



REACH ENERGY BERHAD

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

Report
on
Unaudited
Quarterly Financial Results
for the Period
1 July 2021
to
30 September 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 period ended	Unaudited for the period ended
	Note	30 Sep 21 RM'000	30 Sep 20 RM'000	30 Sep 21 RM'000	30 Sep 20 RM'000
Revenue		41,974	17,439	96,132	57,102
Operating expenses					
Taxes other than income taxes		(14,815)	(4,664)	(32,246)	(16,799)
Purchase, services and other direct costs		(6,388)	(6,784)	(16,822)	(23,681)
Depreciation, depletion and amortisation		(18,998)	(17,532)	(44,090)	(48,128)
Impairment of non-financial asset		-	-	-	(66,153)
Distribution expenses		(3,925)	(3,113)	(9,286)	(10,150)
Employee compensation costs		(2,397)	(2,941)	(7,220)	(10,290)
General and administration expenses		4,845	(11,272)	2,511	(14,359)
Other operating income/(expenses) – net		(166)	(617)	(385)	3,351
Total operating expenses		<u>(41,844)</u>	<u>(46,923)</u>	<u>(107,538)</u>	<u>(186,209)</u>
Profit/(Loss) from operations		130	(29,484)	(11,406)	(129,107)
Finance income		2,584	155	18,331	7,088
Finance cost		(12,954)	(20,993)	(37,850)	(38,013)
Finance cost – net		<u>(10,370)</u>	<u>(20,838)</u>	<u>(19,519)</u>	<u>(30,925)</u>
Loss before taxation	B13	(10,240)	(50,322)	(30,925)	(160,032)
Income tax benefit	B14	4,001	14,153	10,589	62,622
Loss for the financial period		<u>(6,239)</u>	<u>(36,169)</u>	<u>(20,336)</u>	<u>(97,410)</u>
(Loss)/profit attributable to:					
Owners of the Company		(916)	(25,436)	10,272	(53,241)
Non-controlling interests		<u>(5,323)</u>	<u>(10,733)</u>	<u>(30,608)</u>	<u>(44,169)</u>
Loss for the financial period		<u>(6,239)</u>	<u>(36,169)</u>	<u>(20,336)</u>	<u>(97,410)</u>
(Loss)/earnings per share attributable to owners of the Company	B12				
Basic (loss)/earnings per ordinary share (RM):		(0.001)	(0.02)	0.01	(0.05)
Diluted (loss)/earnings per ordinary share (RM):		(0.001)	(0.02)	0.01	(0.05)
Loss for the financial period		(6,239)	(36,169)	(20,336)	(97,410)
Other comprehensive (expense)/income, net of tax					
Items that will be reclassified subsequently to profit or loss:					
- Foreign currency translation differences		1,492	1,385	(680)	7,378
Total comprehensive expense for the financial period		<u>(4,747)</u>	<u>(34,784)</u>	<u>(21,016)</u>	<u>(90,032)</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
Company no. 201301004557 (1034400-D)
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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 period ended	Unaudited for the period ended
Note	30 Sep 21 RM'000	30 Sep 20 RM'000	30 Sep 21 RM'000	30 Sep 20 RM'000
Total comprehensive (expense)/income for the period attributable to:				
Owners of the Company	(21)	(24,604)	9,863	(48,814)
Non-controlling interests	(4,726)	(10,180)	(30,879)	(41,218)
Total comprehensive expense for the financial period	(4,747)	(34,784)	(21,016)	(90,032)

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 Sep 21 RM'000	Audited As at 31 Dec 20 RM'000
Assets			
Non-current assets			
Property, plant and equipment		1,278,980	1,257,149
Intangible assets		1,359	1,490
Right use of assets		2,431	2,420
Prepayment and other receivables		3,483	3,274
Restricted cash		8,625	6,953
Total non-current assets		1,294,878	1,271,286
Current assets			
Inventories		3,776	1,835
Trade receivables		1,448	5,664
Prepayment and other receivables		11,664	10,559
Amount due from corporate shareholder in a subsidiary		4,064	4,007
Deposits, cash and bank balances		32,990	10,163
Total current assets		53,942	32,228
Total assets		1,348,820	1,303,514
Liabilities			
Current liabilities			
Trade payables		39,967	55,824
Accruals and other payables		27,179	19,668
Lease liabilities		579	352
Amounts due to corporate shareholder in a subsidiary	A7	357,251	331,340
Current tax liabilities		2,984	2,886
Provision		5,573	11,205
Total current liabilities		433,533	421,275
Net current liabilities		(379,591)	(389,047)
Total assets less current liabilities		915,287	882,239
Non-current liabilities			
Deferred tax liabilities		51,277	60,758
Amounts due to corporate shareholder in a subsidiary	A7	355,358	317,278
Trade payables		35,453	8,771
Accruals and other payables		42	334
Lease liabilities		1,829	2,079
Provisions		4,831	5,506
		448,790	394,726
Net assets		466,497	487,513
Equity			
Capital		488,975	488,975
Other reserves		181,434	181,842
Accumulated losses		(302,524)	(312,796)
Equity attributable to owners of the Company		367,885	358,021
Non-controlling interest		98,612	129,492
Total Equity		466,497	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.

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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 RM'000			
	Capital RM'000	Warrants reserve 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	-	-	-	-	10,272	10,272	(30,608)	(20,336)
Other comprehensive expense, net of tax - Foreign currency translation	-	-	-	(408)	-	(408)	(272)	(680)
Total comprehensive (expense)/income for the financial year	-	-	-	(408)	10,272	9,864	(30,880)	(21,016)
As at 30 September 2021	488,975	198,914	821	(18,301)	(302,524)	367,885	98,612	466,497

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.

REACH ENERGY BERHAD
Company no. 201301004557 (1034400-D)
(Incorporated in Malaysia)

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 9 months 30 Sep 21 RM'000	Unaudited 9 months 30 Sep 20 RM'000
Cash flows from operating activities		
Loss before tax	(30,925)	(160,032)
Adjustments for:-		
Depreciation of property, plant and equipment	44,090	48,128
Impairment of asset	-	66,153
Unrealised foreign exchange gain, net	286	(5,809)
Finance cost	37,564	38,252
Finance income	(18,331)	(618)
Change in estimate of asset retirement obligations	-	(164)
Loss in disposal of assets	132	188
Write off of inventory	85	(33)
Write off of property, plant and equipment	(33)	(23)
Impairment charge/(reversal) of:		
-trade receivables	(23)	-
Net provision for inventory obsolescence	(158)	-
	<u>32,687</u>	<u>(13,958)</u>
Changes in working capital:		
Inventories	(1,621)	1,187
Prepayment and other receivables	(337)	5,671
Trade receivables	4,265	(858)
Trade payables	8,750	41,217
Other payables and accruals	34,083	(66,860)
Amount due to corporate shareholder in a subsidiary	(30,337)	(4,839)
Cash flows generated from/(used in) operating activities	<u>47,490</u>	<u>(38,440)</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(15,564)	(13,305)
Finance income received	459	618
Movement in restricted cash	(1,360)	799
Net cash used in investing activities	<u>(16,465)</u>	<u>(11,888)</u>
Cash flows from financing activities		
Interest paid	-	(13,398)
Payment of lease interest	(27)	(69)
Payment of lease principal	(358)	(645)
Net cash used in financing activities	<u>(385)</u>	<u>(14,112)</u>
Net increase/(decrease) in cash and cash equivalents	30,640	(64,440)
Cash and cash equivalents at the beginning of the year	10,163	35,958
Exchange difference on cash and cash equivalents	(7,813)	34,378
Cash and cash equivalents at end of the period	<u>32,990</u>	<u>5,896</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 Sep 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	84,852	355,358	85,303	357,251	170,155	712,609
	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 4.188 (2020: 4.013).

There was no repayment of principal on deferred consideration and no drawdowns of borrowings made during the 9 months financial period ended 30 September 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		
162,275	Ranging from 10% to 14%	No fixed repayment period
238,118	5%	Due in 2021
109,990	Interest free	Due in 2021
61,569	4.86%	Due in 2036
42,955	Interest free	Due in 2036
9,142	Interest free	Repayable on demand
1,627	5%	Due in 2023
904	Interest free	Due in 2023
<u>86,029</u>	Interest free	No fixed repayment period
<u>712,609</u>		

REACH ENERGY BERHAD
Company no. 201301004557 (1034400-D)
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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 September 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 September 2021.

A11. CONTINGENT LIABILITIES OR CONTINGENT ASSETS

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

A12. COMMITMENT

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

	Unaudited As at 30 Sep 21 RM'000	Audited As at 31 Dec 20 RM'000
Authorised but not contracted for	51,564	7,090
Contracted but not provided for	882	28,648
	<u>52,446</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 Sep 21 RM'000	Audited As at 31 Dec 20 RM'000
< 1 year	283,162	477,488
1 – 2 years	489,651	551,185
2 – 5 years	536,089	617,844
> 5 years	1,209,226	1,344,605
	<u>2,518,128</u>	<u>2,991,122</u>

The minimum work program includes capital expenditure of RM 880 million (2020: RM 887 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 Sep 21		Unaudited for the quarter ended 30 Sep 20		Unaudited for the period ended 30 Sep 21		Unaudited for the period ended 30 Sep 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	41,974	-	17,439	-	96,132	-	57,102	-
Results								
Operating expenses	(41,082)	(762)	(45,369)	(1,554)	(104,537)	(3,001)	(180,278)	(5,931)
Finance (cost)/ income, net	(8,067)	(2,303)	(3,060)	(17,778)	(20,671)	1,152	(19,979)	(10,946)
Loss before taxation	(7,175)	(3,065)	(30,990)	(19,332)	(29,076)	(1,849)	(143,155)	(16,877)
Income tax benefit	4,001	-	14,153	-	10,589	-	62,622	-
Loss for the financial period	(3,174)	(3,065)	(16,837)	(19,332)	(18,487)	(1,849)	(80,533)	(16,877)

The amounts are denominated in United States Dollars ("USD") and translated at an average rate of 4.139 (2020: 4.239).

(II) SUMMARISED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 30 Sep 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	1,294,744	134	1,271,179	107
Current assets	49,209	4,733	25,941	6,287
Current liabilities	(429,689)	(3,844)	(417,864)	(3,411)
Non-current liabilities	(200,487)	(248,303)	(172,965)	(221,761)
Net assets	713,777	(247,280)	706,291	(218,778)
Accumulated non-controlling interest		98,612		129,492

The amounts are denominated in United States Dollars ("USD") and translated at the closing rate of 4.188 (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 Sep 21 RM'000	Unaudited for the quarter ended 30 Sep 20 RM'000	Unaudited for the period ended 30 Sep 21 RM'000	Unaudited for the period ended 30 Sep 20 RM'000
Revenue	41,974	17,439	96,132	57,102
Operating expenses	(41,844)	(46,923)	(107,538)	(186,209)
EBITDA	19,128	(11,952)	32,684	(80,979)
Loss before tax	(10,240)	(50,322)	(30,925)	(160,032)
Loss after tax	(6,239)	(36,169)	(20,336)	(97,410)

Individual Quarter

The Group recorded revenue of RM 42.0 million for the current quarter under review as compared to RM 17.4 million in the corresponding quarter of the preceding year.

The average production for the third quarter of 2021 was 2,321 bopd as compared to 1,768 bopd for the third quarter of 2020.

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

Operating expenses for the current quarter showed a decrease of RM 5.1 million as compared to the corresponding quarter of the preceding year. The lower operating expenses in the third quarter of 2021 was contributed by the reversal of excess provision of penalty in general and administration expenses to reflect the recent Court ruling in reduction of the penalty amount for litigation involving Emir-Oil LLP. The litigation involving Emir-Oil LLP and Ministry of Energy in Kazakhstan in connection with gas dispersion violations from open tanks and operating facilities. The details of the cases are disclosed in note B11.

The Group recorded Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) of RM 19.1 million in the third quarter of 2021 as compared to the negative EBITDA of RM 12.0 million in the third quarter of 2020. The higher EBITDA in the third quarter of 2021 was contributed by the higher revenue as explained above.

The Finance Cost of RM 13.0 million in the third quarter of 2021 mainly consists of interest payable to corporate shareholder.

The Group has recorded Loss before Tax of RM 10.2 million in the third quarter of 2021, as compared to Loss before Tax of RM 50.3 million in the third 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 0.07 per share on 29 November 2021.

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Company no. 201301004557 (1034400-D)
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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 21 RM'000	Unaudited for the period ended 30 Jun 21 RM'000
Revenue	41,974	31,101
Operating expenses	(41,844)	(38,320)
EBITDA	19,128	8,032
Loss before tax	(10,240)	(18,762)
Loss after tax	(6,239)	(17,148)

The Group's revenue for the current quarter under review has an increase of RM 10.9 million as compared to the second 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 third quarter of 2021 was 2,321 bopd as compared to 1,901 bopd for the second quarter of 2021.

Operating expenses for the third quarter of 2021 showed an increase of RM 3.5 million as compared to the preceding quarter. The increase in the operating expenses for the third quarter of 2021 is in tandem with the increase in the production.

The Group recorded higher Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) of RM 19.1 million for the current quarter under review as compared to EBITDA of RM 8.0 million in the second quarter of 2021 was contributed by higher revenue.

For the current quarter under review, the Group has recorded Loss before Tax of RM 10.2 million and Loss after Tax of RM 6.2 million as compared to the second quarter of 2021 Loss before Tax of RM 18.8 million and Loss after Tax of RM 17.1 million.

B3. MATERIAL CHANGE IN PROFIT BEFORE TAXATION

The Group recorded a Loss before Tax of RM 31.0 million in the current nine months period ended 30 September 2021 while in the corresponding nine months period ended 30 September 2020, the Group recorded a Loss before Tax of RM 160.0 million.

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

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") will continue with its 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 has 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 third 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.

REACH ENERGY BERHAD
Company no. 201301004557 (1034400-D)
(Incorporated in Malaysia)

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

REACH ENERGY BERHAD
Company no. 201301004557 (1034400-D)
(Incorporated in Malaysia)

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	17,082
- Pre-IPO office and corporate expenses	611	25,646
- Others	26,475	35,795
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 September 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 September 2021.

B10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

B11. MATERIAL LITIGATION

(I) LITIGATION INVOLVING EMIR-OIL LLP AND MINISTRY OF ENERGY IN KAZAKHSTAN IN CONNECTION WITH 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.

The Court in Kazakhstan ("the Court") had on 10 November 2021 ruled that the penalty amount had been decreased from RM 7,292,000 (KZT 760,000,000) to RM 3,733,000 (KZT 385,556,487) to be recovered from EO.

Currently, the Company is seeking necessary legal advice for further action.

(II) LITIGATION INVOLVING EMIR-OIL LLP AND MINISTRY OF ENERGY IN KAZAKHSTAN IN CONNECTION WITH 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.

REACH ENERGY BERHAD
Company no. 201301004557 (1034400-D)
(Incorporated in Malaysia)

B11. MATERIAL LITIGATION (CONT'D)

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

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

The Court in Kazakhstan ("the Court") had on 12 November 2021 ruled that the penalty amount had been decreased from RM 3,181,000 (KZT 332,271,208) to RM 619,000 (KZT 64,012,814) to be recovered from EO.

Currently, the Company is seeking necessary legal advice for further action.

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

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.

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.

(IV) LITIGATION INVOLVING EMIR-OIL LLP AND DEPARTMENT OF INDUSTRIAL SAFETY OF MANGISTAU REGION IN KAZAKHSTAN IN CONNECTION WITH THE VIOLATIONS OF INDUSTRY SAFETY IN THE OPERATION OF HAZARDOUS FACILITIES AND TECHNICAL EQUIPMENT AT EMIR-OIL

Emir-Oil LLP ("EO"), the Company's sub-subsiary had received a Statement of Claim in connection with the inspection carried out by the Department of Industrial Safety of Mangistau region of the Republic of Kazakhstan.

During an audit conducted for the period from 14 October 2021 to 27 October 2021, the Department of Industrial Safety of Mangistau region had discovered the violation of industrial safety in some of the EO facilities. In accordance with the legislation on civil protection, the operation of hazardous facilities and equipment in the field of industrial safety is prohibited.

The preliminary Court hearing scheduled on 22 November 2021 has been postponed to 30 November 2021. The Court is to decide whether a suspension of EO's hazardous facilities and technical equipment is necessary.

In the event that the Suit is not in favour of the Company, the financial and operational impact to the Company associated with the suspension of the facilities and technical equipment will be limited to the revenue derived from the production volume for a period before the elimination of violations.

The financial and operational impact to the Company is estimated to contribute 5% to 8% reduction of the total annual revenue for the financial year ended 31 December 2021 and 15% to 25% of total revenue for the financial year ended 31 December 2022.

Currently, the Company is seeking necessary technical and legal advice to resolve the claims and mitigate the risk of suspension.

REACH ENERGY BERHAD
Company no. 201301004557 (1034400-D)
(Incorporated in Malaysia)

B12. (LOSS)/EARNINGS PER SHARE

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

The calculation of basic (loss)/earnings per ordinary share as at 30 September 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 Sep 21 RM'000	Unaudited for the quarter ended 30 Sep 20 RM'000	Unaudited for the period ended 30 Sep 21 RM'000	Unaudited for the period ended 30 Sep 20 RM'000
(Loss)/profit after taxation attributable to owner of the Company	(916)	(25,436)	10,272	(53,241)
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)	(0.001)	(0.02)	0.01	(0.05)
Diluted (loss)/earnings per ordinary share (RM)	(0.001)	(0.02)	0.01	(0.05)

(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.

B13. LOSS BEFORE TAXATION

	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
	Unaudited for the quarter ended 30 Sep 21 RM'000	Unaudited for the quarter ended 30 Sep 20 RM'000	Unaudited for the period ended 30 Sep 21 RM'000	Unaudited for the period ended 30 Sep 20 RM'000
Loss before taxation is arrived after charging/(crediting):				
Interest income from deposits with licensed banks	155	155	459	618
Foreign exchange gain/(loss), net	2,429	(12,174)	17,872	6,470
Interest expenses on loan from corporate shareholder in a subsidiary	(6,756)	(6,663)	(20,397)	(19,927)
Interest expenses on deferred consideration	(5,737)	(5,731)	(16,758)	(17,216)
Other finance cost	(461)	3,575	(695)	(870)

REACH ENERGY BERHAD
Company no. 201301004557 (1034400-D)
(Incorporated in Malaysia)

B14. INCOME TAX BENEFITS/(EXPENSES)

	INDIVIDUAL QUARTER	INDIVIDUAL QUARTER	CUMULATIVE QUARTER	CUMULATIVE QUARTER
	Unaudited for the quarter ended 30 Sep 21 RM'000	Unaudited for the quarter ended 30 Sep 20 RM'000	Unaudited for the period ended 30 Sep 21 RM'000	Unaudited for the period ended 30 Sep 20 RM'000
Current income tax				
Foreign income tax:				
- Current year	173	8	472	1,225
Deferred income tax:				
- Origination and reversal of temporary difference	3,828	14,145	10,117	61,397
	<u>4,001</u>	<u>14,153</u>	<u>10,589</u>	<u>62,622</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
30 NOVEMBER 2021