



REACH ENERGY BERHAD

Company no: 201301004557 (1034400-D)
(Incorporated in Malaysia)

Report
on
Unaudited
Quarterly Financial Results
for the Period
1 April 2021
to
30 June 2021

(The figures have not been audited)

REACH ENERGY BERHAD
Company no. 201301004557 (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	Unaudited for the quarter ended	Unaudited for the year ended	Unaudited for the year ended
	Note	30 Jun 21 RM'000	30 Jun 20 RM'000	30 Jun 21 RM'000	30 Jun 20 RM'000
Revenue		31,101	16,982	54,159	39,663
Operating expenses					
Taxes other than income taxes		(11,370)	(2,928)	(17,432)	(12,136)
Purchase, services and other direct costs		(6,164)	(7,591)	(10,434)	(16,897)
Depreciation, depletion and amortisation		(15,251)	(13,410)	(25,092)	(30,595)
Impairment of non-financial asset		-	(59,524)	-	(66,153)
Distribution expenses		(3,073)	(3,357)	(5,361)	(7,037)
Employee compensation costs		(2,554)	(3,500)	(4,823)	(7,349)
General and administration expenses		(1,128)	(749)	(2,334)	(3,087)
Other operating income/(expenses) – net		1,220	(856)	(219)	3,968
Total operating expenses		<u>(38,320)</u>	<u>(91,915)</u>	<u>(65,695)</u>	<u>(139,286)</u>
Loss from operations		(7,219)	(74,933)	(11,536)	(99,623)
Finance income		777	195	15,747	19,107
Finance cost		(12,320)	(18,355)	(24,896)	(29,194)
Finance cost – net		<u>(11,543)</u>	<u>(18,160)</u>	<u>(9,149)</u>	<u>(10,087)</u>
Loss before taxation	B13	(18,762)	(93,093)	(20,685)	(109,710)
Income tax benefit	B14	1,614	39,157	6,588	48,470
Loss for the financial period		<u>(17,148)</u>	<u>(53,936)</u>	<u>(14,097)</u>	<u>(61,240)</u>
(Loss)/profit attributable to:					
Owners of the Company		(9,058)	(32,407)	11,187	(27,803)
Non-controlling interests		<u>(8,090)</u>	<u>(21,529)</u>	<u>(25,284)</u>	<u>(33,437)</u>
Loss for the financial period		<u>(17,148)</u>	<u>(53,936)</u>	<u>(14,097)</u>	<u>(61,240)</u>
(Loss)/earnings per share attributable to owners of the Company	B12				
Basic (loss)/earnings per ordinary share (RM):		(0.008)	(0.03)	0.01	(0.03)
Diluted (loss)/earnings per ordinary share (RM):		(0.008)	(0.03)	0.01	(0.03)
Loss for the financial period		(17,148)	(53,936)	(14,097)	(61,240)
Other comprehensive (expense)/income, net of tax					
Items that will be reclassified subsequently to profit or loss:					
- Foreign currency translation differences		564	6,993	(2,172)	5,994
Total comprehensive expense for the financial period		<u>(16,584)</u>	<u>(46,943)</u>	<u>(16,269)</u>	<u>(55,246)</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 2020 and the accompanying explanatory notes.

REACH ENERGY BERHAD
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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	Unaudited for the quarter ended	Unaudited for the year ended	Unaudited for the year ended
Note	30 Jun 21 RM'000	30 Jun 20 RM'000	30 Jun 21 RM'000	30 Jun 20 RM'000
Total comprehensive (expense)/income for the period attributable to:				
Owners of the Company	(8,721)	(28,212)	9,884	(24,207)
Non-controlling interests	(7,863)	(18,731)	(26,153)	(31,039)
Total comprehensive expense for the financial period	(16,584)	(46,943)	(16,269)	(55,246)

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 2020 and the accompanying explanatory notes.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30 Jun 21 RM'000	Audited As at 31 Dec 20 RM'000
Assets			
Non-current assets			
Property, plant and equipment		1,273,880	1,257,149
Intangible assets		1,413	1,490
Right use of assets		2,356	2,420
Prepayment and other receivables		3,443	3,274
Restricted cash		5,186	6,953
Total non-current assets		1,286,278	1,271,286
Current assets			
Inventories		2,304	1,835
Trade receivables		2,016	5,664
Prepayment and other receivables		11,688	10,559
Amount due from corporate shareholder in a subsidiary		4,007	4,007
Deposits, cash and bank balances		11,593	10,163
Total current assets		31,608	32,228
Total assets		1,317,886	1,303,514
Liabilities			
Current liabilities			
Trade payables		41,757	55,824
Accruals and other payables		11,108	19,668
Lease liabilities		482	352
Amounts due to corporate shareholder in a subsidiary	A7	352,001	331,340
Current tax liabilities		2,962	2,886
Provision		11,600	11,205
Total current liabilities		419,910	421,275
Net current liabilities		(388,302)	(389,047)
Total assets less current liabilities		897,976	882,239
Non-current liabilities			
Deferred tax liabilities		55,199	60,758
Amounts due to corporate shareholder in a subsidiary	A7	344,418	317,278
Trade payables		20,224	8,771
Accruals and other payables		299	334
Lease liabilities		1,878	2,079
Provisions		4,714	5,506
		426,732	394,726
Net assets		471,244	487,513
Equity			
Capital		488,975	488,975
Other reserves		180,539	181,842
Accumulated losses		(301,609)	(312,796)
Equity attributable to owners of the Company		367,905	358,021
Non-controlling interest		103,339	129,492
Total Equity		471,244	487,513
Net assets per share (RM)		0.43	0.44

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 2020 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 -----→							
	←----- Non-distributable -----→							
	Capital RM'000	Warrants reserve RM'000	Share- based payment reserves RM'000	Foreign exchange reserve RM'000	Accumulated losses RM'000	Total RM'000	Non- controlling interest RM'000	Total Equity RM'000
As at 1 January 2021	488,975	198,914	821	(17,893)	(312,796)	358,021	129,492	487,513
Profit/(loss) for the financial year	-	-	-	-	11,187	11,187	(25,284)	(14,097)
Other comprehensive expense, net of tax - Foreign currency translation	-	-	-	(1,303)	-	(1,303)	(869)	(2,172)
Total comprehensive (expense)/income for the financial year	-	-	-	(1,303)	11,187	9,884	(26,153)	(16,269)
As at 30 June 2021	488,975	198,914	821	(19,196)	(301,609)	367,905	103,339	471,244

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 2020 and the accompanying explanatory notes.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	←----- Attributable to Equity Holders of the Company -----→							
	←----- Non-distributable -----→							
	Capital RM'000	Warrants reserve RM'000	Share- based payment reserves RM'000	Foreign exchange reserve RM'000	Accumulated losses RM'000	Total RM'000	Non- controlling interest RM'000	Total Equity RM'000
As at 1 January 2020	488,975	198,914	821	(23,627)	(184,106)	480,977	193,872	674,849
Loss for the financial year	-	-	-	-	(128,690)	(128,690)	(68,146)	(196,836)
Other comprehensive expense, net of tax - Foreign currency translation	-	-	-	5,734	-	5,734	3,766	9,500
Total comprehensive income/(expense) for the financial year	-	-	-	5,734	(128,690)	(122,956)	(64,380)	(187,336)
As at 31 December 2020	488,975	198,914	821	(17,893)	(312,796)	358,021	129,492	487,513

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 2020 and the accompanying explanatory notes.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 6 months 30 Jun 21 RM'000	Unaudited 6 months 30 Jun 20 RM'000
Cash flows from operating activities		
Loss before tax	(20,685)	(109,710)
Adjustments for:-		
Depreciation of property, plant and equipment	25,092	30,595
Impairment of asset	-	66,153
Unrealised foreign exchange gain, net	490	(14,146)
Finance cost	24,405	25,192
Finance income	(15,747)	(463)
Change in estimate of asset retirement obligations	-	(165)
Loss in disposal of assets	6	148
Write off of inventory	84	(33)
Write off of property, plant and equipment	-	(25)
Impairment charge/(reversal) of:		
-trade receivables	(23)	-
Net provision for inventory obsolescence	(157)	-
	<u>13,465</u>	<u>(2,454)</u>
Changes in working capital:		
Inventories	(210)	1,769
Prepayment and other receivables	(519)	6,044
Trade receivables	3,699	235
Trade payables	(3,731)	3,573
Other payables and accruals	28,057	(4,726)
Amount due to corporate shareholder in a subsidiary	(27,715)	(4,652)
Cash flows generated from/(used in) operating activities	<u><u>13,046</u></u>	<u><u>(211)</u></u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,705)	(12,461)
Finance income received	304	463
Movement in restricted cash	1,985	401
Net cash used in investing activities	<u><u>(416)</u></u>	<u><u>(11,597)</u></u>
Cash flows from financing activities		
Interest paid	-	(13,398)
Payment of lease interest	(12)	(44)
Payment of lease principal	(447)	(299)
Net cash used in financing activities	<u><u>(459)</u></u>	<u><u>(13,741)</u></u>
Net increase/(decrease) in cash and cash equivalents	12,171	(25,549)
Cash and cash equivalents at the beginning of the year	10,163	35,958
Exchange difference on cash and cash equivalents	(10,741)	(2,414)
Cash and cash equivalents at end of the period	<u><u>11,593</u></u>	<u><u>7,995</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 2020 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 2020 and the accompanying notes attached to the audited 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 2020.

The accounting policies and methods of computation adopted by the Group in these unaudited condensed consolidated financial statements are consistent with those adopted in the audited consolidated financial statements for the financial year ended 31 December 2020 except for those standards, amendments and interpretations which are effective from the annual period beginning on or after 1 January 2021. 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 2021.

A2. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2021. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

MFRSs and Amendments effective for annual periods beginning on or after 1 April 2021

Amendments to MFRS 16 Leases – Covid-Related Rent Concession beyond 30 June 2021

MFRSs and Amendments effective for annual periods beginning on or after 1 January 2022

Amendments to MFRS 3 Business Combinations – Reference to the Conceptual Framework

Amendments to MFRS 9 Financial Instruments

Amendments to MFRS 116 Property, Plant and Equipment – Proceeds before Intended Use

Amendments to MFRS 137 Provision, Contingent Liabilities and Contingent Assets – Onerous Contracts
– Cost of Fulfilling a Contract

MFRSs and Amendments effective for annual periods beginning on or after 1 January 2023

Amendments to MFRS 101 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current
and Disclosures of Accounting Policies

Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors
- Definition of Accounting Estimates

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A3. AUDITORS' OPINION ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The Group's consolidated financial statements for the financial year ended 31 December 2020 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 were 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 Jun 2021					
	Long term		Short term		Total borrowings	
Amount due to corporate shareholder in a subsidiary	*Foreign denomination '000	RM denomination '000	*Foreign denomination '000	RM denomination '000	*Foreign denomination '000	RM denomination '000
Unsecured	82,907	344,418	84,732	352,001	167,639	696,419
	As at 31 Dec 2020					
	Long term		Short term		Total borrowings	
Amount due to corporate shareholder in a subsidiary	*Foreign denomination '000	RM Denomination '000	*Foreign denomination '000	RM denomination '000	*Foreign denomination '000	RM Denomination '000
Unsecured	79,062	317,278	82,567	331,340	161,629	648,618

*The unsecured borrowings are denominated in United States Dollars ("USD") and translated at the rate of 4.154 (2020: 4.013).

There was no repayment of principal on deferred consideration and no drawdowns of borrowings made during the 6 months financial period ended 30 June 2021. 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		
160,969	Ranging from 10% to 14%	No fixed repayment period
238,433	5%	Due in 2021
104,821	Interest free	Due in 2021
61,073	4.86%	Due in 2036
40,269	Interest free	Due in 2036
8,746	Interest free	Repayable on demand
1,614	5%	Due in 2023
837	Interest free	Due in 2023
<u>79,657</u>	Interest free	No fixed repayment period
<u>696,419</u>		

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

(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 June 2021.

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 June 2021.

A11. CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no contingent liabilities or contingent assets as at 30 June 2021.

A12. COMMITMENT

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

	Unaudited As at 30 Jun 21 RM'000	Audited As at 31 Dec 20 RM'000
Authorised but not contracted for	63,011	7,090
Contracted but not provided for	9,418	28,648
	<u>72,429</u>	<u>35,738</u>

(II) According to the production contracts for six 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 Jun 21 RM'000	Audited As at 31 Dec 20 RM'000
< 1 year	280,883	477,488
1 – 2 years	485,711	551,185
2 – 5 years	531,775	617,844
> 5 years	1,199,496	1,344,605
	<u>2,497,865</u>	<u>2,991,122</u>

The minimum work program includes capital expenditure of RM 880 million (2020: RM 850 million) to be incurred over the life of the production contracts expiring in 2044. Other commitments represent mainly direct operation and maintenance costs of wells and related facilities.

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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 2044.

(I) SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	INDIVIDUAL QUARTER		INDIVIDUAL QUARTER		CUMULATIVE QUARTER		CUMULATIVE QUARTER	
	Unaudited for the quarter ended 30 Jun 21		Unaudited for the quarter ended 30 Jun 20		Unaudited for the year ended 30 Jun 21		Unaudited for the year ended 30 Jun 20	
	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	31,101	-	16,982	-	54,159	-	39,663	-
<u>Results</u>								
Operating expenses	(36,969)	(1,351)	(89,809)	(2,106)	(63,455)	(2,240)	(134,908)	(4,378)
Finance (cost)/ income, net	(5,601)	(5,942)	(10,035)	(8,125)	(12,604)	3,455	(16,919)	6,832
(Loss)/profit before taxation	(11,469)	(7,293)	(82,862)	(10,231)	(21,900)	1,215	(112,164)	2,454
Income tax benefit	1,614	-	39,157	-	6,588	-	48,470	-
(Loss)/profit for the financial period	(9,855)	(7,293)	(43,705)	(10,231)	(15,312)	1,215	(63,694)	2,454

The amounts are denominated in United States Dollars ("USD") and translated at an average rate of 4.110 (2020: 4.262).

(II) SUMMARISED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 30 Jun 21		Audited as at 31 Dec 20	
	Oil & Gas RM'000	Investment Holdings RM'000	Oil & Gas RM'000	Investment Holdings RM'000
Non-current assets	1,286,236	42	1,271,179	107
Current assets	26,293	5,315	25,941	6,287
Current liabilities	(416,560)	(3,350)	(417,864)	(3,411)
Non-current liabilities	(186,107)	(240,625)	(172,965)	(221,761)
Net assets	709,862	(238,618)	706,291	(218,778)

Accumulated non-controlling interest 103,339 129,492

The amounts are denominated in United States Dollars ("USD") and translated at the closing rate of 4.154 (2020: 4.013).

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B2. OVERALL REVIEW OF GROUP'S FINANCIAL PERFORMANCE

(I) COMPARING WITH PRECEDING YEAR QUARTER RESULTS

	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
	Unaudited for the quarter ended 30 Jun 21 RM'000	Unaudited for the quarter ended 30 Jun 20 RM'000	Unaudited for the year ended 30 Jun 21 RM'000	Unaudited for the year ended 30 Jun 20 RM'000
Revenue	31,101	16,982	54,159	39,663
Operating expenses	(38,320)	(91,915)	(65,695)	(139,286)
EBITDA	8,032	(61,523)	13,556	(69,028)
Loss before tax	(18,762)	(93,093)	(20,685)	(109,710)
Loss after tax	(17,148)	(53,936)	(14,097)	(61,240)

Individual Quarter

The Group recorded revenue of RM 31.1 million for the current quarter under review as compared to RM 17.0 million in the preceding year corresponding quarter.

The average production for the second quarter of 2021 was 1,901 bopd as compared to 1,458 bopd for the second quarter of 2020.

The higher revenue for the current quarter under review as compared to the preceding year corresponding quarter was contributed by the higher Brent oil price and higher production volume in the second quarter of 2021 as compared to the second quarter of 2020.

Operating expenses for the second quarter of 2021 showed a decrease of RM 53.6 million as compared to the corresponding second quarter of 2020. The higher operating expenses in the second quarter of 2020 was due to the provision for impairment amounting to RM 59.5 million.

The Group recorded Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) of RM 8.0 million in the second quarter of 2021 as compared to the negative EBITDA of RM 61.5 million in the second quarter of 2020. The higher EBITDA in the second quarter of 2021 was contributed by the higher revenue and decrease in the operating expenses as explained above.

The Finance Cost of RM 12.3 million in the second quarter of 2021 mainly consists of interest payable to corporate shareholder.

The Group has recorded Loss before Tax of RM 18.8 million in the second quarter of 2021, as compared to Loss before Tax of RM 93.1 million in the second quarter of 2020.

Currently, the Group's net asset per share stands at RM 0.43 as compared to the closing market price of RM 0.08 per share on 20 August 2021.

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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 Jun 21 RM'000	Unaudited for the period ended 31 Mar 21 RM'000
Revenue	31,101	23,057
Operating expenses	(38,320)	(27,375)
EBITDA	8,032	5,523
Loss before tax	(18,762)	(1,924)
(Loss)/profit after tax	(17,148)	3,050

The Group's revenue for the current quarter under review has an increase of RM 8.0 million as compared to the first quarter of 2021. The revenue for the current quarter under review was higher as compared to the preceding quarter was contributed by the increase in the production.

The average production for the second quarter of 2021 was 1,901 bopd as compared to 1,156 bopd for the first quarter of 2021 after the expiry of suspension period of two months from Mangystau Regional Court in Kazakhstan ("the Court") order date on 12 February 2021.

Operating expenses for the second quarter of 2021 showed an increase of RM 10.9 million as compared to the preceding quarter. The increase in the operating expenses for the second quarter 2021 is in tandem with the increase in the production.

The Group recorded higher Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) of RM 8.0 million for the current quarter under review as compared to EBITDA of RM 5.5 million in the first quarter of 2021 was contributed by higher revenue.

For the current quarter under review, the Group has recorded Loss before Tax of RM 18.8 million and Loss after Tax of RM 17.1 million as compared to the first quarter of 2021 Loss before Tax of RM 1.9 million and Profit after Tax of RM 3.1 million. The higher loss before tax in the second quarter was attributed by the lower finance income arising from unrealised FOREX gain.

B3. MATERIAL CHANGE IN PROFIT BEFORE TAXATION

The Group recorded a Loss before Tax of RM 20.7 million in the current six months period ended 30 June 2021 while in the corresponding six months period ended 30 June 2020, the Group recorded a Loss before Tax of RM 109.7 million.

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B4. PROSPECT

The oil and gas outlook for this year is expected to remain challenging, due to the volatility in the global and domestic markets. In this respect, Reach Energy Berhad ("the Group") together with its major sub-subsidiary, Emir-Oil ("EO") has developed a turnaround plan to improve its performance both near term and long term. The main target is to enhance its production, rectify violation issues, secure funding and optimise the cost.

To sustain production, we will continue with the workover program which include replacing the electrical submersible pumps, adding perforations into the new reservoirs, and rejuvenation of idle wells.

The Board of Directors of Reach Energy Berhad will continue to take measures to improve its financial positions and increase the shareholder value.

Emir-Oil has about 66 million barrels of oil equivalent ("MMboe") remaining estimated 2P oil and gas reserves at the end of 2020. To capture these reserves, 31 new development wells are required to be drilled. One of the strategies to increase production immediately is to drill new development wells in prolific locations first, and conduct the remaining program in stages in accordance with the Group's financial capability. The drilling program will be commenced in the third quarter of 2021.

There are also two exploration commitment wells, which are now deferred until the end of its exploration period, currently in 2022. In addition, 13 new prospects remained in the exploration Block, and we will further assess the Block's potentials based on the outcome from the new exploration wells.

Another initiative to increase production is to install the gas injection facilities to maintain the reservoir pressure. This project will be conducted in two phases in the main Kariman field, with Phase 1 targeted to be completed this year. Phase 2 will follow suit after that.

As export sales is more profitable than domestic, Emir-Oil is striving to get more export quota every month from the Ministry of Energy of Kazakhstan.

Emir-Oil is committed to resolve all the violation issues by year 2022. This rectification project will be conducted in two phases. The Phase 1 is considering the basic enhancement of the facilities to enable it to operate within the guidelines, while Phase 2 will assess the entire facilities in a more comprehensive manner.

Emir-Oil is also progressing well in keeping the unit production cost down to a more sustainable level. We managed to keep the unit production cost at below US\$10/barrel in the second quarter of 2021.

On the corporate financing, Emir-Oil had obtained a loan from Kazakhstan Bank amounting to USD 9.3 million in January 2021 to finance its CAPEX investment. The Group and Emir-Oil plan to obtain additional loan of USD 25 million to USD 30 million in next few years to further finance its CAPEX investment and expansion plan as mentioned above.

In summary, Emir-Oil needs to drill more development wells to increase the production. Gas injection is important for reservoir pressure maintenance in the Kariman field. Cost optimisation is the key to manage our cash netback and we need to get more export quota.

Barring any unforeseen circumstances, the Board of Directors believe with our well positioned strategies to continue developing the plans, the Group will generate an improved performance.

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B5. RESERVES

As part of our responsibility as a public-listed E&P Company, we provide transparency of our core assets to shareholders and the public. Our appointed Independent Reserves Auditor/Assessor, Gaffney Cline and Associates ("GCA"), had completed an independent reserves and economic evaluation of oil and gas properties in the Emir-Oil Concession Block, as at the effective date of 31 December 2020.

As at 31 December 2020, the gross reserves (100% basis) of Emir-Oil Concession Block are summarised in the table below:

(I) OIL AND LIQUEFIED PETROLEUM GAS (LPG)

FIELD	OIL RESERVES (MMSTB)		
	1P <u>(PROVED RESERVES)</u>	2P <u>(PROVED + PROBABLE RESERVES)</u>	3P <u>(PROVED + PROBABLE + POSSIBLE RESERVES)</u>
Kariman	11.95	48.06	81.05
Dolinnoe	1.66	3.67	6.46
Aksaz	0.25	0.42	0.68
Yessen	1.15	1.33	1.41
Emir	0.03	0.07	0.14
Total	15.04	53.55	89.74

(II) GAS

FIELD	GAS RESERVES (BSCF)		
	1P <u>(PROVED RESERVES)</u>	2P <u>(PROVED + PROBABLE RESERVES)</u>	3P <u>(PROVED + PROBABLE + POSSIBLE RESERVES)</u>
Kariman	10.68	57.25	87.28
Dolinnoe	7.47	15.87	27.25
Aksaz	1.83	3.04	4.96
Yessen	0.05	0.06	0.06
Emir	0.00	0.01	0.04
Total	20.03	76.23	119.59

(III) OIL, LPG AND GAS

FIELD	OIL AND GAS RESERVES (MMBOE)		
	1P <u>(PROVED RESERVES)</u>	2P <u>(PROVED + PROBABLE RESERVES)</u>	3P <u>(PROVED + PROBABLE + POSSIBLE RESERVES)</u>
Kariman	13.73	57.60	95.60
Dolinnoe	2.91	6.32	11.00
Aksaz	0.56	0.93	1.51
Yessen	1.16	1.34	1.42
Emir	0.03	0.07	0.15
Total	18.39	66.26	109.68

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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	16,987
- Pre-IPO office and corporate expenses	611	25,646
- Others	26,475	35,243
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 purchases or disposal of quoted securities during the financial period ended 30 June 2021.

B9. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There were no sale of unquoted investment and /or properties during the financial period ended 30 June 2021.

B10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

There were no financial instruments with material off-balance sheet risk as at 30 June 2021.

B11. MATERIAL LITIGATION

(I) LITIGATION INVOLVING EMIR-OIL LLP AND MINISTRY OF ENERGY IN KAZAKHSTAN IN CONNECTION TO GAS DISPERSION VIOLATIONS FROM OPEN TANKS AT EMIR-OIL

Emir-Oil LLP ("EO"), the Company's sub-subsiary had received a Statement of Claim from Ministry of Energy ("MOE") in Kazakhstan in connection with the inspection carried out by MOE.

During the inspection carried out by MOE for the periods from January 2018 up to September 2019, MOE observed some substance of gas dispersion violations from open tanks at Emir-Oil. In general, gas dispersion is not permitted pursuant to the Subsoil Use Codes in Kazakhstan.

The Court in Kazakhstan ("the Court") had on 13 November 2020 ruled that EO had lost the court case and shall pay for the damages amounting to RM 7,292,000 (KZT 760,000,000). The court also indicated that the EO may submit appeal within one month from the date of receipt of the ruling in writing.

The company filed an appeal with the Supreme Court of the Republic of Kazakhstan on 15 December 2020.

(II) LITIGATION INVOLVING EMIR-OIL LLP AND MINISTRY OF ENERGY IN KAZAKHSTAN IN CONNECTION TO GAS DISPERSION VIOLATIONS FROM EMIR-OIL'S OPERATING FACILITIES

Emir-Oil LLP ("EO"), the Company's sub-subsiary had received a Statement of Claim from Ministry of Energy ("MOE") in Kazakhstan in connection with the inspection carried out by MOE.

During the inspection carried out by MOE for the periods from January 2018 up to September 2019, MOE observed some substance of gas dispersion violations from EO's operating facilities. In general, gas dispersion is not permitted pursuant to the Subsoil Use Codes in Kazakhstan.

The Court in Kazakhstan ("the Court") had on 19 November 2020 ruled that EO had lost the court case and shall pay for the damages amounting to RM 3,181,000 (KZT 332,271,208). The court also indicated that the EO may submit appeal within one month from the date of receipt of the ruling in writing

The company filed an appeal with the Supreme Court of the Republic of Kazakhstan on 22 December 2020.

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B11. MATERIAL LITIGATION (CONT'D)

(III) LITIGATION INVOLVING EMIR-OIL LLP AND MINISTRY OF ENERGY IN KAZAKHSTAN IN CONNECTION TO GAS DISPERSION VIOLATIONS AT EMIR OIL FACILITIES DURING OIL OPERATIONS

Emir-Oil LLP ("EO"), the Company's sub-subsidiary had received a Statement of Claim from Ministry of Energy ("MOE") in Kazakhstan in connection with the inspection carried out by MOE.

The Mangystau Regional Court in Kazakhstan ("the Court") had on 12 February 2021 ruled that EO had lost the appeal and was ordered to suspend its operation for two (2) months effective from the ruling date on 12 February 2021. The financial and operational impact to the Company associated with the two (2) months suspension of operations is estimated to contribute 13% to 15% reduction in the total annual revenue for the financial year ended 31 December 2021.

Emir Oil LLP had resumed its operation on 13 April 2021 after the expiry of suspension period of 2 months from Mangystau Regional Court in Kazakhstan ("the Court") order date.

B12. (LOSS)/EARNINGS PER SHARE

(I) BASIC (LOSS)/EARNINGS PER ORDINARY SHARE

The calculation of basic (loss)/earnings per ordinary share as at 30 June 2021 was based on the profit 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 Jun 21 RM'000	Unaudited for the quarter ended 30 Jun 20 RM'000	Unaudited for the year ended 30 Jun 21 RM'000	Unaudited for the year ended 30 Jun 20 RM'000
(Loss)/profit after taxation attributable to owner of the Company	(9,058)	(32,407)	11,187	(27,803)
Weighted average number of ordinary shares	1,096,413	1,096,413	1,096,413	1,096,413
Basic (loss)/earnings per ordinary share (RM)	(0.008)	(0.03)	0.01	(0.03)
Diluted (loss)/earnings per ordinary share (RM)	(0.008)	(0.03)	0.01	(0.03)

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

Diluted (loss)/earnings per ordinary share 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 comprise 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 Jun 21 RM'000	Unaudited for the quarter ended 30 Jun 20 RM'000	Unaudited for the year ended 30 Jun 21 RM'000	Unaudited for the year ended 30 Jun 20 RM'000
Loss before taxation is arrived after charging/(crediting):				
Interest income from deposits with licensed banks	135	195	304	463
Foreign exchange gain/(loss), net	642	(1,706)	15,443	18,644
Interest expenses on loan from corporate shareholder in a subsidiary	(6,912)	(6,745)	(13,640)	(13,265)
Interest expenses on deferred consideration	(5,584)	(5,815)	(11,021)	(11,485)
Other finance cost	176	(4,089)	(235)	(4,444)

B14. INCOME TAX BENEFITS/(EXPENSES)

	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
	Unaudited for the quarter ended 30 Jun 21 RM'000	Unaudited for the quarter ended 30 Jun 20 RM'000	Unaudited for the year ended 30 Jun 21 RM'000	Unaudited for the year ended 30 Jun 20 RM'000
Current income tax				
Foreign income tax:				
- Current year	200	(19,740)	299	1,217
Deferred income tax:				
- Origination and reversal of temporary difference	1,414	58,897	6,289	47,253
	<u>1,614</u>	<u>39,157</u>	<u>6,588</u>	<u>48,470</u>

In the current year, the income tax is calculated at the statutory tax rate of 24% (2020: 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
23 AUGUST 2021