KS ENERGY LIMITED
An Integrated Energy Services Hub

EMPHASIS OF MATTER BY INDEPENDENT AUDITORS

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Board of Directors of KS Energy Limited (the "Company" and together with its subsidiaries, the "Group") wishes to announce that the Company's independent auditor, KPMG LLP, has in their Independent Auditor's Report, included a section on 'Material uncertainty related to going concern' (the "Emphasis of Matter") in relation to the Company's financial statement for the financial year ended 31 December 2016 ("FY2016").

Extracts of the Emphasis of Matter in the Independent Auditors' Report, Note 2.1, Note 22 and Note 30 to the Company's financial statements for FY2016 are attached to this announcement as "**APPENDIX I**".

Shareholders of the Company are advised to read the Company's financial statements for FY2016 set out in the Annual Report 2016 of the Company.

By Order of the Board
KS ENERGY LIMITED

Lynn Wan Tiew Leng
Company Secretary

31 March 2017

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APPENDIX I

EXTRACT OF THE EMPHASIS OF MATTER FROM THE INDEPENDENT AUDITORS REPORT

Material uncertainty related to going concern

We draw attention to:

- Note 2.1 to the financial statements which indicates that the Group incurred a net loss of $126,318,000 during the year ended 31 December 2016 and, as of that date, the Group's and the Company's current liabilities exceed current assets by $88,197,000 and $99,447,000 respectively;

- Note 2.1 and Note 22 to the financial statements which state the Group's convertible bonds of $61,560,000 and short-term borrowings from a shareholder of $13,302,000 are subject to restructuring as at the date of this report; and

- Note 30 to the financial statements which indicates that the Group has a capital commitment of $244,782,000 for an asset under construction due for delivery on 31 December 2017.

As explained therein, the financial statements have been prepared on a going concern basis, the validity of which is premised on the favourable resolution of the following:

(i) The Group's ability to reach agreement with the lenders to restructure the convertible bonds with a carrying amount of $61,560,000 and short-term borrowings with a carrying amount of $13,302,000. Such restructuring includes the extension of the maturity date of the restructured debt obligations beyond the next twelve months from the reporting date.

(ii) From (i) above, the Group is able to complete the re-financing of bond obligations thereby avoiding the triggering of cross default clauses on other borrowings of $343,124,000, currently classified as non-current liabilities, causing them to become repayable on demand.

(iii) The finalisation of a bridging loan of $5,000,000 from a financial institution.

(iv) The Group's ability to complete the financing arrangement with an identified financier for the capital commitment of $244,782,000 for an asset under construction due on 31 December 2017.

These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern if the fund raising and re-financing plans, as mentioned above, were not timely executed to meet the Group's debt obligations as and when they fall due.

If for any reason the Group is unable to continue as a going concern, it could have an impact on the Group's classification of assets and liabilities, and the ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the financial statements. Our opinion is not modified in respect of this matter.

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EXTRACT OF NOTE 2.1 TO THE AUDTIED FINANCIAL STATEMENTS OF THE COMPANY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Going concern basis of accounting

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its debt obligations as and when they fall due within the next twelve months.

The Group has recognised a loss after tax of $126,318,000 (2015: $260,432,000) for the year ended 31 December 2016 and as at that date, the Group's and the Company's current liabilities exceed current assets by $88,197,000 and $99,447,000 (2015: $349,852,000 and $78,845,000) respectively. Improving the net current liability position of the Group and Company is a key concern for the Company. The financial statements for the year ended 31 December 2016 are prepared on a going concern basis, the validity of which is premised on the continuing availability of credit facilities to the Group for at least another twelve months from the reporting date, and the sufficiency of cash flows to be generated from the (i) Group's operating activities, (ii) asset divestment plans and (iii) financing plans.

(i) Operating activities

Although the Group expects the overall operating cash flow to remain negative in the next twelve months, it anticipates generating positive cash flows from existing rig charter contracts and prospective rig charter contracts. The operating cash flow forecast is derived from the chartering cash flow forecast, the forecast for other operating costs and the forecast for changes in working capital which are continuously reviewed by management.

(ii) Asset divestment plans

The Group plans to divest certain non-core assets.

(iii) Financing plans

The Group is currently in negotiations with the bondholders and a shareholder to restructure some of its debts by rolling over an aggregated outstanding sum of $74,862,000, comprising $61,560,000 of outstanding convertible bonds and $13,302,000 of shareholder loan, together with the cumulative accrued interest and bond premium, to be repayable more than twelve months from the reporting date, without triggering cross default clauses on other borrowings of $343,124,000, currently classified as non-current liabilities, causing them to become repayable on demand.

The Group has also applied for and is currently awaiting finalisation of a bridging loan of $5,000,000 from a financial institution.

The Group has capital commitment of $244,782,000 as at 31 December 2016 for an asset under construction due on 31 December 2017. The Group plans to seek the necessary financing closer to the date of delivery from an identified financier.

In view of the continuing credit facilities being made available to the Group, for at least another twelve months from the reporting date, and together with the asset divestment and financing plans, management of the Group believes that the continuing use of the going concern assumption in the preparation of the financial statements is appropriate.

Notwithstanding the above cash flow analysis, management acknowledges that there remain uncertainties over the ability of the Group to generate the necessary cash flows to meet its debt obligations. These uncertainties include:

- The eventual conclusion and timing of execution of several rig charter contracts currently subject to on-going negotiations with prospective customers;
- The realisation of the asset divestment plans, and the timing and value of the cash proceeds to be raised from such divestments; and
- The successful implementation of the financing plans.

The above-mentioned conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. However, as described above, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for at least another twelve months from the reporting date.

If for any reason the Group is unable to continue as a going concern, it could have an impact on the Group's classification of assets and liabilities and the ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the financial statements.

EXTRACT OF NOTE 22 TO THE AUDTIED FINANCIAL STATEMENTS OF THE COMPANY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Financial liabilities

	Group		Company	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Current				
Bills payable to banks (unsecured)	–	814	–	–
Secured bank loans	10,682	298,875	–	–
Unsecured bank loans	–	10,634	–	10,634
Convertible bonds	61,560	58,388	61,560	58,388
Short term borrowings from a shareholder	13,302	–	13,302	–
	85,544	368,711	74,862	69,022
Non-current				
Secured bank loans	343,124	10,920	–	–
Unsecured bank loans	–	4,950	–	4,950
	343,124	15,870	–	4,950
Total financial liabilities	428,668	384,581	74,862	73,972

Convertible bonds

	Group and Company	
	2016 $'000	2015 $'000
As at 1 January	58,388	65,999
Issuance of 2015 Convertible Bonds	–	7,500
Amount classified as equity	–	(113)
Deferred tax	–	(24)
Accretion expense of redemption premium payable on convertible bonds at maturity	3,172	3,471
Redemption of 2010 Convertible Bonds	–	(18,445)
As at 31 December	61,560	58,388

2010 Convertible Bonds

In 2010, the Company issued 3.00% convertible bonds with a principal amount of $107,000,000 due in 2015 ("2010 Convertible Bonds"). It can be fully redeemed at the holders' options on 26 March 2013 at 100% of the principal amount or held to maturity and redeemed on 26 March 2015 at 108.5% of the principal amount. In 2013, $90,000,000 in principal amount of the bonds were redeemed by the holders and the remaining $17,000,000 bonds were redeemed in 2015.

2013 Convertible Bonds

In 2013, the Company issued 6.00% convertible bonds with a principal amount of $45,000,000 originally due in 2016 ("2013 Convertible Bonds").

The main terms of the issuance are as follows:

(a) The 2013 Convertible Bonds were issued at a price of 100% and are convertible into 54.217 million shares of the Company at an initial conversion price of $0.83 per share.

(b) The conversion right may be exercised at the option of the bondholder, at any time until the date falling seven days prior to the original maturity date, on or about 21 March 2016, subject to customary closed periods.

(c) Unless previously redeemed, converted or purchased and cancelled, the 2013 Convertible Bonds will be redeemed by the Company at 121.75% of their principal amount together with unpaid accrued interest thereon on the extended maturity date on 21 June 2017.

(d) The 2013 Convertible Bonds bear interest at the rate of 6.00% per annum, payable on a semi-annual basis.

(e) The yield-to-maturity is approximately 11% per annum, calculated on a semi-annual basis.

(f) The 2013 Convertible Bonds become repayable on demand if there is a change of control of the Company or if the Company's shares are de-listed or suspended from trading for a period equal to or exceeding 20 trading days.In 2013, the amount classified as equity of $8,288,000 in relation to the 2013 Convertible Bonds issue is net of attributable transaction costs of $864,000. The deferred tax recognised directly in equity in respect of the 2013 Convertible Bonds amounted to $382,000.

Extension of maturity

On 21 March 2016, the 2013 Convertible Bonds were not settled. During the year, the Group obtained agreement from bondholders to extend the maturity date to 21 March 2017 and, subsequently after the year-end, to 21 June 2017. As at the date of authorisation of these financial statements, the Group is negotiating with the existing bondholders to restructure the 2013 Convertible Bonds, which includes extending the maturity date beyond the next twelve months from the reporting date.

2015 Convertible Bonds

On 19 November 2015, the Company issued $7.5 million of 6.0% convertible bonds originally due in 2016 (the "2015 Convertible Bonds").

The main terms of the issuance are as follows:

(a) The 2015 Convertible Bonds were issued at a price of 100% and are convertible into 26.786 million shares of the Company at an initial conversion price of $0.28 per share.

(b) The conversion right may be exercised at the option of the bondholder, at any time until the date falling seven days prior to the maturity date, on or about 21 September 2016, subject to customary closed periods.

(c) Unless previously redeemed, converted or purchased and cancelled, the 2015 Convertible Bonds will be redeemed by the Company at 104.194% of their principal amount together with unpaid accrued interest thereon on the maturity date on 21 September 2016.

(d) The 2015 Convertible Bonds bear interest at the rate of 6.00% per annum, payable on a semi-annual basis, with an initial coupon payment date on 21 March 2016.

(e) The yield-to-maturity is approximately 11% per annum, calculated on a semi-annual basis.

(f) The 2015 Convertible Bonds become repayable on demand if there is a change of control of the Company or if the Company's shares are de-listed or suspended from trading for a period equal to or exceeding 20 trading days.

In 2015, the amount classified as equity of $113,000 in relation to the 2015 Convertible Bonds issue is net of attributable transaction costs of $31,000. The deferred tax recognised in equity in respect of the 2015 Convertible Bond amounted to $24,000.

On 21 September 2016, the 2015 Convertible Bonds were not settled. As of the reporting date, the Group is negotiating with the existing bondholder to restructure the 2015 Convertible Bonds, which includes extending the maturity date beyond the next twelve months from the reporting date.

EXTRACT OF NOTE 30 TO THE AUDTIED FINANCIAL STATEMENTS OF THE COMPANY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Commitments

Capital commitments

As at 31 December, the capital commitments of the Group and Company to acquire plant and equipment are as follows:

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Within 1 year	244,782	–	–	–
After 1 year but within 5 years	273,774	499,651	–	–
	518,556	499,651	–	–

In 2011 and 2014, the Group entered into two contracts for the construction and delivery of two jack-up drilling rigs. The current delivery dates for the rigs are 31 December 2017 and 31 December 2018.