on the effectiveness and efficiency of the system lies with the Board. The Group's internal control system is crafted to manage the risks to achieve Company's objectives aside from safeguarding the stakeholders' interests and the Group's asset.

The details of the Risk Management and Internal Control Framework are set out in the Statement on Internal Control and Risk Management of the Annual Report.

## PRINCIPLE C : INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

### I. Communication with Stakeholders

Reach Energy recognises the importance of timely dissemination of relevant corporate and other information to its shareholders and investors. Therefore, the Company complies strictly with the disclosure requirements of Bursa Securities for the Main Market and the Malaysian Accounting Standards Board. Various channels of communications are employed to promote effective dissemination of information. Information is disseminated via annual reports, circulars to shareholders, press releases, quarterly financial results and various announcements made from time to time to Bursa Securities. Reach Energy also maintains a website at [www.reachenergy.com.my](http://www.reachenergy.com.my) that allows all shareholders and investors to gain access to the information of the Company.

All announcements made by the Company, financial results, annual reports as well as the notice of general meetings are also made available on the Company's website.

In addition to the above, the Board identified Encik Izlan Bin Izhab as the Senior Independent Non-Executive Director to whom all concerns from the shareholders or investors may be conveyed.

### II. Conduct of General Meetings

All shareholders are encouraged to attend the Company's AGM and EGM, where shareholders can participate and be given the opportunity to ask questions regarding the business operations and financial performance and position of the Company. The Company allows a member to appoint two (2) proxies, who may, but need not, be members of the Company. A member may appoint any person to be his/her proxy without limitation and the proxy shall have the same rights as the member to speak at the general meetings.

Resolutions will be voted by way of poll, as required under the Listing Requirements of Bursa Securities. An Independent Scrutineer will be appointed to validate the poll results and the Company will make an announcement on the detailed results to Bursa Securities.

In facilitating greater participation by shareholders at AGMs of the Company, Reach Energy will continue to explore possible means of leveraging modern technology.

This Corporate Governance Overview Statement was approved by the Board of Reach Energy on 26 March 2019.



## AUDIT COMMITTEE REPORT

The Board of Directors ("Board") is pleased to present the Audit Committee Report and its activities held throughout the financial year ended 31 December 2018 in compliance with Paragraph 15.15 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

### 1. COMPOSITION, MEETINGS AND ATTENDANCE

The Audit Committee currently comprises of the following members, all of whom are Independent Non-Executive Directors. In accordance with corporate governance best practice, the Audit Committee Chairman has the necessary accounting and finance qualifications.

Directors	Position	Directorship
Nik Din Bin Nik Sulaiman	Chairman	Independent Non-Executive Director
Izlan Bin Izhab	Member	Senior Independent Non- Executive Director
Y.M. Tunku Datuk Nooruddin Bin Tunku Dato' Sri Shahabuddin	Member	Independent Non-Executive Director

The Audit Committee has the authority to examine specific issues and report to the Board with its recommendation. The final decision on all matters, however, lies with the entire Board of the Company.

The Audit Committee held a total of six (6) meetings during financial year ended 31 December 2018. Details of attendance of the Audit Committee members are as follows:

Name of Member	Number of Meetings Attended
Nik Din Bin Nik Sulaiman	6/6
Izlan Bin Izhab	6/6
Y.M. Tunku Datuk Nooruddin Bin Tunku Dato' Sri Shahabuddin	6/6

At the request of the Committee, the Director of Finance, Investment and Planning, Finance Manager and the representatives of the internal auditors were invited to attend the meetings. The Executive Director/Chief Executive Officer was invited to attend all meetings to facilitate direct communication as well as to provide clarification on audit issues and the Company's operation. The external auditors were present at the meetings by invitation. During the financial year, the Audit Committee met with the external auditors twice without the presence of the executive board member and Management. Other relevant responsible senior management personnel were invited to attend the Meetings, as and when required.

### 2. TERMS OF REFERENCE

The Terms of Reference of the Audit Committee was last reviewed and updated on 27 February 2017 and is made available on the Company's corporate website at [www.reachenergy.com.my](http://www.reachenergy.com.my).



## AUDIT COMMITTEE REPORT

cont'd

### 3. SUMMARY OF WORK

During the financial year, the Audit Committee carried out its duties in accordance with its terms of reference. The main activities carried out by the Audit Committee were as follows:

#### Financial and Operations Review

- (a) Reviewed the quarterly financial results and the annual audited financial statements for recommendation to the Board for approval and release to Bursa Malaysia Securities Berhad;
- (b) Reviewed and recommended to the Board for approval, the Statement of Risk Management and Internal Control for inclusion in the Annual Report 2018;
- (c) Reviewed and approved the Audit Committee Report for inclusion in the Annual Report 2018;
- (d) Reported to the Board on significant issues and concerns discussed during the Audit Committee Meetings together with applicable recommendations. Minutes of the Audit Committee Meetings were tabled and noted by the Board; and
- (e) Reviewed the application of corporate governance principles and the extent of the Company's compliance with the recommendations set out in the Malaysian Code on Corporate Governance 2017 in conjunction with the preparation of the Corporate Governance Overview Statement and Statement of Risk Management and Internal Control.

#### External Audit

- (a) Reviewed with the external auditors, their scope of work and audit plan prior to the commencement of audit;
- (b) Reviewed with the external auditors, the extent of assistance rendered by Management and issues arising from their audit, without the presence of the executive board members and Management;
- (c) Reviewed with the external auditors the approved accounting standards applicable to the financial statements of the Company;
- (d) Reviewed with the external auditors the results of the audit, the audit report, issues, reservations and management's responses arising from the audit, as well as the audit and non-audit fees;
- (e) Reviewed the conduct, suitability, independence and the remuneration and re-appointment of the external auditors; and
- (f) Ensured the independence of the external auditors by obtaining written assurance from the external auditors that the external auditors are independent in accordance with the By-laws (on professional ethics, conducts and practices) of the Malaysia Institute of Accountants.

#### Internal Audit

- (a) Reviewed and approved/adopted the internal auditors' scope of work and audit plan as well as the adequacy of the resources requirements, competency and the budget of the internal audit function;
- (b) Reviewed the internal audit reports and the status of action plans committed by Management arising from the follow-up reviews of each audit reports previously reported and to communicate to the Board on relevant issues; and
- (c) Discussed the results of arising from the internal audit activities, the recommendations by the internal auditors on the systems controls and weaknesses and ensured that corrective actions were taken by Management.



## AUDIT COMMITTEE REPORT

cont'd

### 3. SUMMARY OF WORK (CONT'D)

#### Internal Audit (Cont'd)

As part of the duties and responsibilities to oversee the financial reporting, the Audit Committee ensures that the changes in or implementation of major accounting policy changes and all significant matters highlighted including financial reporting issues, significant judgments made by Management, significant and unusual events or transactions, and how these matters are addressed and adhered to.

The Audit Committee also ensures that the financial reporting of the Company and the Group are in compliance with the Main Market Listing Requirements, applicable approved accounting standards and other statutory and regulatory requirements.

#### Related Party Transactions

The Audit Committee has reviewed all related party transactions entered into by the Company to ensure that such transactions are undertaken on normal commercial terms and that internal control procedures employed are both sufficient and effective.

### 4. INTERNAL AUDIT FUNCTION AND SUMMARY OF WORK

The Company has outsourced its Internal Audit Function to an independent professional firm, Deloitte Enterprise Risk Services Sdn Bhd ("Deloitte ERS") which reports directly to the Audit Committee. The Audit Committee is to review and monitor on behalf of the Board, the adequacy and integrity of the Company's internal control.

The internal auditors are empowered with strict accountability for confidentiality and proper safeguarding of records and information, is authorised full, free and unrestricted access to any and all of the Company's records, physical properties, to carrying out any internal audit activities.

The outsourced internal auditor submitted audit reports on the reviews carried out based on the agreed Internal Audit Plan to the Audit Committee for their review and presented the audit findings at the Audit Committee meetings. The internal audit reports focus on providing a comprehensive view of internal control design and effectiveness for the respective auditable areas as well as recommendations on internal control deficiencies identified. The outsourced internal auditor also carried out follow-up review on remediating activities taken by Management subsequent to the recommendations agreed during the meetings.

During the financial year ended 31 December 2018, the outsourced internal auditors carried out audits and follow-up review on the following areas:-

- Production
- Monitoring and reporting of information
- Project management on engineering and construction, exploration and development
- Finance and procurement
- High level financial analysis (variance analysis)

The outsourced internal auditor used international practices framework or a risk-based approach in preparing their internal reviews. The results of the audits provided in the Internal Audit Reports together with the findings and recommendation for improvements were presented to the Audit Committee for deliberations. The resulting reports from the audits were also forwarded to the Management for attention and necessary corrective actions.

The total cost incurred for the internal audit function for the financial year ended 31 December 2018 amounted to RM 200,200.

### 5. PERFORMANCE OF AUDIT COMMITTEE

The performance of Audit Committee was assessed through self-evaluation and the Nomination Committee reviewed the results of such assessments prior to recommending to the Board. During the financial year 31 December 2018, the Board is satisfied that the Audit Committee has been able to discharge its function, duties and responsibilities in accordance to the Terms of Reference of the Audit Committee.



# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## INTRODUCTION

The Malaysia Code Corporate Governance 2017 requires listed companies to maintain a sound risk management framework and internal control system to safeguard shareholders' investments and the Group's assets.

The Board of Directors ("the Board") of Reach Energy Berhad is pleased to provide the following Statement on Risk Management and Internal Control of the Group for the financial year ended 31 December 2018. This Statement is prepared pursuant to Paragraph 15.26(b) of the Main Market Listing Requirements ("MMLR") of the Bursa Malaysia Securities Berhad ("Bursa Securities").

The Board is committed and acknowledges its responsibility to oversee the system of risk management and internal controls within the Group including reviewing its adequacy, integrity and effectiveness to safeguard shareholders' investments and the Group's assets.

## BOARD OF DIRECTORS ROLES AND RESPONSIBILITIES

In accordance with the Malaysian Code on Corporate Governance, the Board is responsible and accountable for the Group's system of risk management framework and internal control, which includes the establishment of an appropriate risk management framework and control environment, as well as reviewing its effectiveness, adequacy and integrity. The system of internal control covers governance, financial, organisational, operational and compliance controls.

However, due to limitations that are inherent in any systems of risk management and internal control, the system adopted by the Group is designed to manage rather than to eliminate the risk of failure to achieve business objectives. Therefore, the system of risk management and internal control can only provide reasonable but not absolute assurance against any material misstatement, fraud or loss.

Management has assessed the risks faced by the Group based on their judgement, by identifying the Group's ability to reduce the incidence and impact of risks, and ensuring that the benefits outweigh the costs of operating the controls. Through the Risk Management Committee, the Board observed that measures were taken on areas identified for improvement, as part of management's continued efforts to strengthen the Group's internal control.

## REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL EFFECTIVENESS

Risk management is regarded by the Board to be the component of internal control and integral to operations. It is unified into the Group's governance and business operations, which consist of structured and systematic process that enable continuous improvement in decision-making, through a robust Risk Management Framework.

To achieve the above, the Group has established and carried on the processes for identifying, evaluating and managing significant risks faced by the Group. Risk assessment and evaluation are embedded to the Group's strategic planning and day-to-day operations.

In the event that breaches of controls are noted, the relevant parties would be informed accordingly and steps would be taken to rectify such breaches.

### A. Management

Management acknowledges their responsibility in risk management for implementing the processes for identifying, evaluating, monitoring and reporting risks and for taking appropriate and timely corrective or mitigating actions as needed, in particular the following areas:

- *Operational level*

Detailed risk assessments and mitigation plans of each project are led by the relevant manager involving health, safety, security and environment (HSSE) specialists, geologists, petroleum engineers, primary contractors and joint venture representatives. These also include sub surface, wells, facilities, operations, business processes, commercial and regulatory matters.



# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

## REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL EFFECTIVENESS (CONT'D)

### A. Management (Cont'd)

- *Group level*

The key risks are reported to the Risk Management Committee on a regular basis for monitoring and review. The Risk Management Committee comprises key personnel from different technical, operational and financial disciplines, who are responsible for ensuring effective risk governance and implementation within the Group and meets at least twice a year to review and update the risk events, procedures and mitigating measures that are undertaken and also proposes new mitigation measures to contain risks which all remain prevalent.

The risk profiles at each entity level are also regularly discussed at management level to ensure risks and controls are designed to meet the agreed business objectives.

### B. Internal Audit

Internal audit complements the role of the Risk Management Committee by independently reviewing the adequacy and effectiveness of the controls implemented based on identified risk and risk management strategies relevant to the audit engagement.

To achieve the above, the Group's outsourced internal auditors assist to assess the quality of risk management and control and report to the Audit Committee on the status of specific areas identified for improvement based on their audit plan.

### C. Board of Directors

The Board considers whether business risks have impacted or are likely to impact the Group's achievement of its objectives and strategies in assessing the effectiveness of the risk oversight and internal control activities of the Group.

The Board meets the Risk Management Committee at least twice a year to highlight and discuss the key risks as well as the status of mitigation plans. As such, the Risk Management Committee, on behalf of the Board, is tasked to:

- provide oversight, direction and counsel to the Company's/Group's risk management framework, policies and process which include the following:
  - Establish the Company's/Group's Risk Management Framework based on an internationally recognized risk management framework.
  - Conduct annual review and periodic testing of the Company's/Group's Risk Management Framework. This should include any insights it has gained from the review and any changes made to its Risk Management Framework arising from the review.
  - Monitor the Company's/Group's and Divisional level risk exposures and management of the significant financial and non-financial risks identified.
  - Evaluate new risks identified including the likelihood of the emerging risks happening in near future and consider the need to put in place appropriate controls.
  - Review Company's/Group's Risk Profile and ensure that significant risks that are outside tolerable ranges are being responded with appropriate actions taken in a timely manner.
  - Review the status of the implementation of management action plans in mitigating significant risks identified.
  - Review and recommend the Company's/Group's level of risk tolerance and actively identify, assess and monitor key business risks to safeguard shareholders' interest and the Company's/Group's assets.
- review the risk identification process to confirm it is consistent with the Company's strategy and business plan;
- inquire of management/department heads and the external/internal auditors about significant business, political, financial and control risks or exposure to such risk;
- oversee and monitor the Company's documentation of the material risks that the Company faces and update as events change and risks shift;



# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

## REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL EFFECTIVENESS (CONT'D)

### C. Board of Directors (Cont'd)

The Board meets the Risk Management Committee at least twice a year to highlight and discuss the key risks as well as the status of mitigation plans. As such, the Risk Management Committee, on behalf of the Board, is tasked to: (Cont'd)

- e. assess the steps management has implemented to manage and mitigate identifiable risk, including the use of hedging and insurance;
- f. oversee and monitor at least annually, and more frequently if necessary, the Company's policies for risk assessment and risk management (the identification, monitoring, and mitigation of risks); and
- g. review the following, with the objective of obtaining reasonable assurance that financial risk is being effectively managed and controlled:
  - i. management's tolerance for financial risks;
  - ii. management's assessment of significant financial risks facing the Company;
  - iii. the Company's policies, plans, processes and any proposed changes to those policies for controlling significant financial risks; and
  - iv. to review legal matters which could have a material impact on the Company's public disclosure, including financial statements.

Throughout the financial year and up to the date of this statement, the Board had considered all key issues that have been highlighted, and how these had been addressed, including all additional information necessary to ensure it had taken into account all significant aspects of risk factors and internal control of the Group. Among the issues considered were:

- (a) changes in the nature and the extent of significant risk factors since the previous assessment and how the Group has responded to changes in its business and the external environment;
- (b) the effectiveness of the Group's risk management and internal control system;
- (c) the work of its internal audit, risk management team and other assurance providers, including the external auditors;
- (d) the extent and adequacy of the communication of the results of the monitoring to the Board;
- (e) the incidence of any control failure or weaknesses that were identified at any time during the year and their impact on the Group's performance or financial, business or operational conditions;
- (f) events that had not been anticipated by management which impacted the achievement of the Group's objectives; and
- (g) the adequacy and effectiveness of the risk management and internal control policies as a whole.

## INTERNAL CONTROL FRAMEWORK AND ASSESSMENT

The Group's internal control framework and assessment are segregated into two inter-related components, as follows:

### A. Control Environment

Control environment is the organisational structure and culture created by management and employees to sustain organisational support for effective internal control, whereby it is the foundation for all the other components of internal control, providing discipline and structure. Management's commitment to establishing and maintaining effective internal control is flowed downwards and spread throughout the Group's control environment, in supporting the implementation of internal control.

The key elements of control environment encompasses the following:

#### Organisation Structure

The Group has a well-defined organisation structure that is aligned to its business operation requirements, which includes check and balance through segregation of duties. Well-established reporting lines and authority limits govern the approval process, driven by Limits of Authority set by the Board.



## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

### INTERNAL CONTROL FRAMEWORK AND ASSESSMENT (CONT'D)

#### A. Control Environment (Cont'd)

The key elements of control environment encompasses the following: (Cont'd)

##### Organisation Structure (Cont'd)

Through the abovementioned structure, the Board approved and monitored the key strategic, business and investment plans. The Board papers, include both financial and non-financial matters such as cash flow forecasts, business strategies, business opportunities, corporate exercises, and any other key matters to be considered for the Group. These are escalated to the Board for deliberation and approval.

##### Limits of Authority

The Board, through a clear and formally defined Limits of Authority, delegates authorities to the Board Committees and management which deal with areas of corporate, financial, operational, human resource, and work plans and budgets. The Limits of Authority is the primary instrument that governs and manages the Group's business decision process. The objective of the Limits of Authority is to ensure a system of internal control of checks and balances to empower management in executing business activities. The Limits of Authority will be reviewed and updated periodically to ensure its relevance to the Group's business.

##### Board and Management Committees

The Board Committees, namely the Audit Committee, Nomination Committee, Remuneration Committee, and Risk Management Committee are all governed by clearly defined terms of reference.

The Audit Committee encompasses a majority of independent directors with wide ranging in-depth experience from different backgrounds, knowledge and expertise. Its members continue to meet regularly and have unimpeded access to both the internal and external auditors during the financial year.

##### Human Resource policies and procedures

There are guidelines within the Group for the hiring and termination of staff, annual performance appraisals, human capital development and other relevant procedures to ensure that employees are competent and adequately trained to carry out their duties and responsibilities.

##### Code of Conduct and Ethics (Code)

Employees and directors are required to read, understand and adhere to the Code of Conduct policy. The policy encompasses sections such as Conflict of Interest, Insider Trading, Discrimination and harassment, health & safety and other relevant sections.

##### Health, Safety and Environment Policy

The Group continues to instill awareness and build commitment on health, safety and environment throughout the whole organisation. Reasonable and practical steps are undertaken to eliminate or prevent the risk of personal injury, occupational illnesses and damage to properties as well as protect and conserve the environment.



# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

## INTERNAL CONTROL FRAMEWORK AND ASSESSMENT (CONT'D)

### A. Control Environment (Cont'd)

The key elements of control environment encompasses the following: (Cont'd)

#### Health, Safety and Environment Policy (Cont'd)

To achieve the above, management is committed to:

- (a) Comply with health, safety and environment legal requirements wherever the Group operates;
- (b) Identify, evaluate and control safety and health risks, and environment impacts relating to the operations and prevent health, safety and environment incidents;
- (c) Provide competent workforce, adequate resources and organization in all activities in ensuring a safe environment at the workplace;
- (d) Maintain a healthy and safe working place for the employees and contractors;
- (e) Promote productive health, safety and environment engagement with the employees, regulatory authorities, contractors and other relevant key stakeholders;
- (f) Implement a fit-for-purpose Health, Safety and Environment Management System (HSE-MS);
- (g) Establish effective crisis management and emergency response capabilities in the operations; and
- (h) Continually improve the Health, Safety and Environment performance.

#### Other Policies

Key policies and procedures such as Procurement, Finance Management, Information & Technology, Quality Management, Whistleblowing, Personal Data Protection, Anti Bribery, Corporate Communications, No Smoking, Drugs and Alcohol are available via the Group's shared drive. These are revised periodically to meet changing business, operational and statutory reporting needs.

### B. Monitoring

Monitoring the effectiveness of internal control is embedded in the normal course of the business. Periodic assessments are integral to management's continuous monitoring of internal control.

#### Management and Board Meetings

The Board members meet regularly with a set schedule of matters, which is required to be brought to their attention for discussion to ensure the effectiveness of supervision over appropriate control.

To achieve the above, the Board meetings encompasses the following activities:

- (a) The Chief Executive Officer ("CEO") and key management personnel lead the presentation of Board papers and provide explanations of pertinent issues; and
- (b) The Board members, through a thorough deliberation and discussion, act on the recommendations by management.

The Group's overall strategic business plan which maps out its objectives, business direction and highlights project risks with particular focus on the operation of Emir-Oil LLP concession block in Kazakhstan is presented by management to the Board for their deliberation and approval. Management, together with the Board, regularly reviews issues covering, but not limited to, business strategy, risks, performance, resources and future business appraisals.

The Audit Committee and Risk Management Committee monitor the risks associated with this operation and report their findings to the Board. Significant changes in the business and the external environment, and strategic plans to address these changes are reported by management to the Board on an on-going basis.

In addition, quarterly unaudited financial results and other information are provided to the Audit Committee and the Board to enable the Board to monitor and evaluate the business and financial performance.



## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

### INTERNAL CONTROL FRAMEWORK AND ASSESSMENT (CONT'D)

#### B. Monitoring (Cont'd)

##### Internal Audit

The Internal Audit Function is outsourced to an external service provider. The outsourced internal auditor directly reports to the Audit Committee on the effectiveness of the current system of internal controls from the perspective of governance, risks and controls.

The internal and external audit plans are approved by the Audit Committee on a periodic basis. The Audit Committee also monitors major internal and external audit issues to ensure they are promptly addressed and resolved. Significant findings and recommendations for improvements are highlighted to management and Audit Committee, with follow-up and reviews of action plans.

##### Adequacy and effectiveness of the group's risk management and internal control systems

The Group's internal control system does not apply to its corporate shareholder, MIE Holdings Corporation ("MIEH") but to its subsidiaries, PBV and Emir-Oil which fall within the control of its majority shareholders.

The Group's internal control system described in this statement applies for subsidiaries where the Group is the operator and has the ability to participate in the key decision-making process of the subsidiaries.

The Board and Audit Committee review management accounts of subsidiaries. These provide the Board with performance-related information to enable informed and timely decision-making on the Group's investments.

### REVIEW OF STATEMENT BY EXTERNAL AUDITORS

The external auditor, PricewaterhouseCoopers ("PwC") has reviewed this Statement for inclusion in the Annual Report of the Group for the financial year ended 31 December 2018. Their review was conducted in accordance with Audit and Assurance Practice Guide 3 ("AAPG 3"), Guidance for Auditors on Engagements to Report on the Statement, issued by the Malaysian Institute of Accountants (MIA). AAPG 3 does not require the external auditors to, and they did not, consider whether this Statement covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk and control procedures. AAPG 3 also does not require the external auditors to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

### CONCLUSION

The Board is satisfied with the adequacy and effectiveness of the Group's risk management and internal control system. The Board has received assurance from the CEO that the Group's risk management and internal control system, in all material aspects, is operating adequately and effectively. For the financial year under review, there were no material control failures or adverse compliance events that have directly resulted in any material loss to the Group.

This statement on risk management and internal control is made in accordance with the resolution of the Board dated 26 March 2019.



## ADDITIONAL COMPLIANCE INFORMATION

Pursuant to the Main Market Listing Requirement of Bursa Malaysia Securities Berhad, the following additional information is provided:-

### Utilisation of Proceeds

The Company did not carry out any corporate exercise to raise funds during the financial year ended 31 December 2018.

### Audit and Non-Audit Fees

The fees paid/payable to the external auditors for services rendered to the Group and Company for the financial year ended 31 December 2018 are as follows:-

	RM '000
<strong>AUDIT FEES</strong>	
- PricewaterhouseCoopers, Malaysia	321
- Member firm of PricewaterhouseCoopers International Limited	561
<strong>NON-AUDIT FEES</strong>	
- PricewaterhouseCoopers, Malaysia	-
- Member firm of PricewaterhouseCoopers International Limited	46
	928

### Material Contracts Involving Directors and Major Shareholders

There were no material contracts (not being contracts entered into in the ordinary course of business) entered into by the Company involving directors' and major shareholders' interests during the financial year ended 31 December 2018.

### Recurrent Related Party Transactions of Revenue Nature

There were no recurrent related party transactions of a revenue nature which require shareholders' mandate during the financial year ended 31 December 2018.



## ANALYSIS OF SHAREHOLDINGS

As at 29 March 2019

Issued and fully paid-up share capital	:	RM10,964,127.75 comprising 1,096,412,775 ordinary shares
Class of shares	:	Ordinary Shares
Voting rights by show of hand	:	One (1) vote for each member
Voting rights by poll	:	One (1) vote for each ordinary share held

### ANALYSIS BY SIZE OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	% OF SHAREHOLDERS	NO. OF SHARES	% OF SHAREHOLDINGS
1 - 99	17	0.27	475	0.00
100 - 1,000	359	5.70	206,450	0.02
1,001 - 10,000	2,691	42.73	17,809,900	1.62
10,001 - 100,000	2,661	42.25	98,630,750	9.00
100,001 to less than 5% of issued shares	568	9.02	617,684,200	56.34
5% and above of issued shares	2	0.03	362,081,000	33.02
<b>Total</b>	<b>6,298</b>	<b>100.00</b>	<b>1,096,412,775</b>	<b>100.00</b>

### SUBSTANTIAL SHAREHOLDERS AS PER REGISTER OF SUBSTANTIAL SHAREHOLDERS

NO.	NAME OF SHAREHOLDERS	NO. OF SHARES HELD (Direct Interest)	%	NO. OF SHARES HELD (Deemed/ Indirect Interest)	%
1	Reach Energy Holdings Sdn Bhd	255,600,200	23.31	-	-
2	Ir. Shahul Hamid Bin Mohd Ismail	806,000	0.07	255,600,200 <sup>a</sup>	23.31
3	MTD Capital Bhd	149,245,700	13.61	-	-
4	Tan Sri Dr. Azmil Khalili Bin Dato' Khalid	43,631,400	3.98	40,000,000 <sup>b</sup>	3.65
5	Puan Sri Nik Fuziah Binti Tan Sri Dr. Nik Hussein	40,000,000	3.65	43,631,400 <sup>c</sup>	3.98
6	Urusharta Jamaah Sdn Bhd	106,480,800	9.71	-	-



## ANALYSIS OF SHAREHOLDINGS

As at 29 March 2019

cont'd

### DIRECTOR'S SHAREHOLDINGS AS PER REGISTER OF DIRECTORS' SHAREHOLDINGS

NO.	NAME OF DIRECTOR	NO. OF SHARES HELD (Direct Interest)	%	NO. OF SHARES HELD (Deemed/ Indirect Interest)	%
1	Tan Sri Dr. Azmil Khalili Bin Dato' Khalid	43,631,400	3.98	40,000,000 <sup>d</sup>	3.65
2	Izlan Bin Izhab	-	-	-	-
3	Nik Din Bin Nik Sulaiman	400,000	0.04	350,000 <sup>e</sup>	0.03
4	Ir. Shahul Hamid Bin Mohd Ismail	806,000	0.07	255,600,200 <sup>f</sup>	23.31
5	Y.M. Tunku Datuk Nooruddin Bin Tunku Dato' Sri Shahabuddin	-	-	-	-

Notes:

a, f Deemed interest by virtue of his interest in Reach Energy Holdings Sdn Bhd pursuant to Section 8(4)(c) of the Companies Act, 2016

b, d Indirect interest by virtue of the shareholding of his spouse, Puan Sri Nik Fuziah Binti Tan Sri Dr. Nik Hussein, pursuant to Section 59(11)(c) of the Companies Act, 2016

c Indirect interest by virtue of the shareholding of her spouse, Tan Sri Dr. Azmil Khalili Bin Dato' Khalid, pursuant to Section 59(11)(c) of the Companies Act, 2016

e Indirect interest by virtue of the shareholdings of his spouse, Nik Aminah Bte Nik Abdullah pursuant to Section 59(11)(c) of the Companies Act, 2016

### LIST OF THIRTY (30) LARGEST SHAREHOLDERS

NO.	NAME OF SHAREHOLDERS	NO. OF SHARES	% OF SHAREHOLDINGS
1	Reach Energy Holdings Sdn Bhd	255,600,200	23.31
2	Urusharta Jamaah Sdn Bhd	106,480,800	9.71
3	Cimsec Nominees (Tempatan) Sdn Bhd CIMB Bank for MTD Capital Bhd	53,444,239	4.87
4	Alliancegroup Nominees (Tempatan) Sdn Bhd Export-Import Bank of Malaysia Bhd for MTD Capital Bhd	53,157,692	4.85
5	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Abdul Aziz bin Abdul Kadir	45,000,000	4.10
6	Nik Fuziah Binti Nik Hussein	40,000,000	3.65
7	Cimsec Nominees (Tempatan) Sdn Bhd CIMB Bank for MTD Capital Bhd	33,267,369	3.03
8	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Azmil Khalili bin Khalid	23,631,400	2.16
9	Cimsec Nominees (Tempatan) Sdn Bhd CIMB Bank for Azmil Khalili bin Khalid	20,000,000	1.82
10	Citigroup Nominees (Asing) Sdn Bhd Exempt an for Citibank New York (Norges Bank 14)	19,506,700	1.78



## ANALYSIS OF SHAREHOLDINGS

As at 29 March 2019

cont'd

### LIST OF THIRTY (30) LARGEST SHAREHOLDERS (CONT'D)

NO.	NAME OF SHAREHOLDERS	NO. OF SHARES	% OF SHAREHOLDINGS
11	HLB Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Tan Kim Heung</i>	10,000,000	0.91
12	Maybank Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Rickoh Corporation Sdn Bhd</i>	10,000,000	0.91
13	HLIB Nominees (Asing) Sdn Bhd <i>Pledged Securities Account for Sun Rui Zhe</i>	9,820,000	0.90
14	Yayasan Pok dan Kassim	9,500,000	0.87
15	Cimsec Nominees (Tempatan) Sdn Bhd <i>CIMB Bank for MTD Capital Bhd</i>	8,000,000	0.73
16	RHB Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Yong Loy Huat</i>	6,000,000	0.55
17	Lee Chee Ming	5,000,000	0.46
18	Maybank Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Koh Kin Lip</i>	5,000,000	0.46
19	Tengku Adnan bin Tengku Mansor	5,000,000	0.46
20	Khoo Chang Chiang	4,784,000	0.44
21	CIMB Group Nominees (Tempatan) Sdn Bhd <i>CIMB Islamic Trustee Berhad for Pacific Dana Aman</i>	4,722,600	0.43
22	Alliancegroup Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Ng Chin San</i>	4,200,000	0.38
23	TA Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Kong Mah Realty (M) Sdn Bhd</i>	4,138,000	0.38
24	HLIB Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Abd Rahman Bin Soltan</i>	4,000,000	0.36
25	Maybank Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for TNTT Realty Sdn Bhd</i>	4,000,000	0.36
26	Queck Han Tiong	3,828,800	0.35
27	Public Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Tam Seng @ Tam Seng Sen (E-PTS)</i>	3,500,000	0.32
28	RHB Capital Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Ng Chin San</i>	3,285,300	0.30
29	Kenanga Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Lim Ai Ling</i>	3,000,000	0.27
30	Raymon Mangalaraj A/L Yesudian	3,000,000	0.27
		760,867,100	69.40



## ANALYSIS OF WARRANT HOLDINGS

As at 29 March 2019

No. of Warrants Issued	:	1,277,822,225
No. of Warrants Unexercised	:	1,277,822,225
Exercise Price	:	RM0.75
Expiry Date	:	The expiry dates of the warrants is as follows:- 15 August 2022 if the completion of Qualifying Acquisitions takes place within 36 months from the date of listing of the Company (i.e 15 August 2014); or
Rights of Warrant Holder	:	The Warrant holders are not entitled to any voting rights or to participate in any distribution and/or offer of further securities in the Company until and unless such Warrant holders exercise their Warrants into new ordinary shares of the Company.

### ANALYSIS BY SIZE OF WARRANT HOLDINGS

SIZE OF WARRANT HOLDINGS	NO. OF WARRANT HOLDERS	% OF WARRANT HOLDERS	NO. OF WARRANTS	% OF WARRANT HOLDINGS
1 - 99	0	0.00	0	0.00
100 - 1,000	93	2.44	61,625	0.00
1,001 - 10,000	804	21.06	5,527,200	0.43
10,001 - 100,000	1,825	47.80	92,135,300	7.21
100,001 to less than 5% of issued warrant	1,095	28.68	1,039,498,100	81.35
5% and above of issued warrant	1	0.03	140,600,000	11.00
<b>Total</b>	<b>3,818</b>	<b>100.00</b>	<b>1,277,822,225</b>	<b>100.00</b>

### SUBSTANTIAL WARRANT HOLDERS AS PER THE REGISTER OF SUBSTANTIAL WARRANT HOLDERS

NO.	NAME OF WARRANT HOLDERS	NO. OF WARRANTS HELD (Direct Interest)	%	NO. OF WARRANTS HELD (Deemed/ Indirect Interest)	%
1	Reach Energy Holdings Sdn Bhd	140,600,000	11.00	-	-
2	Shahul Hamid bin Mohd Ismail	1,000,000	0.08	140,600,000 <sup>a</sup>	11.00

Notes:

<sup>a</sup> Deemed interest by virtue of his interest in Reach Energy Holdings Sdn Bhd pursuant to Section 8(4)(c) of the Companies Act, 2016



## ANALYSIS OF WARRANT HOLDINGS

As at 29 March 2019

cont'd

### DIRECTOR'S WARRANT HOLDINGS AS PER REGISTER OF DIRECTORS' WARRANT HOLDINGS

NO.	NAME OF DIRECTOR	NO. OF WARRANTS HELD (Direct Interest)	%	NO. OF WARRANTS HELD (Deemed/ Indirect Interest)	%
1	Tan Sri Dr. Azmil Khalili bin Dato' Khalid	-	-	40,000,000 <sup>^</sup>	3.13
2	Izlan Bin Izhab	-	-	-	-
3	Nik Din Bin Nik Sulaiman	-	-	-	-
4	Shahul Hamid Bin Mohd Ismail	1,000,000	0.08	140,600,000 <sup>#</sup>	11.00
5	Y.M. Tunku Datuk Nooruddin Bin Tunku Dato' Sri Shahabuddin	-	-	-	-

Notes:

<sup>^</sup> Indirect interest by virtue of the warrant holdings of his spouse, Puan Sri Nik Fuziah Binti Tan Sri Dr. Nik Hussein, pursuant to Section 59(11)(c) of the Companies Act, 2016

<sup>#</sup> Deemed interest by virtue of his interest in Reach Energy Holdings Sdn Bhd pursuant to Section 8(4)(c) of the Companies Act, 2016

### LIST OF THIRTY (30) LARGEST WARRANT HOLDERS

NO.	NAME OF WARRANT HOLDERS	NO. OF WARRANTS	% OF WARRANT HOLDINGS
1	Reach Energy Holdings Sdn Bhd	140,600,000	11.00
2	Maybank Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Abdul Aziz Bin Abdul Kadir</i>	40,000,000	3.13
3	Nik Fuziah Binti Nik Hussein	40,000,000	3.13
4	Urusharta Jamaah Sdn Bhd	38,307,200	3.00
5	Ku Lian Sin	22,849,200	1.79
6	Citigroup Nominees (Asing) Sdn Bhd <i>CBHK PBGSGP for Sunnyvale Holdings Ltd</i>	22,710,300	1.78
7	Citigroup Nominees (Asing) Sdn Bhd <i>Exempt An for Citibank New York (Norges Bank 1)</i>	20,000,000	1.57
8	Ng Mooi Lan	17,460,000	1.37
9	Low Geat Hong	15,000,000	1.17
10	Maybank Securities Nominees (Asing) Sdn Bhd <i>Pledged Securities Account for Seyed Abu Tahir Bin Buhary (Margin)</i>	15,000,000	1.17
11	Chua Chin Chyang	11,000,000	0.86



## ANALYSIS OF WARRANT HOLDINGS

As at 29 March 2019  
cont'd

### LIST OF THIRTY (30) LARGEST WARRANT HOLDERS (CONT'D)

NO.	NAME OF WARRANT HOLDERS	NO. OF WARRANTS	% OF WARRANT HOLDINGS
12	Tiong Huo Chiong	10,717,300	0.84
13	Cimsec Nominees (Tempatan) Sdn Bhd <i>CIMB for Lee Soi Gek (PB)</i>	10,643,000	0.83
14	Era Bina Sdn Bhd	10,550,000	0.83
15	Yong Fan Hing	10,548,800	0.83
16	DB (Malaysia) Nominee (Asing) Sdn Bhd <i>Exempt An for Bank of Singapore Limited</i>	10,500,000	0.82
17	Cimsec Nominees (Tempatan) Sdn Bhd <i>CIMB Bank for Tan Kim Heung</i>	10,000,000	0.78
18	Cimsec Nominees (Tempatan) Sdn Bhd <i>CIMB Bank for Tan Soon Lai</i>	9,500,000	0.74
19	Maybank Securities Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for SMB Resources Sdn Bhd</i>	9,000,000	0.70
20	Mohanadass Kanagasabai	8,815,000	0.69
21	Er Soon Puay	8,056,300	0.63
22	Cimsec Nominees (Tempatan) Sdn Bhd <i>CIMB Bank for Lai Ming Chun @ Lai Poh Lin (PB)</i>	8,000,000	0.63
23	Leow Wai Mun	8,000,000	0.63
24	Sam Wei Bee	8,000,000	0.63
25	Chua Chin Chyang	7,700,000	0.60
26	Tan Soon Heng	7,602,000	0.59
27	Maybank Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Ang Piang Kok</i>	7,500,000	0.59
28	Cimsec Nominees (Tempatan) Sdn Bhd <i>CIMB Bank for Lim Kai Swee</i>	7,018,000	0.55
29	Teoh Yie Hao	6,900,000	0.54
30	Affin Hwang Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Lye Ha Noou @ Lai Chow Mooi</i>	6,420,000	0.50
		407,797,100	31.91



## NOTICE OF THE SIXTH ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Sixth Annual General Meeting of the Company will be held at Atlanta West, Level 3, Armada Hotel, Lot 6, Lorong Utara C, Section 52, 46200 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 26 June 2019 at 10.00 a.m. for the following purposes:-

### AGENDA

#### AS ORDINARY BUSINESS

- |  |   |
|--|---|
| 1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 together with the Directors' and Auditors' Reports thereon.   | <b>Please refer to Explanatory Note to the Agenda</b> |
| 2. To approve the proposed payment of Directors' fees amounting to RM 400,000 in respect of the financial year ending 31 December 2019, to be made payable quarterly.  | <b>Ordinary Resolution 1</b>                          |
| 3. To approve the payment of Directors' benefits (other than Directors' fees) up to an amount of RM 500,000 for the period from 1 January 2019 until the conclusion of the next Annual General Meeting of the Company, to be made payable quarterly. | <b>Ordinary Resolution 2</b>                          |
| 4. To re-elect Encik Izlan Bin Izhah, who retires by rotation pursuant to Article 70 of the Constitution of the Company.   | <b>Ordinary Resolution 3</b>                          |
| 5. To re-elect Ir. Shahul Hamid Bin Mohd Ismail who retires pursuant to Article 70 of the Constitution of the Company.   | <b>Ordinary Resolution 4</b>                          |
| 6. To re-appoint PricewaterhouseCoopers PLT (LLP0014401-LCA & AF1146) as the Company's Auditors and to authorise the Directors to fix their remuneration.  | <b>Ordinary Resolution 5</b>                          |

#### AS SPECIAL BUSINESS

7. To consider and if thought fit, to pass the following Resolutions:-

**Authority for Directors to issue and allot shares in the Company pursuant to Section 75 and 76 of the Companies Act, 2016**

**Ordinary Resolution 6**

**"THAT** subject always to the Companies Act, 2016, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Constitution of the Company and the approvals of the relevant government and/or regulatory authorities, the Directors be and are hereby empowered pursuant to Section 75 and 76 of the Companies Act, 2016 to issue and allot new shares in the Company at any time at such price, upon such terms and conditions, for such purposes and to such person(s) whomsoever as the Directors may in their absolute discretion deem fit and expedient in the interest of the Company, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the total issued share capital of the Company for the time being.

**AND THAT** the Directors be and are also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing of and quotation for the additional shares so issued and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company."



## NOTICE OF THE SIXTH ANNUAL GENERAL MEETING

cont'd

### 8. Proposed Adoption of a New Constitution of the Company

**Special  
Resolution**

“**THAT** approval be and is hereby given to revoke the existing Constitution of the Company with immediate effect and in place thereof, the proposed new Constitution of the Company as set out in Appendix II to the Circular to Shareholders dated 30 April 2019 accompanying the Company's Annual Report 2018 for the financial year ended 31 December 2018 be and is hereby adopted as the Constitution of the Company **AND THAT** the Directors of the Company be and are hereby authorised to assent to any modification, variation and/or amendment as may be required by the relevant authorities and to do all acts and things and take all such steps as may be considered necessary to give full effect to the foregoing.”

### ANY OTHER BUSINESS

### 9. To transact any other business for which due notice shall have been given.

BY ORDER OF THE BOARD

**CHEN BEE LING (MAICSA 7046517)**  
**TAN LAI HONG (MAICSA 7057707)**  
Company Secretaries

Selangor Darul Ehsan  
Date : 30 April 2019

### Notes:

1. In regard of deposited securities, only members whose names appears in the Record of Depositors as at 18 June 2019 shall be eligible to attend the Meeting and to speak and vote thereat.
2. A member of the Company who is entitled to attend and vote at the Meeting 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. A proxy appointed to attend and vote at the Meeting shall have the same rights as the member to speak at the Meeting.
3. A member of the Company may appoint not more than two (2) proxies to attend the Meeting. 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 Annual General Meeting 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 Meeting.
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 (1) 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.



## NOTICE OF THE SIXTH ANNUAL GENERAL MEETING

cont'd

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 Meeting or adjourned meeting.
8. Registration will commence at 8.30 a.m. and close at 10.30 a.m. on the day of the Meeting. Members and proxies are advised to be punctual. For verification purposes, members and proxies are required to produce their original identification card at the registration counter.
9. Drinks and lunch will be provided.
10. Pursuant to Paragraph 8.29A of the Main Market Listing Requirements, all resolutions set out in the Notice of the Sixth Annual General Meeting will be put to vote on a poll.

### Explanatory Notes to the Agenda:

#### Item 1 of the Agenda

This item of the Agenda is meant for discussion only as the provision of Section 340(1)(a) of the Companies Act, 2016 does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this item of the Agenda is not put forward for voting.

#### Items 2 and 3 of the Agenda

##### Payment of Directors' fees and benefits

Section 230(1) of the Companies Act, 2016 provides amongst others, that "the fees" of the directors and "any benefits" payable to the directors of a listed company and its subsidiaries shall be approved at a general meeting.

In this respect, the Company is seeking shareholders' approval for the payment of Directors' fees totaling RM 400,000 for the financial year ending 31 December 2019.

Besides, the Company is also seeking shareholders' approval for the payment of Directors' benefits up to an amount of RM 500,000 for the period from 1 January 2019 until the conclusion of the next Annual General Meeting of the Company.

The estimated amount payable (Directors' fees and benefits) is based on the assumption that the Company maintain its existing Board composition. In the event the proposed amount is insufficient (e.g. due to more meetings or enlarged Board size), approval will be sought at the next Annual General Meeting for additional benefits to meet the shortfall.

The proposed payment of benefits comprises meeting allowances and training allowances payable to the Chairman and members of the Board and Board Committees.

#### Items 4 and 5 of the Agenda

Article 70 of the Constitution provides that one-third (1/3) of the Directors of the Company for the time being shall retire by rotation at an Annual General Meeting of the Company. With the current Board size of five (5) directors, two (2) Directors are to retire in accordance with Article 70 of the Constitution.

#### Item 7 of the Agenda

##### Authority for Directors to issue and allot shares in the Company pursuant to Section 75 and 76 of the Companies Act, 2016

This is the renewal of the mandate obtained from the members at the last Annual General Meeting held on 28 June 2018 ("the previous mandate"). The previous mandate was not utilised and accordingly, no proceeds were raised.

The proposed Ordinary Resolution 6 is to empower the Directors to issue and allot shares in the Company up to an aggregate amount not exceeding 10% of the total issued share capital of the Company for such purposes as they consider would be in the interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.



## NOTICE OF THE SIXTH ANNUAL GENERAL MEETING

cont'd

### Item 8 of the Agenda

#### Proposed Adoption of a New Constitution of the Company

The proposed Special Resolution, if passed, will bring the Company's Constitution in line with the Companies Act, 2016 and amended Main Market Listing Requirements of Bursa Malaysia Securities Berhad which was issued on 29 November 2017 and will enhance administrative efficiency. The proposed new Constitution is set in the Circular to Shareholders dated 30 April 2019 accompanying the Company's Annual Report for the financial year ended 31 December 2018.

### STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

#### Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

No notice in writing has been received by the Company nominating any candidate for election as Directors at the 6th AGM of the Company. The Directors who are due for retirement and seeking for re-election pursuant to the Company's Constitution are as set out in the Notice of 6th AGM and their profile are set out in the Directors' Profile in the 2018 Annual Report.

#### Authority for Directors to issue and allot shares in the Company pursuant to Section 75 and 76 of the Companies Act, 2016

This is a renewal of the mandate obtained from the shareholders of the Company at the Annual General Meeting of 28 June 2018 and if passed, will empower the Directors of the Company to issue and allot shares up to an aggregate amount not exceeding 10% of the issued share capital of the Company for the time being for such purposes as the Directors consider would be in the best interest of the Company.

This authority unless revoked or varied by the Company at a general meeting will expire at the next Annual General Meeting.

The renewal of this mandate would provide flexibility to the Company for any possible fund raising exercise, including but not limited for further placing of shares, for purpose of funding future investment projects, working capital and/or acquisitions. This authority is to avoid any delay and cost involved in convening a general meeting to approve such issuance of shares.

As at the date of the Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the 5th AGM held on 28 June 2018 and which will lapse at the conclusion of the 6th AGM to be held on 26 June 2019.



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**REACH ENERGY BERHAD**  
(Co. No.: 1034400-D)

**PROXY FORM**

CDS Account No.

No. of Shares Held

I/We \_\_\_\_\_  
(FULL NAME IN BLOCK LETTERS)

(NRIC No./Passport No./Company Registration No. \_\_\_\_\_) of

\_\_\_\_\_  
(ADDRESS)

being a member/members of **REACH ENERGY BERHAD**, hereby appoint:

Full Name (in block letters)	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or\* (\*delete as appropriate)

Full Name (in block letters)	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing him/her, the CHAIRMAN OF THE MEETING as my/our proxy to vote for me/us on my/our behalf at the Sixth Annual General Meeting of REACH ENERGY BERHAD to be held at Atlanta West, Level 3, Armada Hotel, Lot 6, Lorong Utara C, Section 52, 46200 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 26 June 2019 at 10.00 a.m. and at any adjournment thereof, and to vote as indicated below:-

RESOLUTION NO.	RESOLUTION	FOR	AGAINST
Ordinary Resolution 1	To approve the proposed payment of Directors' fees in respect of the financial year ending 31 December 2019, to be made payable quarterly		
Ordinary Resolution 2	To approve the proposed payment of Directors' benefits (other than Directors' fees) for the period from 1 January 2019 until the conclusion of the next Annual General Meeting		
Ordinary Resolution 3	To re-elect Encik Izlan Bin Izzah		
Ordinary Resolution 4	To re-elect Ir. Shahul Hamid Bin Mohd Ismail		
Ordinary Resolution 5	Re-appointment of PricewaterhouseCoopers PLT as the Company's Auditors		
Ordinary Resolution 6	Authority to issue and allot shares pursuant to Section 75 and 76 of the Companies Act, 2016		
Special Resolution	Proposed Adoption of a New Constitution of the Company		

Please indicate with an 'X' in the space provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific instruction, your proxy will vote or abstain as he/she thinks fit

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2019.

\_\_\_\_\_  
Signature of Shareholder/ Attorney  
(if shareholder is a corporation, this part should be executed under seal or under the hand of its officer or attorney duly authorised)

**NOTES:-**

- In regard of deposited securities, only members whose names appears in the Record of Depositors as at 18 June 2019 shall be eligible to attend the Meeting and to speak and vote thereat.
- A member of the Company who is entitled to attend and vote at the Meeting 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. A proxy appointed to attend and vote at the Meeting shall have the same rights as the member to speak at the Meeting.
- A member of the Company may appoint not more than two (2) proxies to attend the Meeting. Where a member appoints two (2) proxies, he/she shall specify the proportion of his/her shareholdings to be represented by each proxy.
- 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 Annual General Meeting for verification by the Company Secretary.
- 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 Meeting.
- 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.
- 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 Meeting or adjourned meeting.
- Registration will commence at 8.30 a.m. and close at 10.30 a.m. on the day of the Meeting. Members and proxies are advised to be punctual. For verification purposes, members and proxies are required to produce their original identification card at the registration counter.
- Drinks and light refreshments will be provided. No door gifts will be provided by the Company.
- Pursuant to Paragraph 8.29A of the Main Market Listing Requirements, all resolutions set out in the Notice of the Sixth Annual General Meeting will be put to vote on a poll.



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AFFIX  
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**COMPANY SECRETARY**  
**REACH ENERGY BERHAD**  
c/o Boardroom Share Registrars Sdn Bhd  
(fka 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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A tall, yellow drilling rig stands against a clear blue sky. The rig is a lattice structure with a yellow hook and pulley system. It is mounted on a base with yellow railings and stairs. The rig is positioned on the left side of the frame, extending towards the top.

[www.reachenergy.com.my](http://www.reachenergy.com.my)

**REACH ENERGY BERHAD** (Company No: 1034400-D)  
(Incorporated in Malaysia under the Companies Act, 1965)

D3-5-8, Block D3, Solaris Dutamas, No.1, Jalan Dutamas 1, 50480 Kuala Lumpur, Malaysia.

Tel: +603 6412 3000 Fax: +603 6412 8005 Email: [info@reachenergy.com.my](mailto:info@reachenergy.com.my)