

VELESTO ENERGY BERHAD

(COMPANY NO : 200901035667)
(INCORPORATED IN MALAYSIA)



Unaudited Condensed Consolidated Statement Of Comprehensive Income For The Second Quarter Ended 30 June 2022

| | Quarter Ended 30/06/2022 RM'000 | Quarter Ended 30/06/2021 RM'000 | Financial Period Ended 30/06/2022 RM'000 | Financial Period Ended 30/06/2021 RM'000 |
|---|--|--|--|--|
| Revenue | 86,595 | 83,555 | 164,004 | 127,482 |
| Operating Expenses | (123,144) | (143,937) | (241,887) | (238,591) |
| Impairment Provisions | - | (460,519) | - | (460,519) |
| Other Operating Income | 621 | 551,820 | 762 | 551,875 |
| (Loss) / Profit From Operations | (35,928) | 30,919 | (77,121) | (19,753) |
| Finance Costs | (7,169) | (10,811) | (12,265) | (21,618) |
| Share Of Results Of Associated Company | 53 | 40 | 92 | 84 |
| Investment Income | 1,250 | 661 | 1,722 | 1,809 |
| (Loss) / Profit Before Tax | (41,794) | 20,809 | (87,572) | (39,478) |
| Taxation | (1,373) | (4,542) | (1,794) | (4,729) |
| (Loss) / Profit, Net Of Tax | (43,167) | 16,267 | (89,366) | (44,207) |
| Other Comprehensive Income: | | | | |
| Foreign Currency Translation | 102,341 | 2,175 | 117,432 | 67,505 |
| Other Comprehensive Income, Net Of Tax | 102,341 | 2,175 | 117,432 | 67,505 |
| Total Comprehensive Income For The Period | 59,174 | 18,442 | 28,066 | 23,298 |
| (Loss) / Profit For The Period Attributable To: | | | | |
| Equity Holders Of The Company | (43,167) | 16,267 | (89,366) | (44,207) |
| Total Comprehensive Income Attributable To: | | | | |
| Equity Holders Of The Company | 59,174 | 18,442 | 28,066 | 23,289 |
| Non-controlling Interests | - | - | - | 9 |
| | 59,174 | 18,442 | 28,066 | 23,298 |
| (Loss) / Earnings Per Share Attributable To Equity Holders Of The Company: | | | | |
| Basic (Sen) | (0.53) | 0.20 | (1.09) | (0.54) |
| Diluted (Sen) | (0.53) | 0.20 | (1.09) | (0.54) |

(The Unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 31 December 2021)

VELESTO ENERGY BERHAD

(COMPANY NO : 200901035667)
(INCORPORATED IN MALAYSIA)



Unaudited Condensed Consolidated Statement Of Financial Position As At 30 June 2022

| | As At 30/06/2022 RM'000 | (Audited) As At 31/12/2021 RM'000 |
|---|-------------------------------|--|
| ASSETS | | |
| Non-Current Assets | | |
| Property, Plant and Equipment | 2,400,572 | 2,294,319 |
| Right-of-use Assets | 7,717 | 8,899 |
| Investment In Associate | 1,168 | 1,077 |
| | <u>2,409,457</u> | <u>2,304,295</u> |
| Current Assets | | |
| Inventories | 184,131 | 173,518 |
| Other Investments | - | 22,531 |
| Trade Receivables | 109,406 | 177,579 |
| Other Receivables | 37,460 | 34,571 |
| Deposits, Cash & Bank Balances | 230,320 | 293,512 |
| | <u>561,317</u> | <u>701,711</u> |
| TOTAL ASSETS | <u>2,970,774</u> | <u>3,006,006</u> |
| EQUITY AND LIABILITIES | | |
| Equity Attributable To The Equity Holders Of The Company | | |
| Share Capital | 1,844,817 | 1,844,817 |
| Capital Contribution - ESOS | 11,385 | 10,842 |
| Warrant Reserve | 211,876 | 211,876 |
| Other Reserves | 826,993 | 709,561 |
| Accumulated Losses | (608,360) | (518,994) |
| TOTAL EQUITY | <u>2,286,711</u> | <u>2,258,102</u> |
| Non-Current Liabilities | | |
| Long Term Borrowings | 304,623 | 302,110 |
| Lease Liabilities | 4,761 | 4,928 |
| | <u>309,384</u> | <u>307,038</u> |
| Current Liabilities | | |
| Taxation | 4,607 | 3,863 |
| Short Term Borrowings | 268,567 | 279,916 |
| Lease Liabilities | 3,283 | 2,742 |
| Trade Payables | 68,291 | 95,216 |
| Other Payables | 29,931 | 59,129 |
| | <u>374,679</u> | <u>440,866</u> |
| TOTAL LIABILITIES | <u>684,063</u> | <u>747,904</u> |
| TOTAL EQUITY AND LIABILITIES | <u>2,970,774</u> | <u>3,006,006</u> |
| Net Assets Per Share (RM) | 0.28 | 0.27 |

(The Unaudited Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 31 December 2021)

VELESTO ENERGY BERHAD

(COMPANY NO : 200901035667)
(INCORPORATED IN MALAYSIA)

Unaudited Condensed Consolidated Statement Of Changes In Equity For The Period Ended 30 June 2022

| | ← Non - Distributable | | | | | → Distributable | | | | |
|---|-------------------------|---------------------------------|---------------------------|---------------------------|--|--|------------------------------|-----------------|---------------------------------------|------------------------|
| | Share Capital RM'000 | Share Options Reserve RM'000 | Warrant Reserve RM'000 | Capital Reserve RM'000 | Foreign Currency Translation Reserve RM'000 | Gain On Derecognition of Financial Liabilities RM'000 | Accumulated Losses RM'000 | Total RM'000 | Non - Controlling Interests RM'000 | Total Equity RM'000 |
| At 1 January 2022 | 1,844,817 | 10,842 | 211,876 | 698 | 630,718 | 78,145 | (518,994) | 2,258,102 | - | 2,258,102 |
| Transactions With Owners: | | | | | | | | | | |
| Share options granted under Employees' Share Option Scheme ("ESOS") | - | 543 | - | - | - | - | - | 543 | - | 543 |
| Total Comprehensive Income / (Loss) | - | - | - | - | 117,432 | - | (89,366) | 28,066 | - | 28,066 |
| At 30 June 2022 | 1,844,817 | 11,385 | 211,876 | 698 | 748,150 | 78,145 | (608,360) | 2,286,711 | - | 2,286,711 |

Unaudited Condensed Consolidated Statement Of Changes In Equity For The Period Ended 30 June 2021

| | ← Non - Distributable | | | | | → Distributable | | | | |
|---|-------------------------|---------------------------------|---------------------------|---------------------------|--|--|------------------------------|-----------------|---------------------------------------|------------------------|
| | Share Capital RM'000 | Share Options Reserve RM'000 | Warrant Reserve RM'000 | Capital Reserve RM'000 | Foreign Currency Translation Reserve RM'000 | Gain On Derecognition of Financial Liabilities RM'000 | Accumulated Losses RM'000 | Total RM'000 | Non - Controlling Interests RM'000 | Total Equity RM'000 |
| At 1 January 2021 | 1,844,817 | 7,525 | 211,876 | 698 | 554,704 | 78,145 | (428,170) | 2,269,595 | 1,211 | 2,270,806 |
| Transactions With Owners: | | | | | | | | | | |
| Share options granted under Employees' Share Option Scheme ("ESOS") | - | 1,926 | - | - | - | - | - | 1,926 | - | 1,926 |
| Liquidation of subsidiaries | - | - | - | - | - | - | - | - | (306) | (306) |
| Total Comprehensive Income / (Loss) | - | - | - | - | 67,496 | - | (44,207) | 23,289 | 9 | 23,298 |
| At 30 June 2021 | 1,844,817 | 9,451 | 211,876 | 698 | 622,200 | 78,145 | (472,377) | 2,294,810 | 914 | 2,295,724 |

(The Unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 31 December 2021)

VELESTO ENERGY BERHAD

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(INCORPORATED IN MALAYSIA)



Unaudited Condensed Consolidated Statement Of Cash Flows For The Period Ended 30 June 2022

| | 6 Months Ended 30/06/2022 RM'000 | 6 Months Ended 30/06/2021 RM'000 |
|--|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss Before Tax | (87,572) | (39,478) |
| Adjustments | | |
| Depreciation & Amortisation | 73,773 | 80,235 |
| Interest Expense | 12,265 | 21,618 |
| Net Unrealised Foreign Exchange Loss | 4,418 | 4,893 |
| Asset Written Off | (32) | 460,519 |
| Share Of Results Of Associated Company | (92) | (84) |
| Investment Income | (1,722) | (1,809) |
| Share Options Granted Under ESOS | 543 | 1,925 |
| Net Fair Value Loss / (Gain) On Money Market Fund | 1 | (235) |
| Gain On Assets Disposal | (487) | - |
| Dividend Income From Money Market Fund | (9) | - |
| Reversal of Impairment | (745) | - |
| Provision for unutilised leave | 12 | - |
| Operating loss before working capital changes | 353 | 527,584 |
| Decrease / (Increase) In Receivables | 75,320 | (518,794) |
| (Increase) / Decrease In Inventories | (2,036) | 4,102 |
| (Decrease) / Increase In Payables | (67,326) | 25,740 |
| Cash Generated From Operating Activities | 6,311 | 38,632 |
| Interest Paid | (10,961) | (22,728) |
| Net Taxes Recoverable / (Paid) | 679 | (14,067) |
| Net Cash (Used In) / Generated From Operating Activities | (3,971) | 1,837 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase Of Property, Plant & Equipment | (59,994) | (40,442) |
| Proceeds From Disposal of Property, Plant & Equipment | 1,700 | - |
| Interest Received | 1,722 | 1,809 |
| Net Withdrawal / (Placement) Of Investments In Money Market Fund | 22,539 | (5,292) |
| Movement In Deposits Placement With Maturity Of 3 months | 46,076 | - |
| Net Cash Generated From / (Used In) Investing Activities | 12,043 | (43,925) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net Movement In Short Term Borrowings | (22,937) | (66,708) |
| Repayment Of Long Term Borrowings | (14,098) | - |
| Payment Of Lease Liabilities | (306) | (3,562) |
| Net Movement In Restricted Cash Deposits In Licensed Bank | (1,026) | 364 |
| Net Cash Used In Financing Activities | (38,367) | (69,906) |
| NET MOVEMENT IN CASH AND CASH EQUIVALENTS | (30,295) | (111,994) |
| CASH AND CASH EQUIVALENTS AS AT 1 JANUARY | 244,500 | 203,331 |
| EFFECTS OF EXCHANGE RATE CHANGES | 12,154 | 7,597 |
| CASH AND CASH EQUIVALENTS AS AT 30 JUNE | 226,359 | 98,934 |
| Cash and Cash Equivalents comprise: | | |
| Deposits, Cash & Bank Balances | 230,320 | 156,472 |
| Less: Restricted Cash | (3,961) | (57,538) |
| | 226,359 | 98,934 |

(The Unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 31 December 2021)

Explanatory Notes

NOTE 1 – Significant accounting policies

Basis of preparation

The interim financial statements have been prepared in accordance with the requirements of International Accounting Standards (“IAS”) 34, Interim Financial Reporting and Malaysian Financial Reporting Standards (“MFRS”) 134, Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The significant accounting policies and methods of computation in the interim financial statements are consistent with those in the annual audited financial statements for the year ended 31 December 2021 except for the adoption of the following MFRS/Amendments/Interpretations effective on or after 1 January 2022:

- Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards
 - Annual Improvements to MFRS Standards 2018-2020
- Amendments to MFRS 3: Business Combinations - Reference to the Conceptual Framework
- Amendments to MFRS 9 Financial Instruments - Annual Improvements to MFRS Standards 2018-2020
- Amendments to MFRS 116: Property, Plant and Equipment - Proceeds before Intended Use
- Amendments to MFRS 137: Provisions, Contingent Liabilities and Contingent Assets
 - Onerous Contracts - cost of Fulfilling a Contract

The adoption of these pronouncements did not have a significant impact to the financial statements of the Group and the Company.

Standards issued but not yet effective:

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) but not yet effective and have not been applied by the Group:

- MFRS 17, Insurance Contracts (effective 1 January 2023)
- Amendment to MFRS 17: Insurance Contracts
 - Comparative Information - Initial Application of MFRS 17 and MFRS 9 (effective 1 January 2023)
- Amendments to MFRS 101: Presentation of Financial Statements
 - Disclosure of Accounting Policies (effective 1 January 2023)
- Amendments to MFRS 101: Presentation of Financial Statements
 - Classification of Liabilities as Current or Non-current (effective 1 January 2023)
- Amendments to MFRS 108: Accounting Policies, Changes in Accounting Estimates and Errors
 - Definition of Accounting Estimates (effective 1 January 2023)
- Amendments to MFRS 112: Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective 1 January 2023)
- Amendments to MFRS 10: Consolidated Financial Statements - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Deferred)
- Amendments to MFRS 128 Investments in Associates and Joint Ventures
 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Deferred)

NOTE 2 – Seasonal or Cyclical Factors

The Group is principally engaged in:

- (a) the provision of drilling services for exploration, development and production wells to the upstream sector of the oil and gas industry; and
- (b) the provision of workover services for the oil and gas industry; as well as
- (c) threading, inspection and repair services for Oil Country Tubular Goods, with a focus on premium connections used in high-end and complex wells.

The Group’s products and services are dependent on the level of activity, and the corresponding capital spending by oil and gas companies. These oil and gas companies are affected by volatile oil and natural gas prices, and cyclicalities in the offshore drilling and oilfield services industries.

NOTE 3 – Exceptional Items

There were no material unusual items affecting the Group's assets, liabilities, equity, net income or cash flows during the financial period ended 30 June 2022.

NOTE 4 – Accounting Estimates

There were no material changes in estimates of amounts reported in the prior interim periods of the current financial year or the previous financial years that have a material effect on the results for the financial period under review.

NOTE 5 – Issuance or Repayment of Debt and Equity Securities

There were no issuances, repurchases or repayments of debt securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the financial period under review.

NOTE 6 – Dividends Paid

There were no dividends paid during the financial period ended 30 June 2022.

NOTE 7 – Segmental Reporting

| Quarter Ended 30 June 2022 | Revenue RM'000 | (Loss) / Profit Before Tax RM'000 | (Loss) / Profit Attributable to Owners of the Company RM'000 |
|-------------------------------------|-------------------|---|--|
| Business Segment | | | |
| Drilling Services | 79,241 | (33,443) | (34,667) |
| Workover Services | 4,834 | 2,029 | 1,996 |
| Oilfield Services | 2,299 | 1,226 | 1,120 |
| Others (include corporate expenses) | 487 | (11,606) | (11,616) |
| Inter-segment | (266) | - | - |
| Consolidated Total | 86,595 | (41,794) | (43,167) |
| | | | |
| Period Ended 30 June 2022 | | | |
| Business Segment | | | |
| Drilling Services | 153,434 | (69,397) | (70,928) |
| Workover Services | 5,153 | (100) | (133) |
| Oilfield Services | 4,626 | 1,632 | 1,413 |
| Others (include corporate expenses) | 1,245 | (19,707) | (19,718) |
| Inter-segment | (454) | - | - |
| Consolidated Total | 164,004 | (87,572) | (89,366) |

With effect from 1st January 2022, The Group has changed its business segments by segregating Workover Services from Oilfield Services segment. Workover services was previously reported under the Oilfield Services segment in the comparative report.

Comparative results have been restated as per new business segments in this report.

Other than the above, there has been no material change in total assets and no differences in the basis of segmentation or in the basis of measurement of segment profit or loss as compared to the last quarterly report.

NOTE 8 – Subsequent Material Events

There has been no material event or transaction during the period from 30 June 2022 to the date of this announcement, which substantially affects the results of the Group for the financial period ended 30 June 2022.

NOTE 9 – Changes in the Group Composition

There were no changes in the composition of the Group during the financial period ended 30 June 2022.

NOTE 10 – Commitments for the purchase of Property, Plant and Equipment

The capital commitments are in respect of the following:

| | 30/06/2022 |
|---|-----------------------|
| | RM'000 |
| Approved and contracted for: | |
| Equipment, plant and machinery | 46,378 |
| Others | 6,278 |
| | <u>52,656</u> |
| Approved but not contracted for: | |
| Equipment, plant and machinery | 109,347 |
| Others | 13,348 |
| | <u>122,695</u> |
| Total | <u><u>175,351</u></u> |

NOTE 11 - Significant Related Party Transactions

There were no significant related party transactions for the financial period ended 30 June 2022.

NOTE 12 – Classification of Financial Assets

There were no changes in the classification of financial assets as a result of a change in the purpose or use of the asset.

NOTE 13 – Contingent Liabilities and Contingent Assets

There were no material contingent liabilities and contingent assets as at 30 June 2022.

NOTE 14 – Review of Performance

Performance of Current Quarter Against the Quarter Ended 30 June 2021 (“corresponding quarter”)

| Business Segment | Revenue | | (Loss) / Profit Before Tax | |
|-------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | Quarter ended 30/06/2022 RM'000 | Quarter ended 30/06/2021 RM'000 | Quarter ended 30/06/2022 RM'000 | Quarter ended 30/06/2021 RM'000 |
| Drilling Services | 79,241 | 80,247 | (33,443) | 30,273 |
| Workover Services | 4,834 | 194 | 2,029 | (2,290) |
| Oilfield Services | 2,299 | 2,732 | 1,226 | 1,285 |
| Others (include corporate expenses) | 221 | 382 | (11,606) | (8,459) |
| Total | 86,595 | 83,555 | (41,794) | 20,809 |

Group

Group revenue of RM86.6 million was 3.6% higher than the corresponding quarter's revenue of RM83.6 million, mainly due to higher utilisation in Workover segment during the quarter.

The Group reported loss before tax of RM41.8 million in the current quarter against profit before tax of RM20.8 million in the corresponding quarter. The profit before tax for the corresponding quarter mainly from NAGA 7 insurance claim recognition.

Analysis of segmental performance against the corresponding quarter are as follows:

Drilling Services Segment

Drilling Services segment recorded marginally 1.3% decrease in revenue from RM80.2 million to RM79.2 million in current quarter.

The segment registered a loss before tax of RM33.4 million as compared to a profit of RM30.3 million in the corresponding quarter. The profit before tax for the corresponding quarter mainly from NAGA 7 insurance claim recognition.

Workover Services Segment

The Workover Services segment recorded higher revenue of RM4.8 million in the current quarter as compared to RM0.2 million due to higher utilisation in current quarter.

The segment recorded profit before tax of RM2.0 million against RM2.3 million loss reported in the corresponding quarter in line with higher revenue in the current quarter.

Oilfield Services Segment

The Oilfield Services segment recorded lower revenue of RM2.3 million in the current quarter as compared to RM2.7 million in the corresponding quarter, mainly from our overseas operation in Tianjin.

However, the current quarter's profit before tax of RM1.2 million is comparable against corresponding quarter.

Others Segment (include corporate expenses)

Others segment which include corporate expenses recorded higher loss before tax of RM11.6 million in the current quarter against RM8.5 million loss reported in the corresponding quarter mainly due to higher net foreign exchange loss by RM3.8 million recognised in the current quarter.

NOTE 14 – Review of Performance (continued)

Performance of Current Period Against the Financial Period Ended 30 June 2021 (“corresponding period”)

| Business Segment | Revenue | | (Loss) / Profit Before Tax | |
|-------------------------------------|--|---|--|---|
| | Period ended 30/6/2022 RM'000 | Period ended 30/06/2021 RM'000 | Period ended 30/6/2022 RM'000 | Period ended 30/06/2021 RM'000 |
| Drilling Services | 153,434 | 121,018 | (69,397) | (18,646) |
| Workover Services | 5,153 | 310 | (100) | (4,135) |
| Oilfield Services | 4,626 | 5,567 | 1,632 | 1,750 |
| Others (include corporate expenses) | 791 | 587 | (19,707) | (18,447) |
| Total | 164,004 | 127,482 | (87,572) | (39,478) |

Group

Group revenue of RM164.0 million was 28.6% higher than the corresponding period's revenue of RM127.5 million, mainly due to higher utilisation for Drilling and Workover segments during the period.

The Group reported higher loss before tax of RM87.6 million in the current period against corresponding period's loss before tax of RM39.5 million. The lower loss before tax for corresponding period mainly from NAGA 7 insurance claim recognition.

Analysis of segmental performance against the corresponding quarter are as follows:

Drilling Services Segment

Drilling Services segment recorded 26.8% increase in revenue to RM153.4 million in current period, mainly due to higher average jack-up rig utilisation of 40% (based on 6 rigs capacity) as compared to 33% (based on 7 rigs capacity) in the corresponding period.

The segment registered a loss before tax of RM69.4 million higher compared to a loss before tax of RM18.6 million in the corresponding period. The lower loss before tax for corresponding period mainly from NAGA 7 insurance claim recognition.

Workover Services Segment

The Workover Services segment recorded higher revenue of RM5.2 million in the current period as compared to RM0.3 million in the corresponding period mainly due to higher utilisation in current period.

Consequently, the segment recorded lower loss before tax of RM0.1 million against RM4.1 million loss reported in the corresponding period.

Oilfield Services Segment

The Oilfield Services segment recorded lower revenue of RM4.6 million in the current period as compared to RM5.6 million in the corresponding period, contributed by our overseas operation in Tianjin.

However, the current period's profit before tax of RM1.6 million is comparable against corresponding period.

Others Segment (include corporate expenses)

Others segment which include corporate expenses recorded higher loss before tax of RM19.7 million in the current period against RM18.4 million loss reported in the corresponding period mainly due to higher net foreign exchange loss by RM1.5 million recognised in the current period.

NOTE 15 – Comparison with Preceding Quarter’s Results

| Business Segment | Revenue | | (Loss) / Profit Before Tax | |
|-------------------------------------|---------------|---------------|----------------------------|-----------------|
| | Quarter ended | Quarter ended | Quarter ended | Quarter ended |
| | 30/06/2022 | 31/03/2022 | 30/06/2022 | 31/03/2022 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Drilling Services | 79,241 | 74,193 | (33,443) | (35,954) |
| Workover Services | 4,834 | 319 | 2,029 | (2,129) |
| Oilfield Services | 2,299 | 2,327 | 1,226 | 406 |
| Others (include corporate expenses) | 221 | 570 | (11,606) | (8,101) |
| Total | 86,595 | 77,409 | (41,794) | (45,778) |

The Group’s revenue of RM86.6 million was 11.9% higher than the preceding quarter’s revenue of RM77.4 million. This was mainly due to higher revenue from Drilling Services as a result of higher average jack-up rig utilisation of 41% as compared to 39% in the preceding quarter. Coupled with higher utilisation for Workover Services segment in the current quarter.

As a result, the Group recorded a lower loss before tax of RM41.8 million against a loss before tax of RM45.8 million in the preceding quarter.

NOTE 16 – Review of Consolidated Statement of Financial Position

| | As at | As at |
|------------------------------|------------------|------------------|
| | 30/6/2022 | 31/12/2021 |
| | RM'000 | RM'000 |
| Total assets | 2,970,774 | 3,006,006 |
| Total equity | 2,286,711 | 2,258,102 |
| Total liabilities | 684,063 | 747,904 |
| Total equity and liabilities | 2,970,774 | 3,006,006 |

The Group’s total assets decreased by RM35.2 million mainly due to the decrease in trade and other receivables.

Total equity increased by RM28.6 million mainly due to higher reserves.

Total liabilities reduced by RM63.8 million mainly due to lower trade and other payables by RM26.9 million and reduction in borrowings by RM8.8 million resulted from early repayment of borrowings.

Other than the above, there has been no other material movement in total assets and total liabilities as compared to the audited annual financial statements for the financial year ended 31 December 2021.

NOTE 17 – Current Prospect

Drilling Services Segment

The oil and gas outlook remains strong. The benchmark Brent oil price is expected to remain above USD80 per barrel in the short term due to restricted oil supply. Gas markets also remained tight, with the Henry Hub natural gas price hovering at around USD7 per mmbtu. OPEC+ has not been able to increase its supply significantly. While the US production is increasing, it is still below the 2019 level. Major oil producers are unable to respond adequately immediately due to prolonged lack of investment in the past.

IMF has revised its projected global GDP growth rate for 2022 to 3.2% from 3.6% previously. The US Fed has also raised its rates to 2.25%-2.50% to contain rising inflation. Following this, the Energy Information Administration ("EIA") has revised the global oil demand forecast slightly lower to 99 million barrels per day from 100 million barrels previously.

Global and regional upstream activities, including in Southeast Asia continue its upward trend, with more exploration and development projects being evaluated and sanctioned. In Malaysia, a number of new contracts have been awarded with a few more being tendered out. As a result, regional jack-up marketed utilisation has increased above 90% and charter rates for the latest fixtures has been on an uptrend.

The Group has completed upgrading works for NAGA 5 and NAGA 6, making them the first Malaysian jack-up rigs to be equipped with offline capabilities. The upgraded jack-up rigs will increase the Group's competitiveness during contract bidding. NAGA 5 and NAGA 6 have been awarded work orders.

Currently, four out of six of the Group's available jack-up drilling rigs are working, while NAGA 3 and NAGA 6 are expected to commence work in September 2022. The Group is actively bidding for new tenders for local and international contracts scheduled to be performed this year and next year.

Workover Services Segment

The prospect for workover services segment is improving with a number of jobs secured. The Group recently received an additional work order for provision of Integrated Well Services with a client in Malaysia. Currently, two out of four of the Group's workover units are working. The Group continues to bid for contracts, for jobs scheduled to be performed next year.

Oilfield Services Segment

The positive industry outlook is also expected to support stable performance of the Velesto's oilfield services operation in China.

Group

The positive outlook in the global oil and gas industry augurs well for the Group's performance. The Board remains cautiously optimistic on the financial performance of the Group in 2022, barring any unforeseen circumstances.

NOTE 18 – Statement on Revenue and Profit Forecast

This is not applicable to the Group.

NOTE 19 – Variance from Profit Forecast and Profit Guarantee

This is not applicable to the Group.

NOTE 20 – Taxation

| | Quarter ended 30/06/2022 RM'000 | Period ended 30/6/2022 RM'000 |
|-----------------------------|---------------------------------------|-------------------------------------|
| Taxation for current period | 1,614 | 2,014 |
| Taxation for prior year | (241) | (220) |
| Total | 1,373 | 1,794 |

Several companies in the Group were profitable and in tax payable position while the rest of the companies were in a loss position. Hence the current tax charges are RM1.6 million and RM2.0 million for the current quarter and period ended 30 June 2022 respectively, while RM0.2 million for the quarter and the current period ended 30 June 2022 relates to overprovision for prior year.

NOTE 21 – Corporate Proposals

There was no corporate proposal announced but not completed on the date of this announcement.

NOTE 22 – Group Borrowings and Debt Securities

As at 30 June 2022

| | USD'000 borrowings | RM'000 borrowings | RM'000 equivalent |
|--|---|---|--------------------------|
| Short term borrowings | | | |
| - Secured | | | |
| USD revolving credit | 48,500 | - | 213,643 |
| RM revolving credit | - | 56,500 | 56,500 |
| Less: Transaction cost | - | - | (1,576) |
| | <u>48,500</u> | <u>56,500</u> | <u>268,567</u> |
| Long term borrowings | | | |
| - Secured | | | |
| Long term loan | 70,500 | - | 310,553 |
| Less: Transaction cost | - | - | (5,930) |
| | <u>70,500</u> | <u>-</u> | <u>304,623</u> |
| Total | 119,000 | 56,500 | 573,190 |
| | Revolving Credit RM '000 | Long Term Borrowings RM '000 | Total RM '000 |
| Movements of Borrowings | | | |
| At 1 January 2022 | 279,916 | 302,110 | 582,026 |
| Unamortised transaction costs | - | 6,079 | 6,079 |
| Gross Borrowings at 1 January 2022 | <u>279,916</u> | <u>308,189</u> | <u>588,105</u> |
| Effect of changes in foreign exchange rate | 11,589 | 16,462 | 28,051 |
| Repayment | <u>(21,362)</u> | <u>(14,098)</u> | <u>(35,460)</u> |
| | 270,143 | 310,553 | 580,696 |
| Unamortised transaction costs | (1,576) | (5,930) | (7,506) |
| At 30 June 2022 | <u>268,567</u> | <u>304,623</u> | <u>573,190</u> |

NOTE 23 – Material Litigation

Reference is made to the previous announcements made by the Company on enforcement proceeding against Frontier Oil Corporation (“FOC”) by Velesto Drilling Sdn Bhd (“VED”), a wholly owned subsidiary of the Company, at the Regional Trial Court, in Makati City, Philippines (“Makati Court”).

On 28 June 2021, Makati Court has decided the arbitral award dated 12 July 2018 issued by Singapore International Arbitration Centre in favour of VED be recognised and enforced. With ongoing execution to enforce the award in Philippines, albeit impeded by COVID-19 situation in country, the Company will make further announcement on material development on this matter from time to time.

Other than the above, there was no other material litigation pending on the date of this announcement.

NOTE 24 – Dividend

No dividend has been recommended for the period ended 30 June 2022.

NOTE 25 – Earnings Per Share

| | Quarter ended 30/06/2022 RM'000 | Quarter ended 30/06/2021 RM'000 | Period ended 30/6/2022 RM'000 | Period ended 30/06/2021 RM'000 |
|---|---------------------------------------|---------------------------------------|-------------------------------------|--------------------------------------|
| (Loss) / Profit For The Period Attributable To: Equity Holders Of The Company (RM'000) | (43,167) | 16,267 | (89,366) | (44,207) |
| Weighted average number of ordinary shares in issue ('000) | | | | |
| - Basic | 8,215,600 | 8,215,600 | 8,215,600 | 8,215,600 |
| Effects of dilution: Options under ESOS | | | | |
| - Diluted | 8,215,600 | 8,215,600 | 8,215,600 | 8,215,600 |
| (Loss) / Earnings Per Share Attributable To Equity Holders Of The Company: | | | | |
| - Basic (Sen) | (0.53) | 0.20 | (1.09) | (0.54) |
| - Diluted (Sen) | (0.53) | 0.20 | (1.09) | (0.54) |

94,040,000 options under the Employees' Share Option Scheme ("ESOS") granted on 1 November 2019 have not been included in the calculation of diluted earnings per share as the exercise price of the options exceeds the average market price of ordinary shares.

NOTE 26 – Audit Qualification

The audit report in respect of the annual financial statements of the Company for the financial year ended 31 December 2021 was not qualified.

NOTE 27 – Items to Disclose in the Statement of Comprehensive Income

| | Quarter ended 30/06/2022 RM'000 | Period ended 30/6/2022 RM'000 |
|-----------------------------------|---------------------------------------|-------------------------------------|
| (a) Interest income | 1,250 | 1,713 |
| (b) Other investment income | - | 9 |
| (c) Depreciation and amortisation | (38,130) | (73,773) |
| (d) Net foreign exchange loss | (611) | (3,049) |

By Order Of The Board

LEE MI RYOUNG
Secretary
(MAICSA 7058423)

SAZLYNA SAPIEE
Joint Secretary
(MIA 19254)

Kuala Lumpur
29 August 2022