



REACH ENERGY BERHAD

Company no: 1034400-D
(Incorporated in Malaysia)

Report
on
Unaudited
Quarterly Financial Results
for the Period
1 July 2018
to
30 Sept 2018

(The figures have not been audited)

REACH ENERGY BERHAD
(Company no. 1034400-D)
(Incorporated in Malaysia)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
		Unaudited for the quarter ended 30 Sep 18 RM'000	Unaudited for the quarter ended 30 Sep 17 RM'000	Unaudited for the period ended 30 Sep 18 RM'000	Unaudited for the period ended 30 Sep 17 RM'000
	Note				
Revenue		40,836	22,106	150,987	107,468
Operating expense					
Depreciation, depletion and amortisation		(18,905)	(7,687)	(58,284)	(24,232)
Distribution expenses		(4,635)	(4,209)	(19,198)	(21,128)
Employee compensation costs		(3,455)	(3,510)	(10,617)	(12,341)
General and administration expenses		(2,433)	(2,988)	(7,182)	(10,108)
Other operating income/(expenses) – net		2,496	2,236	3,384	(5,080)
Purchase, services and other direct costs		(6,363)	(4,541)	(17,640)	(19,631)
Taxes other than income taxes		(16,452)	(9,371)	(52,126)	(33,011)
Total operating expenses		<u>(49,747)</u>	<u>(30,070)</u>	<u>(161,663)</u>	<u>(125,531)</u>
Loss from operations		(8,911)	(7,964)	(10,676)	(18,063)
Finance income		511	-	1,339	2,384
Finance cost		(5,461)	(15,687)	(32,839)	(48,072)
Finance income/(cost) – net		<u>(4,950)</u>	<u>(15,687)</u>	<u>(31,500)</u>	<u>(45,688)</u>
Loss before taxation	B13	(13,861)	(23,651)	(42,176)	(63,751)
Income tax (expenses)/benefits	B14	<u>(4,426)</u>	<u>3,143</u>	<u>1,190</u>	<u>4,229</u>
Loss for the financial period		<u>(18,287)</u>	<u>(20,508)</u>	<u>(40,986)</u>	<u>(59,522)</u>
Loss attributable to:					
Owners of the Company		(5,125)	(12,312)	(14,928)	(36,574)
Non-controlling interests		(13,162)	(8,196)	(26,058)	(22,948)
Loss for the financial period		<u>(18,287)</u>	<u>(20,508)</u>	<u>(40,986)</u>	<u>(59,522)</u>
Earnings per share attributable to owners of the Company	B12				
Basic loss per ordinary share (RM):		(0.01)	(0.01)	(0.01)	(0.03)
Diluted loss per ordinary share (RM):		(0.01)	(0.01)	(0.01)	(0.03)
Loss for the financial period		(18,287)	(20,508)	(40,986)	(59,522)
Other comprehensive Income/(expense), net of tax					
Items that will be reclassified subsequently to profit or loss:					
- Foreign currency translation Differences		7,804	(7,848)	5,207	(24,443)
Total comprehensive expense for the financial period		<u>(10,483)</u>	<u>(28,356)</u>	<u>(35,779)</u>	<u>(83,965)</u>

The unaudited condensed consolidated statement of comprehensive income should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONT'D)

	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
	Unaudited for the quarter ended 30 Sep 18 RM'000	Unaudited for the quarter ended 30 Sep 17 RM'000	Unaudited for the period ended 30 Sep 18 RM'000	Unaudited for the period ended 30 Sep 17 RM'000
Note				
Total comprehensive (expense)/income for the period attributable to:				
Owners of the Company	(444)	(17,107)	5,165	(51,326)
Non-controlling interests	(10,039)	(11,249)	(40,944)	(32,639)
Total comprehensive expense for the financial period	<u>(10,483)</u>	<u>(28,356)</u>	<u>(35,779)</u>	<u>(83,965)</u>

The unaudited condensed consolidated statement of comprehensive income should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes.

REACH ENERGY BERHAD
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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30 Sep 18 RM'000	Audited As at 31 Dec 17 RM'000
Assets			
Non-current assets			
Property, plant and equipment		1,561,547	1,569,791
Intangible assets		545	579
Prepayment and other receivables		3,347	3,254
Restricted cash		6,939	7,357
Total non-current assets		1,572,378	1,580,981
Current assets			
Inventories		6,433	7,382
Trade receivables		21,243	14,381
Prepayment and other receivables		14,627	15,829
Amount due from corporate shareholder in a subsidiary		1,472	671
Amount due from corporate shareholder		208	173
Deposits, cash and bank balances		37,325	27,519
Tax Recoverable		146	153
Total current assets		81,454	66,108
Total assets		1,653,832	1,647,089
Liabilities			
Current liabilities			
Trade payables		47,601	53,388
Accruals and other payables		16,133	22,239
Amounts due to corporate shareholder in a subsidiary	A7	74,523	72,796
Current tax liabilities		2,460	1,080
Total current liabilities		140,717	149,503
Net current liabilities		(59,263)	(83,395)
Total assets less current liabilities		1,513,115	1,497,586
Non-current liabilities			
Deferred tax liabilities		106,824	106,349
Amounts due to corporate shareholder in a subsidiary	A7	582,190	532,019
Accruals and other payables		12,413	11,983
Provisions		9,580	9,348
		711,007	659,699
Net assets		802,108	837,887
Equity			
Capital		488,975	488,975
Other reserves		190,811	187,742
(Accumulated losses)/retained earnings		(28,867)	(13,976)
Equity attributable to owners of the Company		650,919	662,741
Non-controlling interest		151,189	175,146
Total Equity		802,108	837,887
Net assets per share (RM)		0.73	0.76

The unaudited condensed consolidated statement of financial position should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes.

REACH ENERGY BERHAD
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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	←----- Attributable to Equity Holders of the Company ----->						(Accumulated losses) /Retained earnings RM'000	Total RM'000	Non- controlling interest RM'000	Total Equity RM'000
	←----- Non-distributable ----->									
	Capital RM'000	Capital redemption reserves RM'000	Warrants reserve RM'000	Capital contribution reserve RM'000	Share- based payment reserves RM'000	Foreign exchange reserve RM'000				
As at 1 January 2018	488,975	-	198,914	14,403	821	(26,396)	(13,976)	662,741	175,146	837,887
Loss for the financial year	-	-	-	-	-	-	(14,928)	(14,928)	(26,058)	(40,986)
Other comprehensive expense, net of tax - Foreign currency translation	-	-	-	(83)	-	3,152	37	3,106	2,101	5,207
Total comprehensive expense for the financial year	-	-	-	(83)	-	3,512	(14,891)	(11,822)	(23,957)	(35,779)
As at 30 Sep 2018	488,975	-	198,914	14,320	821	(23,244)	(28,867)	650,919	151,189	802,108

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	←----- Attributable to Equity Holders of the Company -----→							Total RM'000	Non- controlling interest RM'000	Total Equity RM'000
	←----- Non-distributable -----→			Share- based payment reserves RM'000	Foreign exchange reserve RM'000	(Accumulated losses) /Retained earnings RM'000				
	Capital RM'000	Capital redemption reserves RM'000	Warrants reserve RM'000	Capital contribution reserve RM'000						
As at 1 January 2017	488,651	324	198,914	-	821	128	86,292	775,130	259,855	1,034,985
Prior year adjustments	-	-	-	-	-	-	(12,432)	(12,432)	(8,288)	(20,720)
As restated	488,651	324	198,914	-	821	128	73,860	762,698	251,567	1,014,265
Transition to non-par value regime on 31 January 2017 **	324	(324)	-	-	-	-	-	-	-	-
Loss for the financial year	-	-	-	-	-	-	(87,836)	(87,836)	(59,350)	(147,186)
Other comprehensive income, net of tax - Foreign currency translation	-	-	-	-	-	(26,524)	-	(26,524)	(17,071)	(43,595)
Total comprehensive expense for the financial year	-	-	-	-	-	(26,524)	(87,836)	(114,360)	(76,421)	(190,781)
Capital contribution due to restructuring of loans *	-	-	-	14,403	-	-	-	14,403	-	14,403
As at 31 December 2017	488,975	-	198,914	14,403	821	(26,396)	(13,976)	662,741	175,146	837,887

* During the year of 2017, the management re-negotiated the shareholders loan agreement terms with the corporate shareholder in a subsidiary, MIE Holdings Corporation ("MIEH") to revise the interest rate from 7.855% to 5%. These loans are deemed to be the capital contribution from MIEH.

** 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, the amounts standing to the credit of the share premium account and capital redemption reserves become part of the Company's share capital pursuant to the transitional provisions set out in Section 618 (2) of the Act. 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 account of RM477,687,186.47 for purposes as set out in Sections 618 (3) and the capital redemption reserve of RM323,991.03 for the bonus issue pursuant to Section 618(4) of the Act. The Board of Directors will make a decision thereon by 31 January 2019. 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.

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes.

REACH ENERGY BERHAD
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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 9 months 30 Sep 18 RM'000	Unaudited 9 months 30 Sep 17 RM'000
Cash flows from operating activities		
Loss before tax	(42,176)	(63,751)
Adjustments for:-		
Depreciation of property, plant and equipment	58,284	24,232
Unrealised foreign exchange loss, net	(7,228)	21,553
Finance cost	40,067	26,815
Finance income	(1,339)	(2,074)
	<u>47,608</u>	<u>6,775</u>
Changes in working capital:		
Inventories	1,064	(1,126)
Prepayment and other receivables	1,450	12,121
Trade receivables	(6,348)	1,889
Trade payables	(9,908)	11,735
Other payables and accruals	(1,392)	(70,009)
Amount due to corporate shareholder in a subsidiary	-	(3,353)
Cash flows generated from/(used in) operating activities	<u>32,474</u>	<u>(41,968)</u>
Income tax paid	(11)	(12,172)
Net cash generated from/(used in) operating activities	<u><u>32,463</u></u>	<u><u>(54,410)</u></u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(22,136)	(8,157)
Finance income received	1,339	863
Advances to corporate shareholder	(35)	(98)
Movement in restricted cash	540	(315)
Net cash used in investing activities	<u><u>(20,292)</u></u>	<u><u>(7,707)</u></u>
Cash flows from financing activities		
Finance cost paid	-	(58)
Net cash used in financing activities	<u><u>-</u></u>	<u><u>(58)</u></u>
Net increase/(decrease) in cash and cash equivalents	12,171	(61,905)
Cash and cash equivalents at the beginning of the year	27,519	105,725
Exchange difference on cash and cash equivalents	(2,365)	2,688
Cash and cash equivalents at end of the period	<u><u>37,325</u></u>	<u><u>46,488</u></u>

The unaudited condensed consolidated statement of cash flows should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes.

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PART A - EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS
("MFRS") 134 - INTERIM FINANCIAL REPORTING

A1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") 134, Interim Financial Reporting issued by Malaysian Accounting Standards Board ("MASB") and Paragraph 9.22 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"). The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying notes attached to the unaudited condensed consolidated financial statements.

The explanatory notes attached to unaudited condensed consolidated 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 financial year ended 31 December 2017.

The accounting policies and methods of computation adopted by the Group in this unaudited condensed consolidated financial statements are consistent with those adopted in the audited consolidated financial statements for the financial year ended 31 December 2017 except for those standards, amendments and interpretations which are effective from the annual period beginning on or after 1 January 2018. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the financial year ending 31 December 2018. The adoption of these standards, amendments and interpretations has no material impact to these unaudited condensed consolidated financial statements, other than as disclosed below:-

MFRS 9 *Financial Instruments*

MFRS 9 replaces MFRS 139 *Financial Instruments: Recognition and Measurement* from 1 January 2018.

MFRS 9 introduces changes relating to classification and measurement of financial assets, accounting for changes in own credit risk in financial liabilities, impairment assessment based on the expected credit loss model and hedge accounting.

The Group has applied MFRS 9 retrospectively on the initial application date of 1 January 2018 and has elected not to restate comparatives. The adoption of MFRS 9 did not have any significant effects on the unaudited condensed consolidated financial statements upon their initial application.

MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111 *Construction Contracts*, MFRS 118 *Revenue*, IC Interpretation 13 *Customer Loyalty Programmes*, IC Interpretation 15 *Agreements for Construction of Real Estate*, IC Interpretation 18 *Transfer of Assets from Customers* and IC Interpretation 131 *Revenue - Barter Transactions Involving Advertising Services*.

The core principle of MFRS 15 is that an entity should recognise revenue which depicts the transfer of promised goods or services to the customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue recognition in accordance with the underlying principle of MFRS 15 encompasses the identification of the contract(s) with a customer, the performance obligations in the contracts, determination of the transaction price, and allocation of the transaction price to the performance obligations in the contract and recognition of revenue in the satisfaction of performance obligation.

The adoption of MFRS 15 did not have any significant effects on the unaudited condensed consolidated financial statements.

A2. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

(a) Standards, amendments to published standards and interpretation that are applicable to the Group but not yet effective:

- (i) Financial year beginning on or after 1 January 2019:
- MFRS 16 *Leases*
 - IC Interpretation 23 *Uncertainty over Income Tax Treatments*

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A2. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONT'D)

(a) Standards, amendments to published standards and interpretation that are applicable to the Group but not yet effective:

- (ii) Financial year beginning on or after 1 January 2020:
- Amendments to MFRS 101 *Presentation of Financial Statements*
 - Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
 - Amendments to MFRS 134 *Interim Financial Reporting*
 - Amendments to MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*
 - Amendments to MFRS 138 *Intangible Assets*

The Group plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2019 for those accounting standards that are effective for annual periods beginning on or after 1 January 2019.
- from the annual period beginning on 1 January 2020 for those accounting standards that are effective for annual periods beginning on or after 1 January 2020.

A3. AUDITORS' OPINION ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The Group's consolidated financial statements for the financial year ended 31 December 2017 were not subject to audit qualification.

A4. SEASONALITY OR CYCLICALITY OF OPERATIONS

The Group's operations are not affected by any seasonal or cyclical factors.

A5. INDIVIDUALLY SIGNIFICANT ITEMS

There are no other significant or unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group on the current financial period under review.

A6. MATERIAL CHANGES IN ESTIMATES

There are no significant changes in estimates that have material effect on the current financial period under review.

A7. BORROWING, DEBT AND EQUITY SECURITY

(I) BORROWING

	As at 30 Sep 2018					
	Long term		Short term		Total borrowings	
Amount due to corporate shareholder in a subsidiary	*Foreign denomination	RM denomination	*Foreign denomination	RM denomination	*Foreign denomination	RM denomination
Unsecured	140,609	582,190	17,998	74,523	158,607	656,713
	As at 31 December 2017					
	Long term		Short term		Total borrowings	
Amount due to corporate shareholder in a subsidiary	*Foreign denomination	RM denomination	*Foreign denomination	RM denomination	*Foreign denomination	RM denomination
Unsecured	130,975	532,019	17,921	72,796	148,896	604,815

*The unsecured borrowings are denominated in United States Dollars ("USD") and translated at the rate of 4.141 (2017: 4.062).

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A7. BORROWING, DEBT AND EQUITY SECURITY (CONT'D)

(I) BORROWING

There were no repayments or drawdowns of borrowings made during the 9 months financial period ended 30 Sep 2018. The amount due to corporate shareholder in a subsidiary has the following interest exposures and repayment terms:

<u>Amount</u>	<u>Interest</u>	<u>Repayment terms</u>
RM'000		
182,368	Ranging from 10% to 14%	No fixed repayment period
294,040	5%	Due in 2019
83,703	4.86%	Due in 2036
74,523	Interest free	Repayable on demand
1,926	5%	Due in 2023
20,153	Interest free	No fixed repayment period

(II) EQUITY

There were no movements in the issued and paid-up capital of the Company during the current period.

A8. DIVIDEND PAID

There was no dividend declared or paid during the current financial period ended 30 Sep 2018.

A9. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE YEAR

There were no material events after the interim period that have not been reflected in the unaudited condensed consolidated financial statements.

A10. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the current financial period ended 30 Sep 2018.

A11. CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no contingent liabilities or contingent assets as at 30 Sep 2018.

A12. COMMITMENT

(I) CAPITAL COMMITMENTS FOR THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT:

	Unaudited As at 30 Sep 18 RM'000	Audited As at 31 Dec 17 RM'000
Authorised but not contracted for	23,994	22,751
Contracted but not provided for	83,971	6,779
	<u>107,965</u>	<u>29,530</u>

(II) OPERATING LEASE COMMITMENTS

The Group has operating lease commitments related to its non-cancellable operating leases for offices. The future aggregate minimum lease payments under these operating leases are as follows:

	Unaudited As at 30 Sep 18 RM'000	Audited As at 31 Dec 17 RM'000
< 1 year	1,934	1,991
1 – 2 years	1,787	1,910
2 – 5 years	-	-
	<u>3,721</u>	<u>3,901</u>

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A12. COMMITMENT (CONT'D)

(III) According to the production contracts for four fields 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:

	Unaudited As at 30 Sep 18 RM'000	Audited As at 31 Dec 17 RM'000
< 1 year	139,176	109,719
1 – 2 years	584,100	136,537
2 – 5 years	808,355	853,010
> 5 years	2,210,714	2,681,846
	3,742,345	3,781,112

The minimum work program includes capital expenditure of RM 1,018 million (2017: RM 1,093 million) to be incurred over the life of the production contracts expiring in 2036. Other commitments represent mainly direct operation and maintenance costs of wells and related facilities.

PART B: ADDITIONAL NOTES TO REQUIREMENTS UNDER CHAPTER 9 OF THE BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS

B1. OPERATING SEGMENTS

Operating segments are represented in respect of the Group's business segments. The Group has activities in the following principal areas:

OIL AND GAS

The oil and gas operating segment consists of the exploration, development, production and sales of oil and other petroleum products in the Republic of Kazakhstan.

All revenue of the operating segment is contributed by external customers. The major customer, Euro Asian Oil SA ("Euro Asian") is one the largest trading companies in Mangystau region of Western Kazakhstan.

INVESTMENT HOLDING

The investment holding segment's main activity is to hold the investment in Emir-Oil Concession Block with awarded Exploration and Production Contracts up to year 2036.

(I) SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	INDIVIDUAL QUARTER		INDIVIDUAL QUARTER		CUMULATIVE QUARTER		CUMULATIVE QUARTER	
	Unaudited for the quarter ended 30 Sep 18		Unaudited for the quarter ended 30 Sep 17		Unaudited for the period ended 30 Sep 18		Unaudited for the period ended 30 Sep 17	
	Oil & Gas RM'000	Investment Holdings RM'000	Oil & Gas RM'000	Investment Holdings RM'000	Oil & Gas RM'000	Investment Holdings RM'000	Oil & Gas RM'000	Investment Holdings RM'000
Revenue	40,836	-	22,106	-	150,987	-	107,468	-
<u>Results</u>								
Operating expenses	(47,685)	(2,062)	(27,961)	(2,110)	(155,497)	(6,166)	(117,823)	(7,708)
Finance (expense)/income, net	(8,827)	3,877	(8,451)	(7,236)	(25,372)	(6,128)	(22,972)	(22,716)
Profit/(loss) before taxation	(15,676)	1,815	(14,306)	(9,346)	(29,882)	(12,294)	(33,327)	(30,424)
Income tax (expenses)/benefit	(4,426)	-	3,174	(31)	1,208	(18)	4,399	(170)
(Loss)/profit for the financial period	(20,102)	1,815	(11,132)	(9,377)	(28,674)	(12,312)	(28,928)	(30,594)

The amounts are denominated in United States Dollars ("USD") and was translated at an average rate of 3.9917 (2017: 4.370).

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B1. OPERATING SEGMENTS (CONT'D)

(II) SUMMARISED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 30 Sep 18		Audited as at 31 Dec 17	
	Oil & Gas RM'000	Investment Holdings RM'000	Oil & Gas RM'000	Investment Holdings RM'000
Non-current assets	1,572,355	23	1,580,946	35
Current assets	59,233	22,221	38,924	27,184
Current liabilities	(140,061)	(656)	(148,535)	(968)
Non-current liabilities	(711,007)	-	(659,699)	-
Net assets	780,520	21,588	811,636	26,251
Accumulated non-controlling interest		151,189		175,146

The amounts are denominated in United States Dollars ("USD") and was translated at the closing rate of 4.141 (2017: 4.062).

B2. OVERALL REVIEW OF GROUP'S FINANCIAL PERFORMANCE

(I) COMPARING WITH PRECEDING YEAR QUARTER RESULTS

	INDIVIDUAL QUARTER Unaudited for the quarter ended 30 Sep 18 RM'000	INDIVIDUAL QUARTER Unaudited for the quarter ended 30 Sep 17 RM'000	CUMULATIVE QUARTER Unaudited for the period ended 30 Sep 18 RM'000	CUMULATIVE QUARTER Unaudited for the period ended 30 Sep 17 RM'000
Revenue	40,836	22,106	150,987	107,468
Operating expenses	(49,747)	(30,070)	(161,663)	(125,531)
EBITDA	9,994	(277)	47,608	6,169
Loss before tax	(13,861)	(23,651)	(42,176)	(63,751)
Loss after tax	(18,287)	(20,508)	(40,986)	(59,522)

As year 2018 remains a challenging year for the Group to achieve better results, the Group has continued its strategies in workover of the existing wells to increase oil and gas production, and negotiate higher export quota and domestic sales price to improve its revenue.

For the third quarter ended 30 Sept 2018, the Group's revenue had increased by 84.7% (RM 18.7 million) as compared to the revenue of RM 22.1 million in third quarter 30 Sept 2017. The revenue increase is mainly attributed to the increase in production volume and higher world crude oil price in third quarter 2018 as compared to third quarter 2017.

As the cost optimising efforts continue, the operating expenses (exclude DD&A) in the current quarter under review has remained at same level as third quarter 2017 even with increased production.

As increase in depreciation, depletion and amortization (DD&A) is in tandem with production level, operating expenses inclusive of DD&A for the third quarter had increased by 65.4% (from RM 30.0 million to RM 49.7 million), mainly due to increased production compared to third quarter 2017.

As a result of higher revenue and efficient cost control in the third quarter of 2018, the Group has recorded 3708% (RM 10.3 million) increase in Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) as compared to loss of RM 0.3 million in third quarter of 2017.

The Finance Cost of RM 5.0 million in third quarter 2018 consists of unrealised FOREX Gain of RM 9.1 million and RM 14.1 million interest payable to corporate shareholder.

The Group has recorded Loss before Tax of RM 13.9 million in third quarter 2018, compared to Loss before Tax of RM 23.6 million in third quarter 2017, the loss has decreased by RM 9.7 million, or 41.1%.

Currently, the Group's net asset per share stands at RM0.73 as compared to the closing market price of RM0.35 per share on 28 Nov 2018.

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B2. OVERALL REVIEW OF GROUP'S FINANCIAL PERFORMANCE (CONT'D)

(II) COMPARING WITH IMMEDIATE PRECEDING QUARTER RESULTS

	CURRENT QUARTER	IMMEDIATE PRECEDING QUARTER
	Unaudited for the period ended 30 Sep 18 RM'000	Unaudited for the period ended 30 Jun 18 RM'000
Revenue	40,836	67,670
Operating expenses	(49,747)	(57,545)
EBITDA	9,994	29,892
(Loss)/Profit before tax	(13,861)	12,588
(Loss)/Profit after tax	(18,287)	4,582

The Group's revenue for the current quarter under review had decreased by 39.7% or RM 26.9 million from RM 67.7 million in second quarter 2018 to RM 40.8 million in the third quarter 2018, attributed to lower production in third quarter 2018 and deferred revenue in second quarter 2018 from first quarter 2018 .

For the current quarter under review operating expenses were lower compared with immediate preceding quarter. The Group had recorded a decrease of 66.6% (RM 19.9 million) in Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) as compared to RM 29.9 million in second quarter of 2018.

For the current quarter, the Group had reported Loss before Tax of RM 13.9 million and Loss after Tax of RM 18.3 million compared to the second quarter 2018 Profit before Tax of RM 12.6 million and Profit after Tax of RM 4.6 million. These results were attributed to lower revenue.

B3. MATERIAL CHANGE IN PROFIT BEFORE TAXATION

The Group recorded a Loss before Tax of RM 13.9 million in the current quarter and Loss before Tax of RM 42.2 million in cumulative quarter to 30 Sep 2018 as compared to third quarter of 2017 Loss before Tax of RM 23.6 million and cumulative quarter to 30 Sep 2017 Loss before Tax of RM 63.7 million.

B4. PROSPECT

Reach Energy Berhad (REB) is committed to embedding best-practices in oilfield management in its maiden asset which is Emir Oil LLP (EO). Key activities have been consolidated, strengthened and streamlined to significantly improve efficiency and productivity in EO asset.

Trial Production license for the North Kariman Field has been approved and the Trial Production Period of 18 months commenced on 1 October 2018, allowing EO to produce the prolific North Kariman wells. This is expected to increase current oil production substantially. This process is a prelude to obtaining a full Production License for the North Kariman Field in 2019.

Exploration drilling of the North Kariman 3 well (NK-3) has been safely and successfully completed. The well is currently undergoing well test analyses to evaluate its degree of productivity and potential contribution to reserves. This well is considered an exploration well with a high chance of success (CoS), and preliminary evaluations are encouraging. In addition, exploration drilling of the Kariman 16 well (K-16) has recently commenced and is progressing as planned. Similar in risk profile to the completed NK-3 well, the K-16 well is deemed with a high CoS considering it is relatively in close proximity to the current Kariman Field area. The third exploration well for 2018 is scheduled for spudding in late December. The exploration success in these wells is expected to have significant positive effect on EO's Reserves base, in particular the 2P Reserves.

The decision to switch to an alternative oil treatment and terminal facility in Ansagan has been beneficial, as it has improved oil distribution logistics in both technical and commercial aspects. This more modern facility has solidified EO's standard operating procedures regarding oil handling and accounting, and its close proximity to government-owned pipeline network allows for optimization of logistics costs.

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B4. PROSPECT (CONT'D)

Looking ahead, 2019 represents an exciting year for REB, as EO is planning a more aggressive development program, consisting of new development wells and the commissioning of the Central Processing Facility (CPF). These are key elements in EO's Master Development Plan to achieve higher production and reserves base within the next few years. The CPF will not only increase and upgrade our oil handling capacity and facilities significantly, but it will also enable centralising all our production operations activities.

We are in discussion with Gas Processing Company LLP (GPC) in Kazakhstan to evaluate an opportunity to participate in a gas processing and distribution business in the Aktobe Region. Such a venture would also help us in our future efforts to monetise the gas reserves in Emir Oil asset.

B5. RESERVES

As at 1 January 2018, the gross reserves (100% basis) of Emir-Oil Concession Block are summarized 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	13.120	48.530	91.900
Dolinnoe	5.130	12.470	20.740
Aksaz	0.260	1.440	3.030
Yessen	1.270	3.650	6.260
Emir	1.200	2.830	5.350
Total	20.980	68.920	127.28

(II) GAS

FIELD	GAS RESERVES (BSCF)*		
	1P (PROVED RESERVES)	2P (PROVED + PROBABLE RESERVES)	3P (PROVED + PROBABLE + POSSIBLE RESERVES)
Kariman	4.880	18.570	35.850
Dolinnoe	13.320	32.490	54.440
Aksaz	2.530	18.090	40.550
Yessen	0.770	2.310	4.050
Emir	0.270	0.740	1.490
Total	21.770	72.200	136.380

(III) OIL, LPG AND GAS

FIELD	OIL AND GAS RESERVES (MMBOE)*		
	1P (PROVED RESERVES)	2P (PROVED + PROBABLE RESERVES)	3P (PROVED + PROBABLE + POSSIBLE RESERVES)
Kariman	13.932	51.625	97.875
Dolinnoe	7.350	17.885	29.813
Aksaz	0.682	4.455	9.788
Yessen	1.398	4.035	6.935
Emir	1.245	2.953	5.598
Total	24.607	80.953	150.009

*MMSTB – Million Stock Tank Barrels

*BSCF – Billion Standard Cubic Feet

*MMBOE – Million Barrels Oil Equivalent

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B6. STATUS OF UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSAL

<u>Purpose of Utilisation</u>	<u>Proposed Utilisation</u> (RM'000)	<u>Actual Utilisation</u> (RM'000)
Acquisition of the target company/asset	710,625	580,528
Working capital		
- Remuneration of the management team	15,459	12,922
- Pre-IPO office and corporate expenses	611	25,646
- Others	26,475	31,749
Estimated listing expenses	26,000	26,795

B7. PROFIT FORECAST AND GUARANTEE

The Group has not announced or disclosed any profit forecast and guarantee in any public documents.

B8. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

There were no purchase or disposal of quoted securities during the financial period ended 30 Sep 2018.

B9. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There were no sale of unquoted investment and /or properties during the financial period ended 30 Sep 2018.

B10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

There were no financial instruments with material off-balance sheet risk as at 30 Sep 2018.

B11. MATERIAL LITIGATION

There were no material litigation as at 30 Sep 2018.

B12. EARNINGS PER SHARE

(I) BASIC LOSS PER ORDINARY SHARE

The calculation of basic loss per ordinary share as at 30 Sep 2018 was based on the loss attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, as follows:-

	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
	Unaudited for the quarter ended 30 Sep 18 RM'000	Unaudited for the quarter ended 30 Sep 17 RM'000	Unaudited for the period ended 30 Sep 18 RM'000	Unaudited for the period ended 30 Sep 17 RM'000
Loss after taxation attributable to owner of the Company	(5,125)	(12,312)	(14,928)	(36,574)
Weighted average number of ordinary shares	1,096,413	1,096,413	1,096,413	1,096,413
Basic loss per ordinary share (RM)	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.03)</u>
Diluted loss per ordinary share (RM)	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.03)</u>

(II) DILUTED EARNINGS/(LOSS) PER ORDINARY SHARE

Diluted earnings/(loss) per ordinary shares is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effect of all dilutive potential ordinary shares, which comprises of free convertible warrants granted to the shareholders.

The assumed conversions from the exercise of warrants of the ordinary shares would be anti-dilutive.

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B13. LOSS BEFORE TAXATION

	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
	Unaudited for the quarter ended 30 Sep 18 RM'000	Unaudited for the quarter ended 30 Sep 17 RM'000	Unaudited for the period ended 30 Sep 18 RM'000	Unaudited for the period ended 30 Sep 17 RM'000
Loss before taxation is arrived after charging/(crediting):				
Interest income from deposits with licensed banks	394	261	1,176	863
Other finance income/(expenses)	117	(391)	163	1,211
Foreign exchange gain/(loss), net	9,084	(5,632)	7,589	(20,998)
Interest expenses on loan from corporate shareholder in a subsidiary	(8,544)	(9,911)	(24,318)	(26,707)
Interest expenses on deferred consideration	(5,611)	-	(14,666)	-
Other finance cost	(390)	(13)	(1,444)	(58)

B14. INCOME TAX (EXPENSES)/BENEFITS

	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
	Unaudited for the quarter ended 30 Sep 18 RM'000	Unaudited for the quarter ended 30 Sep 17 RM'000	Unaudited for the period ended 30 Sep 18 RM'000	Unaudited for the period ended 30 Sep 17 RM'000
Current income tax				
Malaysian income tax:				
- Current period/year	-	(31)	(18)	(170)
Foreign income tax:				
- Under provision in prior year	-	-	-	-
Deferred income tax:				
- Origination and reversal of temporary difference	(4,426)	3,174	1,208	4,399
	<u>(4,426)</u>	<u>3,143</u>	<u>1,190</u>	<u>4,229</u>

In the current year, the income tax is calculated at the statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year.

BY ORDER OF THE BOARD
CHEN BEE LING (MAICSA 7046517)
TAN LAI HONG (MAICSA 7057707)

COMPANY SECRETARIES
30 NOVEMBER 2018