

**SUMATEC RESOURCES BERHAD**Company No. 428355-D  
(Incorporated in Malaysia)**INTERIM FINANCIAL REPORT****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2017**

	Note	Individual Quarter		Cumulative Quarter	
		Current Year Quarter 30-Sep-17 RM'000	Preceding Year Corresponding Quarter 30-Sep-16 RM'000	Current Year To Date 30-Sep-17 RM'000	Preceding Year Corresponding Period 30-Sep-16 RM'000
<b>Revenue</b>	A8	3,963	7,589	12,189	38,299
Other income		5,765	8,792	8,648	16,484
Operating expenses		(4,199)	(845)	(17,266)	(23,000)
<b>Operating profit</b>		5,529	15,536	3,571	48,267
Finance costs		(571)	(581)	(1,694)	(1,721)
<b>Profit before taxation</b>	A8	4,958	14,955	1,877	46,546
Tax expense	B5	-	(1,203)	-	(4,203)
<b>Profit for the financial period</b>		4,958	13,752	1,877	42,343
Other comprehensive income					
- Foreign currency translation differences for foreign operations		(747)	268	(714)	148
<b>Total comprehensive (loss) / income for the period</b>		4,211	14,020	1,163	42,491
<b>Profit for the financial period attributable to:</b>					
Owners of the Company		4,958	13,752	1,877	42,343
<b>Total comprehensive (loss) / income for the financial period attributable to:</b>					
Owners of the Company		4,211	14,020	1,163	42,491
<b>Earnings per share</b>	B13				
(a) Basic earnings per share (sen)		0.13	0.37	0.05	0.70
(b) Diluted earnings per share (sen)		0.13	0.37	0.05	0.70

The condensed consolidated statements of profit or loss and other comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes to this interim financial report.

**SUMATEC RESOURCES BERHAD**Company No. 428355-D  
(Incorporated in Malaysia)**INTERIM FINANCIAL REPORT****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS AT 30 SEPTEMBER 2017**

	Note	30-Sep-17 RM'000	Audited 31-Dec-16 RM'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	A9	1,440	1,999
Intangible asset		298,935	299,428
Trade and other receivables		258,657	246,321
Total non-current assets		<u>559,032</u>	<u>547,748</u>
<b>Current assets</b>			
Trade and other receivables		283,166	284,183
Fixed deposit with a licensed bank		230	230
Cash and bank balances		29	141
Total current assets		<u>283,425</u>	<u>284,554</u>
<b>TOTAL ASSETS</b>		<u><u>842,457</u></u>	<u><u>832,302</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the Company:</b>			
Share capital	A6	705,818	541,256
Other reserves		157,086	322,611
Accumulated losses		<u>(224,261)</u>	<u>(226,138)</u>
Total equity		<u>638,643</u>	<u>637,729</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities		7,394	7,394
Total non-current liabilities		<u>7,394</u>	<u>7,394</u>
<b>Current liabilities</b>			
Trade and other payables		171,622	162,381
Tax payable		2,268	2,268
Term loan	B9	22,530	22,530
Total current liabilities		<u>196,420</u>	<u>187,179</u>
<b>TOTAL LIABILITIES</b>		<u>203,814</u>	<u>194,573</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>842,457</u></u>	<u><u>832,302</u></u>
<b>NET ASSETS PER SHARE (RM)</b>		0.165	0.170

*The condensed statements of financial position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes to this interim financial report.*

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 SEPTEMBER 2017**

	Attributable to owners of the Company						Accumulated losses RM'000	Total equity RM'000
	Share Capital RM'000	Share Premium RM'000	Warrant reserve RM'000	Employee share option reserve RM'000	Capital reserve RM'000	Translation reserve RM'000		
<b>Balance as at 1 January 2017</b>	<b>541,256</b>	<b>164,562</b>	<b>142,580</b>	<b>249</b>	<b>17,186</b>	<b>(1,966)</b>	<b>(226,138)</b>	<b>637,729</b>
Adjustments for effects of Companies Act 2016 (Note a)	164,562	(164,562)	-	-	-	-	-	-
Other comprehensive loss for the financial period	-	-	-	-	-	(714)	-	(714)
Net profit for the financial period	-	-	-	-	-	-	1,877	1,877
Total comprehensive (loss) / income for the financial period	-	-	-	-	-	(714)	1,877	1,163
<b>Transactions with owners:</b>								
Employee share options forfeited				(249)				(249)
Total transactions with owners	-	-	-	(249)	-	-	-	(249)
<b>Balance as at 30 September 2017</b>	<b>705,818</b>	<b>-</b>	<b>142,580</b>	<b>-</b>	<b>17,186</b>	<b>(2,680)</b>	<b>(224,261)</b>	<b>638,643</b>
<b>Balance as at 1 January 2016</b>	<b>490,146</b>	<b>165,756</b>	<b>142,580</b>	<b>4,211</b>	<b>17,187</b>	<b>(2,622)</b>	<b>(166,378)</b>	<b>650,880</b>
Other comprehensive income for the financial period	-	-	-	-	-	148	-	148
Net profit for the financial period	-	-	-	-	-	-	25,859	25,859
Total comprehensive income for the financial period	-	-	-	-	-	148	25,859	26,007
<b>Transactions with owners:</b>								
Exercise of ESOS	2,352	50	-	-	-	-	-	2,402
Employee share options forfeited	-	-	-	(1,781)	-	-	124	(1,657)
Employee share options granted	-	-	-	1,027	-	-	-	1,027
Private placement	48,758	-	-	-	-	-	-	48,758
Share issuance expense	-	(6,205)	-	-	-	-	-	(6,205)
Total transactions with owners	51,110	(6,155)	-	(754)	-	-	124	44,325
Transferred to share premium for ESOS exercised	-	517	-	(517)	-	-	-	-
<b>Balance as at 30 September 2016</b>	<b>541,256</b>	<b>160,118</b>	<b>142,580</b>	<b>2,940</b>	<b>17,187</b>	<b>(2,474)</b>	<b>(140,395)</b>	<b>721,212</b>

**Note a**

With the Companies Act 2016 ("CA") coming into effect on 31 January 2017, the credit standing in the share premium account of RM164,562,000 has been transferred to the share capital account. Pursuant to subsection 618(3) of the CA, the Group may exercise its right to use the credit amounts being transferred from share premium within 24 months after the commencement of the CA. The Board of Directors will make a decision thereon by 31 January 2019.

*The condensed consolidated statements of changes in equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes to this interim financial report.*

**SUMATEC RESOURCES BERHAD**Company No. 428355-D  
(Incorporated in Malaysia)**INTERIM FINANCIAL REPORT****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2017**

	30-Sep-17 RM'000	30-Sep-16 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	1,877	46,546
Adjustments for:		
Depreciation of property, plant and equipment	204	465
Loss on disposal of property, plant and equipment	22	-
Amortisation of intangible asset	493	302
Finance costs	1,694	1,721
Interest income	(2)	(25)
Unrealised loss on foreign exchange	7,676	3,592
Share option granted under ESOS, net of forfeiture	(249)	(630)
Amortisation of unwinding discount on financial assets	(8,646)	(6,210)
Property, plant and equipment written off	326	1,816
<b>Operating profit before changes in working capital</b>	<b>3,395</b>	<b>47,577</b>
Changes in working capital:		
Trade and other receivables	(15,728)	(67,717)
Trade and other payables	12,214	(7,373)
<b>Cash used in operations</b>	<b>(119)</b>	<b>(27,513)</b>
Net interest received / (paid)	1	(3)
Tax paid	-	(296)
<b>Net cash used in operating activities</b>	<b>(118)</b>	<b>(27,812)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of property, plant and equipment	6	-
<b>Net cash generated from investing activities</b>	<b>6</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net cash generated from financing activities	-	44,954
<b>CASH AND CASH EQUIVALENTS</b>		
Net (decrease) / increase	(112)	17,142
At beginning of financial period	371	1,125
<b>At end of the financial period</b>	<b>259</b>	<b>18,267</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Fixed deposit with a licensed bank	230	230
Cash and bank balances	29	1,553
	<b>259</b>	<b>1,783</b>

*The condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes to this interim financial report.*

## SUMATEC RESOURCES BERHAD

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# INTERIM FINANCIAL REPORT

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## A. NOTES TO THE INTERIM FINANCIAL REPORT

### A1 Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standard (“MFRS”) 134 - Interim Financial Reporting and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements of the Company and the Group for the financial year ended 31 December 2016. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2016.

The financial information presented in this interim report has been prepared in accordance with the accounting policies used in preparing the annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of the MFRSs and Amendments to MFRSs effective as of 1 January 2017:

#### Amendments to MFRS effective 1 January 2017

MFRS 12	Disclosure of Interests in Other Entities (under Annual Improvements to MFRS Standards 2014 – 2016 Cycle)
MFRS 107	Statements of Cash Flow: Disclosure Initiative
MFRS 112	Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

Initial application of the Amendments to the MFRSs did not have material impact to the financial statements.

The Group has not applied the following new standards and amendments to standards that have been issued by the Malaysian Accounting Standards Board but are not yet effective:

#### MFRS and Amendments to MFRS effective 1 January 2018

MFRS 9	Financial Instruments (International Financial Reporting Standards 9 issued by International Accounting Standards Board in July 2014)
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 4	Insurance Contracts: Applying MFRS 9 with MFRS 4
Amendments to MFRS 140	Investment Property: Transfers of Investment Property
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to MFRS Standards 2014-2016 Cycle (except for Amendments to MFRS 12 Disclosures of Interests in Other Entities)	

#### MFRS effective 1 January 2019

MFRS 16	Leases
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**A1 Basis of preparation (cont'd)**

*Amendments to MFRS - effective date deferred indefinitely*

MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures: Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture

The initial application of the above standards, amendments and interpretation are not expected to have any significant financial impact to the financial statements, except for MFRS 9, MFRS 15 and MFRS 16. The adoption of these standards will result in changes in accounting policy, and the Group is currently assessing the impact of adopting these standards and will adopt the new standard on the required effective date.

**A2 Audit report of preceding annual financial statement**

The audited financial statements for the financial year ended 31 December 2016 were not subject to qualification except on a single matter. The current trade receivable of the Group which amounted to RM185,047,500 as at 31 December 2016 is due from Markmore Energy (Labuan) Limited ("MELL"), a company in which a controlling shareholder has control, and the auditors were unable to obtain sufficient appropriate audit evidence to ascertain its recoverability. The Company recognizes this as a long term receivable which recoverability should be attributable from the gas production stream.

**A3 Seasonal or cyclical factors**

The operations of the Group are not subject to seasonal or cyclical fluctuations.

**A4 Unusual items**

There were no unusual items that affected the assets, liabilities, equity, net income and cash flows of the Group during the quarter under review.

**A5 Material changes in estimates**

There were no material changes in estimates of amount reported during the quarter under review.

**A6 Debt and equity securities**

There were no issuance and repayment of debt and equity securities, share buy backs, share cancellations, share held as treasury shares and resale of treasury shares during the current quarter under review.

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**A7 Dividend paid**

There were no dividends paid during the quarter under review.

**A8 Segment information**

The Group operates in a single reportable segment. It is essentially engaged in the management and oversight of the oil production operations at the Rakushechnoye Oil and Gas Field in Kazakhstan, and the provision of a study, design and planning of an integrated natural gas monetization programme in preparation of the exploitation of the gas / condensate in accordance to a detailed full field geological and geophysical study of the entire oil / gas concession area.

**A9 Valuation of property, plant and equipment**

There were no changes to the valuation of property, plant and equipment brought forward from the preceding annual audited financial statements.

**A10 Material events subsequent to the end of the interim period**

There were no other material events subsequent to the end of the current financial quarter, which are likely to substantially affect the results of the operations of the Group for the current quarter.

**A11 Changes in the composition of the Group**

There were no changes in the composition of the Group during the quarter under review.

**A12 Contingent liabilities**

The contingent liabilities of the Group as at 30 September 2017 are as below:-

	RM'000	Refer Note*
Unsecured:		
<u>Corporate guarantee granted to Semua International Sdn. Bhd. Group:</u>		
Ebony Ritz and its associates	37,017	B11 (ii)
<u>Parental guarantee:</u>		
Continental Industrial Supplies and Services Ltd. LLP	<u>27,351</u>	B11(viii)
	<u>64,368</u>	

\* *The Company is involved in separate litigations and arbitration with the abovementioned parties, as disclosed in Note B11 of this interim financial report.*

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**A13 Capital commitments**

The were no capital commitments as at 30 September 2017.

**B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS**

**B1 Review of performance**

For the period ended 30 September 2017, the Group's revenue was RM12.19 million as compared to RM38.30 million in the previous period ended 30 September 2016. The revenue was derived from the gas development contract billing. The lower revenue resulted in a lower profit after tax of RM1.88 million as compared with RM25.86 million reported for the third quarter of 2016.

**B2 Variation of results against preceding quarter**

	<b>Current Year Quarter 30-Jun-2017 RM'000</b>	<b>Immediate Preceding Quarter 30-Jun-2016 RM'000</b>
Revenue	3,963	7,589
Operating profit before provision	4,958	14,955
Less: Provision for liabilities	-	-
Profit before tax	4,958	14,955

The revenue / billing was in tandem with the current progress of the work program for the gas development plan. Profit was lower in the third quarter as it was minimal other income.

**B3 Prospects**

The oil market is seen to be stabilizing in 2017 as supply/demand fundamentals have tightened and oil inventories have begun to recede. Oil price has been moving on an upward trend for the most part of the second and third quarters of this year.

The Company has announced on 28 April 2017 that it will commence an oil production enhancement program on the back of better crude oil prices in 2017. The production enhancement program encompasses the improvement / repairing of existing wells that include rehabilitation and rejuvenation works, drilling of new wells for appraisal and production, construction of oilfield surface facilities and upgrading of the central processing facilities.

The production enhancement program work with estimated costs of approximately RM232.5 million (USD55.0 million) began as scheduled and the Company is pleased with the progress of the program so far. The flow results of the initial wells have been encouraging as we expect total oil production to improve by year end.



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**B4 Forecast profit**

The Company has not issued any profit forecast for the financial period under review.

**B5 Taxation**

	<b>Current Year Quarter 30-Sep-17 RM'000</b>	<b>Current Year To Date 30-Sep-17 RM'000</b>
Income tax:		
Current year provision	<u>-</u>	<u>-</u>

There were no tax provided for the current quarter.

**B6 Unquoted investments and/or properties**

There were no purchases or sales of unquoted securities during the current quarter under review and current year to date.

**B7 Quoted securities**

There were no purchases or sales of quoted securities during the financial quarter under review and financial year to date.

**B8 Status of corporate proposals**

- (i) **Proposed acquisition of 100% equity in Borneo Energy Oil & Gas Ltd**
- (ii) **Proposed acquisition of 100% equity in MELL as announced on 1 July and 26 August 2016**
- (iii) **Proposed Corporate Exercise and LPG Production as first announced on 17 February 2017**
  
- (iv) **Proposed Acquisition of Markmore Energy (Labuan) Limited**

The Company had on 26 October 2017 entered into a heads of agreement (“Heads of Agreement”) with Markmore Sdn Bhd (“Markmore” or the “Vendor”) for the purpose of recording their understanding and intention in respect of the proposed acquisition of 100% equity interest in Markmore Energy (Labuan) Limited from Markmore (“Proposed Acquisition”) for the indicative purchase consideration of USD370,000,000 (equivalent to RM1,554,000,000) and to take all such steps and do all acts and things so as to effect and implement the said Proposed Acquisition upon the terms and conditions contained in the Heads of Agreement.

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**The Company will formally terminate the exercises as detailed in B8(i), (ii) and (iii) above upon the signing of the Share Sale Agreement for the Proposed Acquisition.**

In conjunction with the Proposed Acquisition and to comprehensively address all financial issues currently faced, the Board also proposes to undertake the following corporate exercises:-

- (a) A balance sheet reconstruction exercise to eliminate the accumulated losses and to consolidate the number of shares (“Proposed Capital Reduction”). Upon completion of the Proposed Capital Reduction, Sumatec proposes to consolidate every four (4) existing Shares into one (1) Share (“Proposed Share Consolidation”);
- (b) Equity fund raising exercise to fund the cash portion of the consideration for the Proposed Acquisition and for the development of the Rakushechnoye Oil and Gas Field. The Board proposes to undertake an equity fund raising exercise in the form of a rights issue to raise a minimum proceeds of RM1,521.9 million. Entitled shareholders will be indicatively offered to subscribe for fifteen (15) new Shares (“Rights Shares”) for every two (2) existing Shares held after the Proposed Share Consolidation. As a sweetener, the Board also proposes to offer six (6) free warrants (“Warrants-C”) and two (2) free Shares (“Bonus Shares”) for every fifteen (15) Rights Shares subscribed.; and
- (c) Comprehensive settlement of the Sumatec group’s debt and financial obligations. The Board proposes to comprehensively settle the above obligations through the following:-
  - a. issuance of up to 840,000,000 redeemable convertible preference shares (“RCPS”) at an indicative issue price of RM0.20 per RCPS (equivalent to USD40.0 million) to the creditors set out in (a) above;
  - b. issuance of up to 672,000,000 RCPS at an indicative issue price of RM0.20 per RCPS (equivalent to USD32.0 million) for the settlement of the amount owing to MELL set out in paragraph (b) above and well repairs cost set out in (c) above; and
  - c. the USD30 million deposit paid by Sumatec for the acquisition of Borneo Oil and Gas Limited shall be off-set against the well maintenance and new wells expenditures set out in (c) above. (collectively, the “Proposed Debt Settlement”)

The indicative purchase consideration of USD370,000,000 for the Proposed Acquisition (“Purchase Consideration”) shall be satisfied in the following manner:-

- (a) by way of payment in cash of USD290,000,000 (equivalent to RM1,218,000,000); and
- (b) issuance of up to 1,680,000,000 new ordinary shares in Sumatec (“Sumatec Shares” or “Shares”) amounting to USD80,000,000 (equivalent to RM336,000,000), at an issue price of RM0.20 per Consideration Share or based on the 5-day volume weighted average price of the Sumatec Shares preceding the price fixing date, whichever is higher. For avoidance of doubt, the issue price shall be adjusted for the effects of the Proposed Share Consolidation (as defined hereunder).

The settlement of the Purchase Consideration shall be made in RM computed at the USD/RM exchange rate of USD1.00 only equivalent to RM4.20 only.

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The Company is in the midst of completing the due diligence requirements necessary for the implementation of the Proposed Acquisition.

Once completed, the Scheme shall achieve the following:

1. **Acquire and own tangible oil and gas assets.** Under the previous Joint Investment Agreement (2012), the Company's role was limited to being an investor and operator of the Rakushechnoye Field. Under this new arrangement, the Company will effectively own the entire oil and gas assets and reserves.
  2. **Enhanced credit profile with greater flexibility on raising funding** for future development. By having full control of the assets and operations in the oil field, the Company will have more options for future fundraising.
  3. **A fully funded field work programme, on track to achieve higher productivity.** Together with brighter industry outlook, we are confident of stabilising and improving the Company's financial position and cashflow.
  4. **A clean slate where the Company's debts (including those related to Semua Shipping) and receivables are resolved.** This will remove any concerns by the Auditors and also resolve any outstanding or potential legal proceedings (eg. Section 218, winding up).
  5. **A cohesive and synergistic operating structure.** The 2012 JIA arrangement has necessitated the setting up of our subsidiary, Sumatec Oil and Gas LLP, to act as the agent between Sumatec and COG. With the Proposed Acquisition, Sumatec will be able to consolidate its activities in Kazakhstan that eliminates duplication in functions, office facilities and potential conflict of interest as well as streamlining the line of reporting and co-ordination of work activities, which is expected to result in greater operations efficiency and cost saving
- (v) **Proposed Private Placement (Completed)**

On 7 June 2017, the Company announced the proposed private placement of up to 386,611,000 new ordinary shares in the Company, representing ten percent (10%) of the total issued and paid-up share capital of the Company, to independent third party investor(s) to be identified ("Proposed Private Placement"). Bursa Malaysia Securities Berhad had on 25 September 2017 approved the Proposed Private Placement and the said proposal was completed on 9 November 2017.