Atlantic Navigation Holdings (Singapore) Limited

(Company registration no. 200411055E)

EMPHASIS OF MATTER ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

In compliance with Rule 704(4) of the Singapore Exchange Securities Trading Limited Listing Manual – Section B: Rules of Catalist, the Board of Directors (the "**Board**") of Atlantic Navigation Holdings (Singapore) Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to inform that the independent auditors of the Company, Ernst & Young LLP (the "**Auditors**"), have included an Emphasis of Matter in respect of material uncertainty related to the Group's ability to continue as a going concern in the Independent Auditors' Report on the audited financial statements of the Company and its subsidiaries for the financial year ended 31 December 2017.

The opinion of the Auditors remains unqualified.

In the opinion of the Directors, the Group will be able to continue as a going concern as there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due as the Group will be able to generate sufficient cash flows from its operations as well as secure funding to support working capital and its committed capital expenditure in the near term.

For further details, please refer to the extracts of the Independent Auditor's Report, Notes 2.1 and 34 to the Financial Statements which sets out, *inter alia*, the bases for the Management and the Board's opinion that the Group will be able to continue as a going concern, annexed to this announcement. Shareholders of the Company are advised to read the Audited Financial Statements in its annual report 2017, which will be despatched in due course.

The Board (i) is of the opinion that sufficient information has been disclosed and (ii) all material disclosures have been provided by the Company, for trading of the Company's shares to continue in an orderly manner.

By Order of the Board

Wong Siew Cheong
Executive Chairman and Chief Executive Officer

13 June 2018

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor ("**Sponsor**"), SAC Capital Private Limited, for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"). The Sponsor has not independently verified the contents of this announcement.*

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made, or reports contained in this announcement.

The contact person for the Sponsor is Ms Lee Khai Yinn (Tel: (65) 6532 3829) at 1 Robinson Road, #21-02 AIA Tower, Singapore 048542.

A COPY OF THE INDEPENDENT AUDITORS' REPORT TO THE AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Atlantic Navigation Holdings (Singapore) Limited (the "Company") and its subsidiaries (collectively, the "Group") which comprise the balance sheets of the Group and the Company as at 31 December 2017, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.1 to the financial statements. The Group incurred a net loss of US$13,156,000 during the financial year ended 31 December 2017 and as at that date, the Group's current liabilities exceeded its current assets by US$21,518,000. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The Group's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flows from its operations as well as secure funding to support its committed capital expenditure in the near term. The Group's actions after the balance sheet date are disclosed in Note 34 to the financial statements. If the Group is unable to continue in operational existence for the foreseeable future, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, the Group may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements. Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

1. Carrying value of vessels

The Group owned 17 vessels with a carrying value of US$155,460,000 as at 31 December 2017. At each reporting period, the Group assesses whether there are indicators of impairment and if there are such indicators, an estimate is made of the recoverable amount of the asset concerned. Management has assessed that vessels with low utilisation rate during the period, committed to loss making charters or unutilised as at end of each reporting period, are indicators of impairment and based on the assessment, as at 31 December 2017, 4 vessels have indicators of impairment. The impairment test was conducted by comparing the carrying amount of the vessels to their respective recoverable amount. Based on the outcome of the impairment tests, the Group noted that there was no impairment as at year end.

Management has assessed the recoverable amounts of operating vessels based on its value in use calculations by performing cash flow projections over its remaining useful lives. This assessment required management to use significant judgement over the assumptions and estimates for the projections.

We carried out procedures to understand management’s process for identifying impairment indicators and considered management’s assessment of impairment. Our audit procedures, amongst others, in assessing the appropriateness of the recoverable amounts determined by management included:

– Reviewed the basis of management’s assessment of the estimated useful lives and residual values of the vessels;

– Assessed management’s evaluation of indicators of impairment for the vessels;

– Reviewed management’s assessment of recoverable amounts of the vessels through the following:

▪ Assessed the key assumptions used in value in use calculations, including vessels projected future charter rates, utilisation rate and gross margin, by comparing to historical data and market outlook;
▪ Evaluated the discount rates used to determine the present value by comparing to external observable data, which was assisted by our internal valuation specialists; and
▪ Reviewed management’s analysis of the sensitivity of the recoverable amount to changes in the key assumptions.

We also assessed the adequacy of the relevant disclosures in the financial statements. The management’s conclusion on the impairment test and the related disclosures are included in Note 3.2b and Note 11. The accounting policies for property, vessels and equipment and its relevant disclosures, and the key sources of estimation uncertainty in relation to impairment of non-financial assets are disclosed in Note 2.6, Note 11 and Note 3.2b respectively.

Key Audit Matters (cont'd)

2. Trade receivables and allowance for doubtful debts

Trade receivables of US$11,888,000 as at 31 December 2017 were significant to the Group as they represent 65% of the total current assets as at 31 December 2017. The credit worthiness of customers may be impacted by certain micro and macroeconomic conditions, resulting in overdue trade receivables. The collectability of trade receivables is a key element of the Group's working capital management. The Group performs a collectability assessment on the outstanding amount due from each customer on a monthly basis. In certain circumstances, the Group also accepts offsetting arrangements with customers to offset trade receivables with trade payables, when the customer is also a vendor. In addition, trade receivables impairment assessment other than those with offsetting arrangements require significant management judgement in providing allowance for doubtful debts for those accounts that have higher risk of non-collectability. As such, we determined that this is a key audit matter.

Our audit procedures, amongst others, in response to the above mentioned key audit matter:

- Obtained an understanding of the credit policies and credit assessment procedures;

- Evaluated Group's processes and controls relating to the monitoring of trade receivables;

- Evaluated the adequacy of the allowance for doubtful accounts through the following:

  - Reviewed Management's assessment through the analysis of the debtors aging report to identify any long overdue receivables and reviewed their historical pattern of settlement;
  - Discussed with management on the collectability of receivables and adequacy of doubtful receivables allowances, and inquire management if there are any known disputed receivables;
  - Reviewed the collectability of the trade receivables by way of obtaining evidence of receipts subsequent to the balance sheet date from the customers;
  - Selected samples to circulate trade receivables confirmation. For non-replies, we have performed alternative audit work by checking to supporting sales and delivery documents or checking subsequent cash settlements by vouching to receipts in the form of bank advices or equivalent and bank statements; and
  - Reviewed for offsetting arrangements during the financial year, if any;

We assessed the adequacy of the Group's disclosures on the trade receivables, the key sources of estimation uncertainty in relation to impairment of loans and receivables, and the related risks such as credit risk and liquidity risk in Notes 19, Note 3.2c and Note 31 to the financial statements respectively.

3. Valuation of convertible loan

In January 2016, the Company entered into a convertible loan agreement (the "Loan Agreement") with a third party pursuant to which the third party extended a loan of US$13,000,000 to the Company (the "Convertible Loan"). The Convertible Loan matured on 31 December 2016.

In January 2017, the Company entered into a second supplemental agreement ("Second Supplemental Agreement") to further amend, revise and vary the terms of the Loan Agreement (as amended by the First Supplemental Agreement on 8 February 2016). The maturity date of the Loan Agreement was extended from 31 December 2016 to 3 January 2019. In addition, the conversion price and interest rate were changed under the Second Supplemental Agreement. The Company is required to assess the fair value of the convertible loan pursuant to the Second Supplemental Agreement at its inception. The Company engaged an external valuation expert to perform the valuation. This exercise involved various underlying assumptions and techniques used by the external valuation expert. The key assumptions are included in Note 21 to the financial statements.

Key Audit Matters (cont'd)

3. Valuation of convertible loan (cont'd)

Our audit procedures, amongst others, in response to the above mentioned key audit matter:

- Obtained and reviewed the Second Supplemental Agreement;
- Reviewed Management's assessment on the classification of the Second Supplemental Agreement;
- Assessed the credentials of the valuers and their ability to perform a reasonable valuation;
- Evaluated the methodology and assumptions used in the valuation report, which was assisted by our internal valuation specialists; and
- Assessed the key assumptions used in the valuation, including expected volatility of the underlying SGD share price and the expected volatility of USD/SGD spot rate, risk-free rate and market interest rate, assisted by our interval valuation specialists.

We also assessed the adequacy of the relevant disclosures in the financial statements. The related disclosures are included in Note 2.18, Note 3.2d and Note 21 to the financial statements. The key sources of estimation uncertainty in relation to the valuation of convertible loan are disclosed in Note 3.2d to the financial statements.

Other Information

Management is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Groups internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Shekaran Krishnan.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore
11 June 2018

EXTRACT OF NOTE 2.1 AND NOTE 34 TO THE AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2.1 ***Basis of presentation***

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in United States Dollars ("USD" or "US$") and all values are rounded to the nearest thousand (US$'000), except when otherwise indicated.

<u>Convergence with International Financial Reporting Standards</u>

For annual financial period beginning on or after 1 January 2018, Singapore-incorporated companies listed on the Singapore Exchange will apply Singapore Financial Reporting Framework (International), a new financial reporting framework identical to International Financial Reporting Standards. The Group will adopt SFRS(I) on 1 January 2018.

The Group has performed an assessment of the impact of adopting SFRS(I). Other than the impact on adoption of the SFRS(I) 9, SFRS(I) 15 and SFRS(I) 16, the Group expects that adoption of SFRS(I) will have no material impact on the financial statements in the year of initial application. The Group expects the impact of adopting SFRS(I) 9, SFRS(I) 15 and SFRS(I) 16 will be similar to the impact on adoption of FRS 109, FRS 115 and FRS 116 as disclosed in Note 2.3.

Going concern uncertainty

The Group incurred a net loss of US$13,156,000 (2016: net loss of US$11,427,000) during the financial year ended 31 December 2017 and as at that date, the Group's current liabilities exceeded its current assets by US$21,518,000 (2016: US$39,713,000). The financial statements have been prepared on a going concern basis as the management is reasonably confident that the Group will be able to generate sufficient cash flows from its operations as well as secure funding to support its committed capital expenditure in the near term. The Group's actions after the balance sheet date are disclosed in Note 34 to the financial statements.

34. Events occurring after the reporting period

(i) On 28 March 2018, the Group entered into a loan agreement with a third party Saudi Arabian representative ("SA REP") pursuant to which SA REP extended a loan of US$8.5 million with interest rate of 10% per annum to the Group. The loan would be applied towards the cash portion of the purchase price of the Group's new vessel deliveries. The principal and interest amounts are repayable over 5 years, starting on the date the Group receives the amount of the Loan. The Group has received the full amount of the loan.

(ii) On 28 March 2018, the Group entered into a loan agreement with one of its principal bankers pursuant to which the bank extended a term loan of US$29.8 million at 3 months LIBOR + 4.5% interest rate to the Group. The loan would be applied towards the cash portion of the purchase price of the Group's new vessel deliveries. The principal amount is to be fully repaid in 28 equal quarterly instalments over a period of 7 years. Interest is repayable every 3 months after the date of receipt of the loan by the Group.

(iii) The Group is currently working with potential lender to support its short-term working capital cash flows as well as funding to support its committed capital expenditure. The Group expects finalisation of the funding arrangements in the near future.