Atlantic Navigation Holdings (Singapore) Limited

(Company Registration No. 200411055E)
(Incorporated in Singapore)

EMPHASIS OF MATTER ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

In compliance with Rule 704(4) of the Singapore Exchange Securities Trading Limited Listing Manual – Section B: Rules of Catalist (the "**Catalist Rules**"), 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 auditor of the Company, Ernst & Young LLP (the "**Auditor**"), has 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 Auditor's Report on the audited financial statements of the Company and its subsidiaries ("**Audited Financial Statements**") for the financial year ended 31 December 2020 ("**FY2020**") which is published together with the Annual Report 2020 ("**AR2020**") released on 14 June 2021.

The opinion of the Auditor 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 is expected to be able to generate sufficient cash flows from its operations, augmented by the support from its principal bankers as well as potential sale of vessels.

For further details, please refer to the extracts of the Independent Auditor's Report, Note 2.1 and Note 38 to the Audited Financial Statements for FY2020 which sets out, *inter alia*, the additional 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.

Against the backdrop of the challenging market environment due to the global COVID-19 pandemic, to set into context the financial performance and position of the Group in FY2020:

(i) The Group had generated positive net cash flows from operating activities of US$10.3 million, with the resultant overall negative net cash flow of US$1.4 million due mainly to the repayment of loans and borrowings of US$11.0 million as disclosed on page 52 of the AR2020.

(ii) As disclosed in the Company's announcement dated 31 March 2021, the Group had generated adjusted Earnings Before Interests, Taxes, Depreciation and Amortisation (EBITDA) as defined thereon of US$13.9 million in FY2020 compared to US$19.8 million in FY2019.

(iii) The gearing ratio of the Group had further declined, albeit marginally from 55.4% in FY2019 to 52.4% in FY2020 as disclosed in Note 36 to the Audited Financial Statements.

(iv) As disclosed on 3 June 2021, the Group had by end May 2021 completed the re-profiling of the secured loan obligations with both of its two principal bankers which in summary would result in US$14.1 million in aggregate of principal repayments originally due in 2H2020 and FY2021 to be re-scheduled, and repayable from FY2022 to FY2025.

(v) In the determination of net current liability position of the Group, the value of the vessels of US$150.7 million in the balance sheet as disclosed on page 75 of the AR2020 are all classified as non-current assets without current asset component while the loans backed by mortgages of these vessels would have current and non-current liabilities components from an accounting stand-point.

Shareholders of the Company are advised to read the AR2020 in its entirety including the Audited Financial Statements for FY2020 as released on 14 June 2021 on SGXNet.

The Board confirms that, to the best of its knowledge, all material disclosures have been provided for the trading of the Company's shares to continue.

By Order of the Board

Wong Siew Cheong
Executive Director and Chief Executive Officer

14 June 2021

*This announcement has been reviewed by the Company's sponsor ("**Sponsor**"), SAC Capital Private Limited. This announcement has not been examined or approved by the Singapore Exchange Securities Trading Limited ("**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) 6232 3210) at 1 Robinson Road, #21-00 AIA Tower, Singapore 048542.

A COPY OF THE INDEPENDENT AUDITOR'S REPORT TO THE AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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 statement of financial position of the Group and the Company as at 31 December 2020, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated statement of cash flow of the Group for the year then ended, notes to the financial statements, including a summary of significant account policies.

In our opinion, the accompanying financial statements of the Group and 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 Singapore Financial Reporting Standards (International) (SFRS(I)) 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 2020 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

The Group recorded a net loss of US$5,453,000 for the year ended 31 December 2020 and as at that date, the Group's and the Company's current liabilities exceeded its current assets by US$57,949,000 and US$13,536,000 respectively. The Group's loans and borrowings significantly exceeded the cash and bank balances as at 31 December 2020.

These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. As stated in Note 2.1 to the financial statements, the Group's and the Company's ability to continue as a going concern is dependent on their ability to generate sufficient cash flows from their operations, and manage the Group's liquidity position through the support of their principal bankers and potential sale of assets, if required, to meet their financial obligations as and when they fall due.

The Group's actions to manage its liquidity position after the balance sheet date are disclosed in Note 38 to the financial statements. If the Group and Company is unable to generate sufficient cash flows from their operations, the Group and Company may be unable to discharge their 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 and Company 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 Matter

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.

Carrying value of vessels

The Group owns vessels with a carrying value of US$155,232,000 as at 31 December 2020. This approximates 89.5% of the Group's total assets. The impairment test was conducted by comparing the carrying amount of the vessels to their respective recoverable amount which is the higher of its fair value less costs of disposal and its value in use. As stated in Note 11 to the financial statements, the Group recorded impairment charge of US$5,780,000 during the financial year ended 31 December 2020.

Management has assessed the recoverable amounts of vessels based on its fair value less costs of disposal of which the fair value of vessels is determined by independent professional valuers. The valuation technique involved various underlying key assumptions used by the external independent valuers. Due to the high level of management judgement involved, heighten estimation uncertainty in estimating the fair value of vessels and the significance of the carrying amount of the vessels, we determined this as a key audit matter.

Our audit procedures, amongst others, in assessing the appropriateness of the recoverable amounts determined by management included:

- Obtained an understanding of management's process for identifying impairment indicators;
- Reviewed the basis of management's assessment of the estimated useful lives and residual values of the vessels;
- Evaluated the competence, capabilities and objectivity of the external valuer engaged by the management;
- Analysed the methodologies and key valuation parameters adopted by the external valuer;
- Involved our internal valuation specialist to assist us in our assessment of the external valuer's methodologies and reasonableness of the key valuation parameters taking into consideration the specification of the vessels and the industry outlook in which the Group operates in.

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 3.2 *Key sources of estimation uncertainty (b) Impairment of non-financial assets* and Note 11 *Property, vessels and equipment* 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 SFRS(I), 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.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 Wong Yew Chung.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore
14 June 2021

EXTRACT OF NOTE 2.1 AND NOTE 38 TO THE AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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 (International) ("SFRS(I)").

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.

Going concern uncertainty

For the financial year ended 31 December 2020, the Group incurred a net loss of US$5,453,000 (2019: net profit of US$2,402,000) which includes impairment charges recognised on vessels of US$5,780,000 (2019: nil). As at 31 December 2020, the Group has reported a net current liabilities position of US$57,949,000 (2019: US$19,952,000) and net assets of US$81,074,000 (2019: US$85,952,000) as at 31 December 2020. The Company has reported a net current liabilities position of US$13,536,000 (2019: net current assets of US$2,657,000) and net assets of US$78,064,000 (2019: US$83,050,000) as at 31 December 2020.

As disclosed in Note 11, the Group had vessels with a carrying value of US$150,712,000 as at 31 December 2020 that have been pledged with the financial institutions to secure the Group's bank loans. The Group's financial performance for the financial year ended 31 December 2020 was adversely affected by the challenging conditions affecting the offshore oil and gas industry and during the financial year, the Group and Company were unable to fulfil certain scheduled principal repayments to its principal bankers. As at 31 December 2020, the Group had breached certain terms of its bank loans and consequently, US$52,889,000 in aggregate pertaining to such loans were classified as current liabilities as at 31 December 2020. As disclosed in Note 38, the Group had by end May 2021 completed the re-profiling of the secured loan obligations with both of its two principal bankers which in summary would result in US$14.1 million in aggregate of principal repayments originally due in 2H2020 and FY2021 to be re-scheduled, and repayable from FY2022 to FY2025 ("Loans Re-profiling").

The Group has prepared the financial statements on a going-concern basis in view of the following:-

- The Group's and Company's net current liabilities position is mainly due to the classification of loans and borrowings of US$55,387,000 (2019: US$16,342,000) and US$20,087,000 (2019: US$7,657,000) respectively. As mentioned above, the support of its principal bankers as evident by the completion of the Loans Re-profiling is expected to alleviate its cash flow situation to meet its obligations as and when they fall due in the next 12 months.

- Apart from securing contracts to generate cash flow from chartering operations, as previously disclosed, the Group is exploring asset sales which if conducted, will improve the cash flow position of the Group.

- The principal shareholders of the Group had previously provided supported to the Group amounting to US$11.4 million as at 31 December 2020, with US$1.0 million in aggregate in accrued interests being waived off. The principal shareholders of the Group had continued to provide further financial support which amounted to US$1.4 million in aggregate as at the date of this report to support the working capital requirements of the Group.

38. Events occurring after the reporting period

During second half of FY2020 ("2H2020"), the Group and the Company did not meet certain obligations under its loan agreements and consequently the loan relating to these loan agreements were classified as current liabilities in accordance with SFRS (I) 1-1 Presentation of financial statements. The re-profiling of the secured loan obligations with both of its principal bankers as announced on 3 June 2021 was completed by end May 2021 where in summary would result in US$14.1 million in aggregate of principal repayments originally due in 2H2020 and FY2021 to be re-scheduled, and repayable from FY2022 to FY2025.

With uncertainties emanating from COVID-19 pandemic and global oil prices continue to remain volatile, the market is expected to remain challenging. The Group will continue to work to mitigate these impacts with focuses on vessel utilisation and to work closely with its stakeholders to manage its cash flow requirements. The Group is also exploring other options including potential sale of vessels to augment its cash flows.

The principal shareholders of the Group had previously provided supported to the Group amounting to US$11.4 million as at 31 December 2020, with US$1.0 million in aggregate in accrued interests being waived off. Apart from the amount due to shareholders as at 31 December 2020, the principal shareholders of the Group had continued to provide further financial support which amounted to US$1.4 million in aggregate as at the date of release of this report to support the working capital requirements of the Group.