

SUMATEC RESOURCES BERHAD

Company No. 428355-D
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT

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 2017. 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 2017.

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 2017, except for the adoption of the MFRSs and Amendments to MFRSs effective as of 1 January 2018:

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 Auditor's Report of preceding annual financial statement

The Auditor does not express an opinion on the accompanying financial statements of the Group and of the Company. Because of the significance of the matters described in the Basis of Disclaimer of Opinion section of their 2017 Audit report, they have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1) Appropriateness of going concern assumption

Despite the few development plans of the Oil Field, the Auditors are unable to obtain sufficient appropriate audit evidence in assessing the practicality of the assumptions made by the management in terms of the viability and sustainability of the Oil Field' development plans and the necessary expenditures which are required for the development and operations of the Oil Field. Furthermore, the funding requirement for the Oil Field's development and operations is highly dependent on the timely and successful implementation of the Proposed Acquisition, Proposed CEP or obtaining financial support from the contractor which remains highly uncertain as of the date of this report. Therefore, they were unable to ascertain whether the proposals as mentioned above will be implemented successfully and they are also unable to ascertain the financial ability of the contractor in providing sufficient financial support for the operations of the Oil Field, and hence the Auditors are unable to determine the effect of profits and positive cash flows which may be generated in future.

The Company is also exposed to material financial obligations in relation to the guarantees provided amounting to RM173,088,556 and had also defaulted in payment of a loan amounting to RM22,529,589. If the Group and the Company are unable to raise the funds required to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities and financial obligations in relation to the material financial guarantee.

The correlated multiple factors have indicated the existence of material uncertainties which may cast significant doubt on the ability of the Group and the Company to continue as going concern. Therefore,

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the Auditors are not able to form an opinion as to whether the going concern basis of presentation of the accompanying financial statements of the Group and the Company is appropriate.

2) Recoverability of the following assets as at 31 December 2017:

a) Intangible asset and performance deposit paid

The intangible asset of the Group and the Company amounting to RM298,953,595 is related to the amount paid for acquisition of rights to develop, extract and produce oil from the Oil Field, while the refundable performance deposit amounting to RM123,420,041 is amount paid to COG for oil production and to be repaid by deduction from the royalty fee charged by COG or to be fully refunded upon termination of the agreement.

The viability and sustainability of the oil operations at the Oil Field is highly dependent on the practicality of the oil and gas development plans and the availability and sufficiency of operational funding. As mentioned above the proposed corporate exercises and source of funding remain highly uncertain as of the date of this report, thus the achievability of the cash flow projections provided by management is uncertain. Consequently, the Auditors are unable to determine the recoverability of the intangible asset and performance deposit paid and the effects of impairment adjustments, if any.

b) Receivables

i) The current trade receivable of the Group amounting to RM195,788,400 as at 31 December 2017 is solely due from MELL. Out of the amount, a balance of RM178,981,875 has been overdue. No repayment schedule had been provided and the settlement arrangement forms part of the proposed corporate exercises via the Proposed Acquisition. The Company is now formulating and finalizing the proposed corporate exercises which are still in preliminary stage as at the date of this report.

ii) The Group's and the Company's non-current trade receivable of RM33,044,164 and RM23,499,174 respectively and the Group's and the Company's non-trade receivable of RM102,664,794 are due from COG. The repayments from COG are dependent on the viable and sustainable operations of the Oil Field. Given the material uncertainty of the assumptions used in the preparation of the cash flow projections as mentioned above, the Auditor are unable to obtain sufficient appropriate audit evidence to ascertain the recoverability of the amount due from COG as at 31 December 2017.

In the absence of any documentary evidence to ascertain the recoverability of the amount due from COG and MELL, the Auditor are unable to ascertain the recoverability of these amounts as at 31 December 2017.

c) Deposit paid for proposed acquisition

A deposit of RM96,510,000 had been paid for proposed acquisition of Borneo Energy Oil & Gas Ltd in the year 2014. The proposed acquisition has not been completed since it was first announced on 11 July 2014. The deposit has been proposed to form part of the debt settlement under the Proposed

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Acquisition during the financial year. This has cast significant doubt on the ability of the Company to complete the proposal and the recoverability of the deposit. In the absence of any alternative evidence available, the Auditor are unable to determine the recoverable amount of the deposit if the proposed acquisition is revoked. Consequently, the Auditor are unable to determine whether any impairment adjustment deposit is necessary. The Company is now formulating and finalizing the proposed corporate exercises which are still in preliminary stage as at the date of this report.

The Company update for Quarter 1 2018 as below:

- i. Implementing a suitable standard for Oil and Gas Company that is MFRS 6 *Exploration for and Evaluation of Mineral Resources*.

Starting January 2018, the Company adopted *Malaysian Financial Reporting Standards (MFRS 6) Exploration for and Evaluation of Mineral Resources* which is equivalent to *International Financial Reporting Standards (IFRS 6) Exploration for and Evaluation of Mineral Resources*. The cost that is related to exploration, development and production are capitalized as working interest until full development completion of drilling of the well and evaluation of results. Working interest is a percentage of ownership in an oil and gas lease granting its owner the right to explore, drill and produce oil and gas from a tract property.

- ii. Implementing Novation Agreement starting January 2018

On 26 September 2017, Sumatec Resources Berhad (“SRB”) entered into a Novation Agreement with Sumatec Oil and Gas LLP (“SOG”), Markmore Energy (Labuan) Limited (“MELL”), and CaspiOilGas LLP (“COG”) whereby SRB transfers to SOG and SOG accepts and assumes all the rights, title, benefits, interest, obligations and liabilities of SRB under the Joint Investment Agreement (“JIA”). SRB shall cease to be, and shall be substituted by SOG as, a party to the JIA. The transfer related to JIA include working interest, project expenditures and others payables. Appropriate adjustment entry has been made to reflect the Novation Agreement.

- iii. Intangible asset and performance deposit paid

After implementing MFRS 6 the intangible asset has been reclassified as working interest. The intangible asset amounting RM298,953,595 has been reinstate to RM302,100,000. The performance deposit has been reclassified as project expenditure. The working interest (RM302,100,000) and performance deposit (RM123,420,041) amount has been transferred to SOG under Novation agreement.

- iv. Receivables

It was established that the non-trade receivable of RM102,664,794 is the advance that was actually given to COG for the purpose of doing exploration and evaluation works for the Company. This will be back by a utilization report of the fund by COG to the Company which

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is now will be recorded as project expenditure as part of the exploration cost that has been utilized for the production and due to novation agreement it is now transfer to SOG.

v. Other Payables

Included in other payables of the Company is advances of RM78,257,586 from MELL which is unsecured, non-interest bearing and repayable on demand also has been transferred to SOG under Novation agreement.

Update on subsequent events after 31st March Quarterly Report:

- i. Under the Joint Investment Agreement , Markmore Energy (Labuan) Limited (“MELL”) can fund the exploration work by CaspiOilGas LLP (“COG”) for the Company through Sumatec Oil and Gas LLP (“SOG”) or directly through COG.

It has been established an amount of RM81, 023,644 has been funded by MELL in the last 5 years. This amount will now charged to SOG and capitalised as Exploration and Evaluation Expenditure and will be taken into account in the 2nd quarterly report to June 2018

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 flow of the Group during the quarter under review.

A5 Material changes in estimates

Starting 2018, the Company adopted *Malaysian Financial Reporting Standards (MFRS 6) Exploration for and Evaluation of Mineral Resources* which is equivalent to *International Financial Reporting Standards (IFRS 6) Exploration for and Evaluation of Mineral Resources*. The cost that is related to exploration, development and production are capitalized as working interest until completion of drilling of the well and evaluation of results. Working interest is a percentage of ownership in an oil and gas lease granting its owner the right to explore, drill and produce oil and gas from a tract property. The Company as the working interest owner is obliged to pay a corresponding percentage of the cost of leasing, drilling, producing and operating a well or unit.

In prior period, the amount was capitalized as intangible asset and was amortized from 2014. In order to conform to IFRS 6, the intangible asset of RM 302,100,000 is now reclassified as “working interest”. Necessary adjustment has been made to reinstate the account.

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Novation Agreement:-

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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.

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

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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 31 March 2018 are as below:-

	RM'000	Refer Note*
Unsecured:		
<u>Corporate guarantee granted to Semua International Sdn. Bhd. Group:</u>		
Ebony Ritz and its associates	10,000	B11 (ii)
<u>Parental guarantee:</u>		
Continental Industrial Supplies and Services Ltd. LLP	<u>27,351</u>	B11(vi)
	<u>37,351</u>	

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

A13 Capital commitments

There were no capital commitments as at 31 March 2018.

B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS**B1 Review of performance**

For the period ended 31 March 2018, the Group's revenue was RM1.4 million as compared to the RM4million in previous period ended 31 March 2017. The revenue was derived from the consultation contract billing. The revenue resulted in a higher profit after tax of RM0.457million as compared with RM0.743million of loss reported for the first quarter of 2017.

B2 Variation of results against preceding quarter

	Current Year Quarter 31-Mar-2018 RM'000	Immediate Preceding Quarter 31-Mar-2017 RM'000
Revenue	<u>1,492</u>	<u>4,166</u>
Operating profit before provision	457	-743
Less: Provision for liabilities	<u>-</u>	<u>-</u>
Profit before tax	<u>457</u>	<u>-743</u>

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The revenue / billing was in tandem with the consultation contract billing.

B3 Prospects

Oil prices have rebound in the last 6 months with expected positive trajectory ahead, supported by higher demand and growth in the world economy, supply shortfall as a result of OPEC production cut and geopolitical developments in Iran and Venezuela (two of world's large oil producers). Brent price is currently trading in the range of USD65 – 75 per barrel.

The Rakushechnoye Concession is a quality asset. It is an onshore oil and gas field, which requires modest capital expenditures. Rakushechnoye's projected capital expenditure per well being just a fraction compared to offshore production, the production cost per barrel for our operation will be low.

The Company is now exploring several funding options to increase production at Rakushechnoye. The Company expects to materialise this effort and move ahead with the proposed field development plan to increase production by the end of the year.

Notwithstanding the prospect ahead, at the same time, the Company will have to deal with legacy debt issue while moving forward.

Conservatively, provisions have been made for these debts as the newly reconstituted Board is of the view that the situation warrants serious consideration in order to protect the shareholders interest.

We believe the Company's balance sheet will be able to absorb the legacy debt. With a better future cash flow, a strengthened management and with meaningful and continued support from the main shareholder, barring any unforeseen circumstances, the Board expects the Company to be nearer to being debt-free.

The upsizing effort on Sumatec via the proposed corporate exercise is expected to proceed. Notwithstanding the above, the corporate exercise will further strengthen the Company's position to meet its financial obligations.

B4 Forecast profit

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

B5 Taxation

	Current Year Quarter 31-Mar-18 RM'000	Current Year To Date 31-Mar-17 RM'000
Income tax:		
Current year provision	-	-

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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 (“Proposed Acquisition”)

On 11 July 2014, the Company had announced a proposed acquisition of 100% equity interest in Borneo Energy, comprising 100 ordinary shares in Borneo Energy from Dr Murat Safin and Abu Talib Abdul Rahman whom is the Director of the Company (“Vendors”).

On 8 September 2014, the Company executed the share purchase agreement (“SPA”) with the Vendors for a purchase price of USD350 million to be satisfied by a combination of cash and ordinary shares of the Company.

Due to the dropped of the Company’s share price and this impacted on the mechanism of the purchase price of the acquisition, thus the Company will review its funding scheme in view of the current market sentiment and its share price and to negotiate with the Vendors on the mechanism of the purchase price.

On 22 January 2018, the Vendors has agreed that the Share Purchase Agreement shall remained available for the completion after the Company complete its Proposed Acquisition of MELL and not later than 31 December 2018

(ii) Proposed Corporate Exercise as first announced on 17 February 2017

On 17 February 2017, the Company announced that it intends to undertake the following proposals:

- (a) Proposed private placement of up to 1,000,000,000 new ordinary shares in the Company (“Sumatec Shares” or “Shares”) (“Placement Shares”) to independent thirdparty investor(s) to be identified (“Proposed Private Placement”);
- (b) Proposed issuance of up to 800,000,000 Sumatec Shares (“Issue Shares”) as payment to

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contractors for development and production services to be provided at the Rakushechnoye Oil and Gas Field (as defined herein) (“Proposed Issuance of Shares”); and

- (c) Proposed renounceable rights issue of up to 3,226,194,640 (“Rights Shares”) together with up to 3,226,194,640 free detachable warrants (“Warrants”) at an indicative issue price of RM0.10 per Rights Share on the basis of one (1) Rights Share for every two (2) existing Sumatec Shares held together with one (1) Warrant for every one (1) Rights Share subscribed (“Proposed Rights Issue with Warrants”).

(Collectively known as Phase I)

Collectively, the Proposals under Phase I and Proposals under Phase II is to be referred to as the “Proposals”.

In consideration for the supply of gas, Sumatec shall:

- (a) Issue to Ken Makmur Holdings Sdn Bhd (“Kenmakmur”) or its nominees:
 - (aa) Sumatec Shares equivalent to USD56 million; and
 - (bb) Redeemable convertible preferential shares (“RCPS”) for the sum of up to USD84 million;
- (b) Issue Sumatec Shares equivalent to USD45 million to Kenmakmur. Kenmakmur will assign such number of shares to MELL at a total nominal consideration of RM1. MELL will transfer these shares back to Sumatec as repayment for the amount owing by MELL to the Company. It is the intention of the Board of the Company to redistribute these shares back to its shareholders in the form of dividends or capital repayment;
- (c) Issue Sumatec Shares equivalent to USD20 million to Kenmakmur. In return, Kenmakmur shall pay for any potential liability that may be incurred by the Company relating to various litigations involving SISB and its subsidiary companies, as disclosed in Note 32 to the Financial Statements.
- (d) The Parties agree to fix the issue price at RM0.10 per Sumatec Share and the RCPS conversion price will be RM0.10 per share. The RCPS shall include the following features:
 - (aa) Redeemable at the option of the holder; and
 - (bb) Convertible into Sumatec Shares if not redeemed.

The Company has deliberated to proceed with the completion of the Proposals prior to the completion of the Borneo Energy Corporate Exercises. In prior year, a reputable financial institution has agreed to underwrite a certain amount of the Right Shares subject to the Company obtaining the necessary approvals.

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In addition, the Company had on 17 February 2017 entered into a Framework Agreement with Kenmakmur and MELL for the production of liquefied petroleum gas (“LPG”) and condensate of 100 million standard cubic feet (“mmscf”) per day of natural gas supplied from the Rakushechnoye Oil and Gas Field (“Proposed LPG Production”). The consideration of LPG plant is USD298 million or approximately RM1,210 million. (“Phase II”).

The Framework Agreement are conditional upon the Conditions Precedent being fulfilled within six (6) months of the date of the agreement, or any extensions mutually agreed in writing by the Parties.

As at to-date, the Framework Agreement still remain as conditional.

(iii) Proposed Private Placement

On 7 June 2017, the Company announced the proposed private placement of up to 386,611,000 new ordinary shares of 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.

(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.

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

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proposes to undertake an equity fund raising exercise in the form of a rights issue to raise a minimum proceed 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.

Once completed, the Proposed Corporate Exercise shall achieve the following:

1. Acquire and own tangible oil and gas assets;
2. Enhanced credit profile with greater flexibility on raising funding;
3. A fully funded field work programme, on track to achieve higher productivity;
4. A clean slate where the Company’s debts (including those related to associate companies) and receivables are resolved; and
5. A cohesive and synergistic operating structure.

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

- (v) **Offer letter from MELL for the Proposed Condensate Extraction Plant**

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On 30 March 2018, the Company has accepted the offer letter from MELL has given its offer letter to the Company for the Proposed Condensate Extraction Plant which comprises 2 schemes as followings:-

(a) Scheme 1

MELL agrees that its subsidiary company, COG will give the Company 1,000 barrel per day (“bpd”) of oil for next 15 years, net of cost. There will be no more oil exploration and production (“E&P”) investment by the Company. This will be handled by MELL and COG. The Company may maintain its role in the E&P section.

<u>The Company’s position</u>	<u>Per year</u>	<u>Per 15 years</u>
Oil production share (bpd)	1,000	15,000
Profit after cost (USD/bbl)	25	25
Total profit (USD)	9,125,000 (approximately RM37 million)	136,875,000 (approximately RM556 million)

(b) Scheme 2

MELL is offering the Company its Condensate Extraction Plant (“CEP”) in the Field. The CEP shall produce 5,000 bpd of condensate oil and 332 ton per day (“tpd”) of LPG.

(c) Scheme 2 (cont’d)

The CEP is different from the LPG plant that was proposed by Kenmakmur dated 17 February 2017 where condensate oil production is 700 bpd. The CEP plant should last at least 20 years.

The CEP consideration is USD275million or approximately RM1,117 million which consists of the followings:-

	<u>Items</u>	<u>Amount</u>	<u>Source of funding</u>
(a)	Entry cost	USD155million (approximately million) RM630	Cash/shares/RCPS of the Company
(b)	Plant cost	USD120million (approximately million) RM487	USD60million (approximately RM244 million) – debt and internal cash flow USD20million (approximately RM81 million) – offset with amount

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			due to/from USD40million (approximately RM162 million) – right issues
	Total cost	USD275 million (approximately RM1,117 million)	

The obligations of the Company, MELL and COG (“Parties”) to carry out the CEP are conditional upon the Conditions Precedent being fulfilled within four (4) months of the date of Offer letter, or any extensions mutually agreed between Parties.

As at to-date, the Offer Letter still remain as conditional.

(vi) Investment proposal for Joint Development of Rakushechnoye oil and gas field

On 24 April 2018, the Company has accepted an offer from Talap Munai Service LLP (“Talap Munai”), a major contractor from China who operates in Kazakhstan and China, to develop and finance up to USD20.0 million or approximately RM81 million (hereinafter referred to as “Contractor Financing”) in the development of Rakushechnoye oil and gas field.

The Contractor Financing will cover:

- Eight (8) well workovers on Upper Jurassic Reservoir;
- Eight (8) well workovers/side-tracks on Triassic Reservoir;
- Drilling of two (2) new wells plus an additional four (4) new wells to be funded from oil revenue;
- Upgrading of surface, production and storage facilities; and
- Installation of gas injection facilities for pressure maintenance and offtake

The Contractor Financing shall be repaid by way of cash or in kind that is oil/condensate barrels or shares of the Company or shares of COG.

As at to-date, there is no definitive investment agreement being entered yet.

(vii) Disposal of leasehold Land

The subsidiary company, Sumate Corporation Sdn. Bhd. has entered into a Sales and Purchase Agreement (“SPA”) on 28 August 2016 to disposed its leasehold land with third party for the sale consideration of RM2 million. In year 2016, the subsidiary company has received 10% deposit which amounted to RM260,000. The leasehold land was being pledged for the banking guarantee facility

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granted by a banker and the charges is yet to release by the banker. The Company is pending the declaration being obtained to release the charges as detailed in Note 32 to the Financial Statements.

On 23 December 2017, the buyer has agreed to extend the SPA until 31 December 2018

B9 Group borrowings and debt securities

The Group's borrowings as at 31 March 2018 are as follows:

	RM'000
Secured:	
- Short Term	34,459
- Long Term	-
	<u>34,459</u>

All of the Group current borrowings are denominated in Ringgit Malaysia. The Group does not have or issue any debt securities during the quarter under review.

B10 Off balance sheet financial instruments

There were no financial instruments with off balance sheet risk issued during the quarter under review.

B11 Material litigation

There were no changes in material litigation, including the status of pending material litigation since the last annual statement of financial position as at 31 December 2017, except for the following cases:

(i) **Sumatec Corporation Sdn. Bhd. ("the Subsidiary") vs. Greentech Chemical Sdn. Bhd. (formerly known as Himpunan Sari Sdn. Bhd.) ("GCSB")**

On 28 July 2016, SCSB's solicitors filed proof of debt for RM10,979,325, being total amount claimed from GCSB as at 17 June 2014. GCSB has been placed in liquidation and under receivership. No further action on the matter.

(ii) **Ebony vs Sumatec Resources Berhad ("the Company")
The Company vs HL, Ebony, Setinggi, Kuah Geok Lin, Kuah Geok Khim and Teh Teong Lay
HL vs CYP and the Company**

On 5 May 2010, the Company entered into a Sale and Purchase Agreement with Ebony for Ebony's proposed acquisition of the 49% equity interest in SISB. The Company also entered

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into an Option and Financial Representation Agreement (“OFRA”) with Ebony and Auspicious Journey Sdn. Bhd. to guarantee profits of SISB group and provided a guarantee to Ebony (“Guarantee”) on the same day. By its Writ of Summons dated 24 May 2016, Ebony claimed that the Company owes RM27,017,163 being the financial shortfall calculated under the OFRA and RM10,000,000 for the loan provided under the Guarantee.

The Company, through its solicitors Messrs Morgan Lewis Stamford LLC, entered its Defence on 15 June 2016. The Company is disputing Ebony’s claims as the relevant parties signed a Sale and Purchase Agreement dated 21 December 2012 and the Settlement Agreement dated 28 May 2013. Subsequently, on 21 July 2016, Ebony filed two applications, to strike out the Company’s Defence (“Striking Out Application”), and for a Summary Judgment (“Summary Judgment Application”) (collectively “the Applications”). The Company has filed its objections to the Applications and filed its reply affidavit on 5 August 2016.

In a hearing dated 8 February 2017, the Court dismissed the Summary Judgment Application, subject to orders made in the Striking Out Application, where the deadline for the Company to apply for conditional leave to defend against the Striking Out Application was on 8 March 2017. The Company filed Notices of Appeal against some part of the Court’s decision. The Company has also filed its amended Defence and Counterclaim. During the hearing on 20 April 2017, the Court decided for a stay in judgement until further notice. The Company had filed for the stay of execution and also filed its appeal to the Court of Appeal on 9 November 2017 and the court has accepted the Appeal on 21 December 2017 under CA/CA 212/2017. The Appeal is now scheduled to be heard between 30 July 2018 to 6 August 2018. The Court of Appeal also recommended parties to have the matter mediated before the Singapore Mediation Centre (“SMC”).

On October 2017, the Company had been served with a Writ of Summons under another Suit No. HC/S 808 of 2017 by HL that relates to the Sale and Purchase Agreement dated 5 May 2010 entered by the Company with Ebony for the proposed acquisition of 49% shares in SISB. HL is the 80 % shareholder in the Ebony. HL claimed against the Company for financial losses and cash flow based on claims for damages to be assessed for damages including losses, interest and other relief.

On 19 March 2018, the parties have entered into a Settlement Agreement before the Singapore Mediation Centre (“SMC”) wherein the Company shall pay RM7,000,000.00 in cash upon completion of its Corporate Exercise and the balance RM20,000,000.00 in Redeemable Convertible Preference Shares amounting to RM20,000,000.00 provided consent Ebony Ritz obtains the Official Receivers Consent.

- (iii) Bank Pembangunan Malaysia Berhad (“BPMB”) vs. Semado Maritime Sdn Bhd (“Semado”), a subsidiary of associated company
Kuala Lumpur High Court – suit no. WA-27NCC-61-10/2016 and WA-27NCC-62-10/2016**

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Pursuant to the corporate guarantee issued by the Company in year 2008 to BPMB for Semado, the Company is liable only if the value realised from the sale of the vessels is less than the total amount outstanding. On 16 March 2017, BPMB's solicitors informed the court that their client is prepared to consider the Company's Memorandum of Agreement ("MOA") for sale and purchase of vessels. In the event BPMB is not agreeable to the MOA, BPMB will proceed to the hearing for appraisal and judicial sale and application for summary judgment against the Company which is fixed on 27 April 2017. The outstanding sum agreed by BPMB before the disposal of the vessels in RM73.8 million. For the avoidance of doubt, the Company is not a named party in the litigation. BPMB's suit is against Semado.

Semado has been ordered to be wound up by an Order of the High Court of Malaya at Kuala Lumpur dated 13 April 2017. There was no notice of demand served on the Company on the Guarantee. Nevertheless, the Company has written a letter on 10 November 2017 to BPMB for a possible discussion on an amicable settlement.

During the meeting on 29 January 2018, BPMB informed the Company that the order for sale under the judicial sale is yet to dispose the vessels as it is awaiting better offer. Nevertheless, the Company has recently met BPMB on its intended corporate exercise to propose its proposed proposal on a without prejudice basis and shall accordingly revert with the final proposal on or before end of February 2018 on its term sheet. The Company is still in progress of negotiation with BPMB as at to-date.

The provision of RM45,336,000 (2016: RM44,192,400) has been provided in the Financial Statements.

(iv) Malaysian Trustees Berhad ("MTB"), Kerisma Berhad, Capone Berhad and Prima Uni Berhad (collectively referred as the Plaintiffs) vs Sumatec Resources Berhad ("the Company")

Between year 2004 and year 2007, the Company obtained three facilities Kerisma Berhad, Capone Berhad and Prima Uni Berhad ("CLO bondholders"). On 5 January 2017, the Company received a Notice of Termination and Demand from Adnan Sundra & Low Advocates & Solicitors ("ASL"), which notified that the Settlement Agreement dated 6 March 2015 between the Company, CLO bondholders and MTB for the Primary Collateralised Loan Obligations ("CLO") has been terminated. MTB demanded RM72,333,945 being the principal and interest outstanding under the three facilities.

The Company is of the view that when the 2015 Settlement Agreement was terminated, the Plaintiffs should rely on the rights and remedies available in the 2013 Settlement Agreement. The Company's obligation under the 2013 Settlement Agreement has been fulfilled and any recourse or recovery sought by the Plaintiffs should be claimed from HL, Setinggi and/or HL's nominees, for breach of HL's obligations under the 2013 Settlement Agreement.

The Company, through its solicitors, Messrs Shearn Delamore & Co, has replied on 9 January 2017 stating the Company's position on the matter. On 23 February 2017, the Company was

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served with a Writ and Statement of Claim both dated 21 February 2017 pursuant to the termination by the Plaintiffs of the 2015 Settlement Agreement. The Plaintiffs are claiming for the full sum outstanding (principal plus interest) of RM72,333,945. The Company was served with Summary Judgement Application under Order 14 on 28 April 2017 while the Company filed its Defence and Counterclaim on 27 April 2017.

The Company thereafter on 2 October 2017 changed its solicitors to Messrs Nathan Advocates and Solicitors and accordingly filed a notice to file amendments to the defence before the hearing of the Summary Judgment Application and Striking Off Application of the Plaintiffs. The Court granted Order in Terms with no Order to Cost for Amendments of the defence. The Hearing of the Plaintiff Application was heard orally on 10 November 2017 and the Court is to deliver its decision on 22 November 2017.

The matter came up for decision before the judge and accordingly the Plaintiffs' application for summary judgment and the striking out application was dismissed. The grounds of dismissal on both the applications with costs in the cause on the brief grounds that the case is not a plain and obvious case, it is contested and the Company's defence merits a trial. The Court has now fixed the case for case management on 22 December 2017 to update the Court on the status of service of the defence and the Company's counterclaim against HL and Setinggi.

The High Court has now fixed the next case management on 28 February 2018. In the meantime, the Plaintiffs had filed two (2) appeals under appeal no. W-02(IM)(NCC)-2469-12/2017 & W-02(IM)(NCC)-2470-12/2017 on the dismissal of their application for which the Court has fixed the appeals for case management on 5 April 2018 and for hearing on 16 April 2018.

The Plaintiff's appeal against the decision given by the High Court on 22 November 2017 in respect of their application for summary judgment against Sumatec Resources Bhd and also their application to strike out the Defence and Counterclaim were allowed with costs of RM15,000 being the costs for both the appeals. The Court of Appeal has also allowed for the Company's Defence and Counterclaim against the Plaintiff's to be struck out and the order of the High Court was set aside. The Plaintiffs had applied vide Notice of Application (Enclosure 4) for summary judgement to be entered.

Sumatec Resources Berhad has filed its leave application to Appeal on the decision of the Court of Appeal before the Federal Court on 16 May 2018.

(v) Notice of Demand to Sumatec Resources Berhad ("the Company") by Malayan Banking Berhad ("MBB")

The Company has received Notice of Demands on 2 March 2017 from Messrs Shook Lin & Bok, acting as solicitors for Maybank. The Notice of Demands were issued arising from

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Maybank's claim that Semua Shipping Sdn Bhd ("SSSB"), the associate company of the Company had defaulted on the term loan granted by Maybank, with the Company having issued a guarantee in favour of Maybank for the amount due and owing by SSSB.

In total, the amount demanded by Maybank is RM129,754,517 (2016: RM121,428,857) arising from six (6) term loans and one (1) overdraft facility with interest and penalty. There are in total six (6) vessels attached as security to the term loans.

Maybank is demanding for the aforesaid sum as at 31 January 2017 with interest thereon at the rate of 2.5% per annum above Maybank's base lending rate (6.65%) per annum, compounded monthly, to date of full settlement. The Company, through its solicitors, Messrs Munhoe & Mar, confirmed that the Company's liability to MBB can only be deemed conclusive after Myabank obtains a judgement against the Company.

Pursuant to the corporate guarantee issued by the Company to Maybank for SSSB, the Company has been prudent and made a total provision of RM50,901,031 (2016: RM27,222,857) in the Financial statements. The Company has not received any further notice of legal proceedings in relation to the corporate guarantee.

SSSB has been ordered to be wound up by an Order of the High Court of Malaya at Kuala Lumpur dated 9 March 2017.

Company has recently open discussion for settlement proposal on 6 February 2018 with Maybank based on proposed corporate exercise undertaken by the Company as announced. The Company is in its midst of submitting its term sheet on its proposed settlement scheme.

(vi) Continental Industrial Supplies and Services Ltd LLP vs. Sumatec Resources Berhad ("the Company") LCIA Arbitration No. UN163528

Both parties have commenced arbitration proceedings at the London Court of International Arbitration on the claim of the balance in the PGA. At the Arbitration the Respondent than raised preliminary issues to be determined before the arbitrator proceeding with the arbitral proceeding.

The preliminary issues are:

- (1) Did Chan Yok Peng ("CYP") have authority to agree the PGA on behalf of the Company? (Authority Issue); and
- (2) Did the PGA impose primary obligations on the Company to pay money to CISS, or did it merely render the Company as surety for the liabilities of COG/ Sumatec Oil and Gas LLP under the Contract? (Interpretation Issue).

On 3 November 2017, CISS served its submissions on the Authority Issue and Interpretation Issue. On 7 November 2017, the Company's solicitors requested for an extension of time to

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serve its submission by 24 November 2017 and proposed that CISS shall serve the Company's Submission in Reply by 1 December 2017. CISS has no objection to the said request and proposal by the Respondent's solicitor. Therefore, such request was granted by the arbitrator.

On 9 November 2017, CISS's solicitors request the arbitrator to issue a final award on the whole of CISS's claim in the event the arbitrator decides the Preliminary Issues in the CISS's favour. On the same date, the arbitrator directed both parties to provide comments on the question whether the arbitrator has the jurisdiction to make a final award in a case where the arbitrator has yet to rule on the Preliminary Issues. Such comments must be made by close of business London time on 16 November 2017.

The arbitrator has accordingly delivered its First Partial Award on the Preliminary Issues that (1) CYP had the authority to agree the PGA on behalf of the Company and (2) the PGA imposed a primary obligation on the Company to pay money to CISS. Now, the arbitrator has requested the CISS to provide its proposals as to the future disposal of the reference on 23 February 2018, including its submissions on costs on all issues arising and the Company to provide its reply 14 days thereafter. The Tribunal will then rule on the issues arising as and if required.

There is no further update on the Tribunal as at to-date.

(vii) Malayan Banking Berhad vs Sumatec Resources Berhad – KLHC WA-22NCC-382-08/2017

The Company was served with a writ of Summons on 5 October 2017 by the MBB through their solicitors, Messrs Shook Lin & Bok against the Company on a Corporate Guarantee provided for Semado Maritime Sdn.Bhd ("the Borrower") on an Overdraft Facility (the Facility) secured and or provided to the Borrower by the MBB. The said Corporate Guarantee is for the amount of RM1,470,000 which was alleged to be executed by the Company. Accordingly, the Borrower was ordered to be wound up by the court on 13 April 2017 wherein resulted in the recalled and or termination of the said facility.

The Company is now alleged to be indebted to the MBB as at 31 August 2017 to the sum of RM1,103,768 together with interest in view of having provided the said Corporate Guarantee. The Company is now required to identify its solicitors to file its appearance and defence within 14 days. The Company has identified Messrs Nathan Advocates and Solicitors as its lawyer and will file its defence on 30 October 2017.

The matter has come up for case management on 25 October 2017 and has fixed for case management before the judge on 24 November 2017 and the directions given today by the Deputy Registrar are as follows :-

- (1) that the Company to file and serve the defence on or before 31 October 2017;
- (2) that the MBB to file and serve the reply on or before 14 November 2017; and

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(3) that the Parties have seven days from today to file any interlocutory applications.

MBB has made application for summary judgment for hearing on 29 January 2018 and the Court allowed the application and granted a sum of RM1,103,768 together with interest and cost. The Company was advised by its solicitors to file its appeal should the Company be dissatisfied with the decision within 1 month from the delivery of the decision by the Court.

On 29 January 2018, the Company was served with Section 466 (1) (a) of the Companies Act, 2016 for a sum of RM1,180,087 together with cost and allocation for the Summary Judgment obtained.

On 29 January 2018, the Company had served on the MBB an application for an injunction to restrain the presentation of any winding-up petition in light of the summary judgment obtained under Suit No. WA-22NCC-382-09/2017 for a Corporate Guarantee provided to the Borrower (under liquidation) for its overdraft facility.

The grounds for the injunction is that the Company is able to satisfy the judgment sum only if MBB would discharge the charge over the Land for which MBB had issued a Performance Bank Guarantee (“PBG”) in favour of Greentech Chemical Sdn. Bhd. (formerly known as Himpunan Sari Sdn. Bhd.) (“GCSB”) (under liquidation) for its fully owned subsidiary company, Sumatec Corporation Sdn. Bhd of which the PBG was called upon and an injunction was obtained in 2011. The said PBG had since long expired and that more than six (6) years has passed since 2011 with no further call on the same being made and no monies has also been released by MBB since. The application for the said injunction to restrain the presentation of any winding up petition is also made on the grounds that there is a pending action in respect of an application filed for a declaration that the PBG is no longer effective or valid and accordingly for a release of the land charged to MBB. The court after having had provided the Ad Interim Injunction had on the Inter-Parte hearing dismissed the said Injunction Application i.e. 17.5.2018.

The Company is of the view that upon a declaration being obtained for the reasons that the PBG is no longer valid then the Company would be in the position to pay the judgment sum towards MBB from the disposal of the subsidiary company’s leasehold land in Kerteh, Kemaman, Terengganu as mentioned in Note 35 to the Financial Statements.

B12 Dividends

No dividend has been recommended during the quarter under review.

B13 Earnings per share

Individual Quarter		Cumulative Quarter	
Current	Preceding Year	Current	Preceding
Year	Corresponding	Year	Year

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	Quarter	Quarter	To Date	Corresponding Year
	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17
Basic earnings per share				
Net profit attributable to shareholders (RM'000)	(373)	(743)	(373)	(743)
Number of ordinary shares at the beginning of the period ('000)	4,252,725	3,866,114	4,252,725	3,866,114
Weighted average increase in share capital ('000)	-	-	-	-
Weighted average number of shares at the end the period ('000)	4,252,725	3,866,114	4,252,725	3,866,114
Basic earnings per share (sen)	(0.01)	(0.02)	(0.01)	(0.02)
Diluted earnings per share				
Weighted average number of shares ('000)	4,252,725	3,717,934	4,252,725	3,717,934
Effect of warrants and ESOS ('000) *	-	-	-	-
Weighted average number of ordinary shares - diluted ('000)	4,252,725	3,717,934	4,252,725	3,717,934
Diluted earnings per share (sen)	(0.01)	(0.02)	(0.01)	(0.02)

* Not taken into account in the computation of diluted earnings per share because the effect is anti-dilutive.

B14 Additional disclosure

Save as disclosed below and included in the consolidated statements of profit and loss and other comprehensive income or in the notes of these statements, there were no other items applicable to be disclosed pursuant to item 16 of Appendix 9B of the Listing Requirements of Bursa Securities:

	Current Year Quarter 31-Mar-18 RM'000	Current Year To Date 31-Mar-17 RM'000
Depreciation of property, plant and equipment	(52)	(71)

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Amortisation of intangible asset	-	(166)
Amortisation of unwinding discount on financial assets	-	2,882
Foreign exchange loss - realised	-	(24)
Foreign exchange gain loss - unrealised	(143)	(2,876)

B15 Disclosure of realised and unrealised accumulated losses

	Group	Group
	31-Mar-18	31-Mar-17
	RM'000	RM'000
Total accumulated losses:		
- Realised	(452,424)	(232,135)
- Unrealised	-	(50,122)
	<u>(452,424)</u>	<u>(282,257)</u>
Consolidated adjustments	(34)	55,376
	<u>(452,458)</u>	<u>(226,881)</u>

The disclosure of realised and unrealized losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia Securities Berhad and should not be applied for any other purposes.

The interim financial statements were approved for issue by the Board of Directors in accordance with a Directors' resolution dated 30 November 2017.

By Order of the Board

Lim Seck Wah (MAICSA No. 0799845)
M. Chandrasegaran A/L S. Murugasu (MAICSA No. 0781031)
Company Secretaries

Dated: 31 May 2018
Kuala Lumpur