

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF RESOURCES PRIMA GROUP LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Resources Prima Group Limited (the "Company") and its subsidiaries (the "Group") as set out on pages 44 to 96, which comprise the statements of financial position of the Group and the Company as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the financial 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 and the statement of financial position and 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 of the changes in equity of the Company for the financial 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 3(a) to the financial statements with respect to the Group's and the Company's ability to continue as going concerns and contingent liabilities as disclosed in Note 26 to the financial statements. During the financial year ended 31 December 2020, the Group incurred a net loss of US\$1,323,000 (2019: US\$2,165,000) and the Company incurred a net loss of US\$922,000 (2019: US\$1,825,000). As at 31 December 2020, the Group's and the Company's total and current liabilities exceeded its total and current assets by US\$5,019,000 (2019: US\$3,633,000) and US\$5,031,000 (2019: US\$3,951,000) and US\$4,398,000 (2019: US\$3,448,000) and US\$4,398,000 (2019: US\$3,448,000) respectively.

As further disclosed in Note 3(a), the SGX-ST had, on 31 December 2020 approved the Company's application for an extension of time to 16 August 2021 to, inter alia, submit its resumption of trading proposal. The SGX-ST had previously informed that they will not grant any further extension if the Company is unable to submit its resumption of trading proposal by 28 September 2020. Management has represented that SGX-ST has granted the extension after considering the unprecedented circumstances faced by the Company in the midst of the Covid-19 pandemic as a final concession. The SGX-ST will not grant any further extension if the resumption of trading proposal is not submitted by 16 August 2021. The Company will thus face delisting if it is unable to meet the extended deadline to submit its resumption of trading proposal by 16 August 2021.

Subsequent to the end of the financial year, the Company had entered into agreements with the individual investors to extend the maturity date of all three investment agreements to 31 December 2022. As disclosed in Note 16, in the event that the key terms of all three investment agreements were not met, the Ang Investment Agreement and Yadi Investment Agreement will become due and repayable immediately whereas the Chaw Investment Agreement will be due within 5 years. Accordingly, the ability of the Group and the Company to continue as a going concern is dependent on the Company's submission for resumption of trading proposal by 16 August 2021.

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TO THE MEMBERS OF RESOURCES PRIMA GROUP LIMITED

Report on the Audit of the Financial Statements (cont'd)

Material Uncertainty Related to Going Concern (cont'd)

These factors and contingent liabilities as disclosed in Note 26 to the financial statements indicate the existence of material uncertainties that may cast significant doubt about the Group's and the Company's ability to continue as going concerns and to realise their assets and discharge their liabilities in the ordinary course of business. Nevertheless, for the reasons disclosed in Note 3(a) to the financial statements, the directors of the Company are of the opinion that the use of the going concern assumption in the preparation and presentation of the financial statements for the financial year ended 31 December 2020 is appropriate. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those 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 matter described below to be the key audit matter to be communicated in our report.

Accounting treatment and valuation of convertible loans

As at 31 December 2020, the carrying amounts of the borrowings, derivative liability component on the convertible loans and convertible loans equity reserve with respect to the Group's convertible loans amounted to US\$2,246,000 (2019: US\$1,897,000), US\$543,000 (2019: US\$591,000) and US\$214,000 (2019: US\$141,000) respectively. As disclosed in Note 16, during the financial year, the maturity dates of convertible loans 1 and 3 were extended to 31 December 2021. In addition, the Group also revised its estimated conversion date for convertible loan 2 to 31 December 2021. These constitute modification of contractual cash flows for financial liabilities under SFRS(I) 9 *Financial Instruments*.

The Group performed quantitative test for each convertible loan to determine how different the contractual cash flows could be from the cash flows that would arise if the time value of money element was not modified. The Group has engaged external expert to determine the fair value of the liability component for compound instruments of convertible loans 1 and 3 and fair value of the liability and derivative liability components for hybrid instrument of convertible loan 2. Given the significant level of judgement and estimation involved, and the significance of the liabilities to the Group's consolidated financial position, we identified this to be a key audit matter.

The accounting policy for convertible loans is disclosed in Note 2(k) and significant judgements and estimates made by management on convertible loans is disclosed in Note 3(a). Further details on the borrowings and derivative liability components on the convertible loans are disclosed in Note 16 and Note 17. The assumptions and models used for estimating fair value of the derivative liability component are disclosed in Note 23(d).

Our procedures to address the key audit matter

We have reviewed management's assessment relating to the modification of contractual cash flows of convertible loans and assessed the accounting treatment in accordance with SFRS(I) 9 *Financial Instruments*.

We assessed the competence, objectivity and capabilities of the external expert engaged by the Group. We assessed and challenged the key estimates and assumptions applied in the cash flow analysis and reviewed the accounting relating to the modification. We involved our valuation specialist in reviewing the reasonableness of the valuation methodology and discount rates used in the valuation report from external expert engaged by the Group. We also reviewed the adequacy of the disclosures relating to convertible loans.

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TO THE MEMBERS OF RESOURCES PRIMA GROUP LIMITED

Report on the Audit of the Financial Statements (cont'd)

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report 2020, 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF RESOURCES PRIMA GROUP LIMITED

Report on the Audit of the Financial Statements (cont'd)

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

- 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 and by those subsidiary corporations incorporated in Singapore of which we are the auditors 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 Lee Chee Sum Gilbert.

Baker Tilly TFW LLP
Public Accountants and
Chartered Accountants
Singapore

11 June 2021

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

2 Summary of significant accounting policies (cont'd)

(s) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the Group. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker for making decisions about allocating resources and assessing performance of the operating segments.

3 Critical accounting judgement and key sources of estimation uncertainty

(a) Critical judgement in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgement that has the most significant effect on the amounts recognised in the financial statements (apart from those involving estimates, which are dealt in the preceding paragraphs).

Going concern assumption

During the financial year ended 31 December 2020, the Group incurred a net loss of US\$1,323,000 (2019: US\$2,165,000) and the Company incurred a net loss of US\$922,000 (2019: US\$1,825,000). As at 31 December 2020, the Group's and the Company's total and current liabilities exceeded its total and current assets by US\$5,019,000 (2019: US\$3,633,000) and US\$5,031,000 (2019: US\$3,951,000) and US\$4,398,000 (2019: US\$3,448,000) and US\$4,398,000 (2019: US\$3,448,000) respectively. These factors and contingent liabilities as disclosed in Note 26 indicate the existence of material uncertainties that may cast significant doubt about the Group's and the Company's ability to continue as going concerns.

In 2017, the Group's main operating subsidiary, PT Rinjani Kartanegara ("Rinjani"), was adversely affected by the above average rainfall in its operating area and the dewatering issue which arose due to the above average rainfall. This caused a significant reduction in coal production, coal sales quantities, coal sales revenue and cashflows of Rinjani and resulted in Rinjani's inability to pay the waste mining contractor's current waste mining costs on time. The inability of Rinjani to pay the current waste mining costs also triggered a cross default in its agreements with the waste mining contractor as well as the cessation of waste mining operations by the waste mining contractor at Rinjani's mine site with effect from 23 June 2017 and, consequently, the cessation of all coal production from Rinjani.

On 29 August 2017, Rinjani received a letter from the Commercial Court of Jakarta, stating that an application filed by Rinjani's creditors for the suspension of payment of Rinjani, akin to a Scheme of Arrangement under the Singapore Companies Act, had been approved and that the suspension of payment period will be effective for a period of 45 days from 24 August 2017. Since the approval of the suspension of payment on 24 August 2017, the directors and management of Rinjani no longer had sole authority to administer or represent Rinjani or exercise any management or ownership decisions over the assets and operations of Rinjani. It was also no longer entitled to any returns from its investment in Rinjani or able to affect the amount of returns from its investment in Rinjani.

Subsequently, on 9 October 2017, the composition plan presented by Rinjani in accordance with the suspension of payment process, was rejected and Rinjani entered into bankruptcy with effect from that date and the Commercial Court of Jakarta appointed 2 curators to administer the bankruptcy estate and a supervisory judge to supervise the bankruptcy process.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

3 Critical accounting judgement and key sources of estimation uncertainty (cont'd)

(a) Critical judgement in applying the Group's accounting policies (cont'd)

Going concern assumption (cont'd)

Subsequent to the loss of control of Rinjani on 24 August 2017, the remaining active subsidiary of the Group is PT Energy Indonesia Resources ("EIR") which carries out coal hauling activities, an ancillary part of the Group's business rather than its primary business. In October 2017, EIR entered into a coal hauling service agreement with a third party, PT Coalindo Adhi Nusantara ("CAN") effective from 1 November 2017. However, the average quantity of coal hauled was significantly less than the 100,000 tonnes per month as stipulated under the agreement with CAN due to ongoing heavy rainfall, poor condition of the coal hauling road and operational disruptions experienced by CAN. On 15 May 2019, CAN unilaterally terminated the coal hauling contract with EIR. EIR has since, taken various actions to protect and enforce its rights under the coal hauling service agreement, including, *inter alia*, sending sets of notification letters which are required in accordance to the Indonesian laws prior to commencing any legal proceedings as well as contemplating the issuance of a letter of demand and commencing formal legal action against CAN.

On 16 June 2020, EIR completed the disposal of its entire fleet of motor vehicles consisting of 19 dump trucks and their corresponding licenses.

As a result of the Rinjani situation (including without limitation the loss of control of Rinjani), the Group has been operating under severe cashflow constraints as there was no operating cashflow for the period from July 2017 to October 2017 and the severe underperformance of the coal hauling agreement with CAN as set out above added more uncertainty to the cash flows that can be generated by the Group.

Given the current cashflow constraints, the directors and management of the Company have been focusing their efforts on generating revenue and rebuilding the Group's business, as well as continuing to evaluate various options (including but not limited to obtaining financial support from the current shareholders and introduction of new investors to the Company). Further to these efforts, the Company had, on 6 August 2018, 4 September 2018, 28 September 2018 and 31 March 2019, announced the entry of an investment agreement ("Ang Investment Agreement") whereby the investor, Mr Ang Liang Kim ("Mr Ang") (currently a substantial shareholder of the Company), has committed not less than S\$4 million of investment in the Company by way of a convertible loan (of up to S\$2 million) and rights issue, with the funds to be used for general working capital (excluding salary and fees of directors and management) and where necessary, capital expenditures (including but not limited to potential business opportunities). The convertible loan had an original maturity date of 28 September 2018 which was subsequently extended to 31 December 2021 on 26 February 2020. The key terms of the Ang Investment Agreement included: (1) the submission of a trading resumption proposal by 31 December 2021; and (2) to convene a general meeting by 31 December 2021 to seek shareholders' approval for listing of the conversion shares to convert the full amount of the drawn down convertible loan of up to S\$2 million into up to 2 billion ordinary shares of the Company.

On 31 March 2019, the Company announced that it has entered into an investment agreement with Mr Perman Yadi ("Mr Yadi") ("Yadi Investment Agreement"). Pursuant to the Yadi Investment Agreement, Mr Yadi will grant the Company a convertible loan with a principal of US\$2 million. The purposes of the convertible loan are extended to the Company for, *inter alia* business operations and projects undertaken by the Company with Mr Yadi's express approval. The convertible loan is with the maturity date of 30 March 2020 which was subsequently extended to 31 December 2021 on 29 September 2019. The key terms of the Yadi Investment Agreement is for the Company to convene a general meeting by 31 December 2021 to seek shareholders' approval for listing of the conversion shares to convert the full amount of the drawn down convertible loan of up to US\$2 million into ordinary shares of the Company at the conversion price of S\$0.001 per share based on the currency exchange rate of US\$1 to S\$1.3525.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

3 Critical accounting judgement and key sources of estimation uncertainty (cont'd)

(a) Critical judgement in applying the Group's accounting policies (cont'd)

Going concern assumption (cont'd)

In addition, the Company had on 31 March 2019 announced that it had through its wholly-owned subsidiary company, RPG Logistics Pte. Ltd. ("RPG Logistics"), which was incorporated on 25 March 2019, entered into a joint operation agreement (the "JOA") with PT Prima Dharma Karsa ("PT Prima"), a company incorporated in Indonesia, to provide logistical support to PT Prima, in respect but not limited to the transportation of nickel to a loading port, the supervision of mining operations as well as provision of mining equipment and mining services to PT Prima in relation to a mining area. In return, PT Prima will pay the RPG Logistics an amount equivalent to 60% of the profit per tonne of nickel ore sold from the mining area by PT Prima provided always that the amount shall not be less than US\$5 per tonne. The Group is in the midst of resolving logistical issues in relation to the JOA.

Following the ongoing efforts in seeking the injection of a sustainable business, the Company had, on 27 September 2019 announced the entry into a sales and purchase agreement to acquire 100% of Kitty Hawk Natural Resources Pte. Ltd. ("Target") (a holding company incorporated in Singapore) ("Proposed Acquisition") which operates a coal mine in Indonesia through the Target's 95%-owned subsidiary, PT Rizky Barito Timur ("Target Subsidiary" collectively with the Target, the "Target Group")), from Trilax Multi Investments Ltd and Anant Finance Corporation (collectively the "Vendors").

In addition, on 27 September 2019, the Company announced that it has entered into an investment agreement with Mr Chaw Chong Foo ("Mr Chaw") ("Chaw Investment Agreement"). Pursuant to the Chaw Investment Agreement, Mr Chaw will grant the Company a convertible loan with a principal of S\$1.35 million. The purposes of the convertible loan are extended to the Company for, *inter alia*, costs and expenses in relation to the Proposed Acquisition of the Target. Mr Chaw may also extend an additional loan amount in excess of S\$1.35 million to accommodate any working capital requirements set out in the Catalist Rules.

While the Company had, in its earlier announcement dated 1 April 2021 mentioned that the Target was initially advised that the updated and extended IUP License was expected to be reflected on the central system by 9 April 2021 and the Divestment Letter by first week of April 2021, the Company was informed by the Target on 9 April 2021 that the Corruption Eradication Commission of the Republic of Indonesia (Komisi Pemberantasan Korupsi Republik Indonesia or "KPK") launched an anti-corruption practices investigation within the Ministry of Energy and Mineral Resources ("ESDM") subsequent to the Audit Board of Republic of Indonesia's (Badan Pemeriksa Keuangan Republik Indonesia or "BPK") submission of an audit report on mining permit issuance practices by ESDM. In view of the investigation, the Company was informed that the public release of all IUP permit approvals had to be put on hold temporarily until investigations are completed, including the Target Subsidiary's updated and extended IUP License. The Divestment Letter will be issued subsequent to the public release of the IUP License.

The Company understands from the Target that the Target Subsidiary's documents have been included in the KPK's verification process of all of ESDM's IUP licenses. The Target is confident that all its documents are in good order and should pass the verification process promptly and would like to reiterate that the delays are not in any way due to incomplete or pending works relating to the IUP License renewal. With the issuance of the updated and extended IUP License, as well as the Divestment Letter, the Target advises that the Legal Due Diligence Report ("LDDR") process would largely be completed.

The Company has been advised by the Target that they have been actively engaging the reporting accountants on the financial due diligence ("FDD") process. Progress has been made to clarify and rectify outstanding matters raised by the reporting accountants on both the Singapore and Indonesian entities of the Target. The Target has also advised that they commenced the internal audit process with the outsourced internal auditors on the week of 5 April 2021.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

3 Critical accounting judgement and key sources of estimation uncertainty (cont'd)

(a) Critical judgement in applying the Group's accounting policies (cont'd)

Going concern assumption (cont'd)

Barring any unforeseen circumstances, the Company expects the commercial and financial due diligence, audit of the Target Group and the technical and legal due diligence to be completed by end July 2021.

The SGX-ST had, on 31 December 2020 approved the Company's application for an extension of time to 16 August 2021 to, *inter alia*, submit its resumption of trading proposal. The SGX-ST had previously informed that they will not grant any further extension if the Company is unable to submit its resumption of trading proposal by 28 September 2020. The SGX-ST has granted the extension after considering the unprecedented circumstances faced by the Company in the midst of the Covid-19 pandemic as a final concession. The SGX-ST will not grant any further extension if the resumption of trading proposal is not submitted by 16 August 2021. The Company will thus face delisting if it is unable to meet the extended deadline to submit its resumption of trading proposal by 16 August 2021.

Subsequent to the end of the financial year, the Company had entered into agreements with the individual investors to extend the maturity date of all three investment agreements to 31 December 2022. As disclosed in Note 16, in the event that the key terms of all three investment agreements were not met, the Ang Investment Agreement and Yadi Investment Agreement will become due and repayable immediately whereas the Chaw Investment Agreement will be due within 5 years. Accordingly, the ability of the Group and the Company to continue as going concern is dependent on the Company's application for resumption of trading proposal by 16 August 2021.

Management has represented that in the event the Company did not meet the deadline to submit the trading resumption proposal by 16 August 2021, the Company will continue to appeal with SGX-ST for the resumption of trading proposal.

On the basis that the resumption of trading proposal will be approved and the key terms of all three investment agreements as disclosed in Note 16 will be met, the Group has updated its profitability and cashflow analysis for the 18-month period from 31 December 2020 (the reporting date) and the analysis confirms that the Group and the Company are able to meet all of its debts and obligations during the forecast period.

In view of the above, the Group has updated its profitability and cashflow analysis for the 18-month period from 31 December 2020 (the reporting date) and the analysis confirms that the Group and the Company are able to meet all of its debts and obligations during the forecast period. In the event that the trading resumption is not approved, the Company will continue to appeal with SGX-ST for the resumption proposal and the investor will provide continuous funding until 31 December 2022.

The directors of the Company are therefore satisfied that the use of the going concern assumption in the preparation and presentation of the financial statements for the financial year ended 31 December 2020 is appropriate.

If the Group and the Company are unable to continue in operational existence in the foreseeable future or if the Group and the Company are unable to discharge their liabilities in the normal course of business, adjustments may have to be made to reflect the situation and 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 statements of financial position. In addition, the Group and the Company may have to provide for further liabilities that might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. No such adjustments have been made to these financial statements.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

3 Critical accounting judgement and key sources of estimation uncertainty (cont'd)

(a) Critical judgement in applying the Group's accounting policies (cont'd)

Convertible loans

As at 31 December 2020, the carrying amounts of the borrowings, derivative liability component on the convertible loans and convertible loans equity reserve with respect to the Group's convertible loans amounted to US\$2,246,000 (2019: US\$1,897,000), US\$543,000 (2019: US\$591,000) and US\$214,000 (2019: US\$141,000) respectively.

Classification and measurement of convertible loans as compound financial instruments or hybrid financial instruments is based on the accounting policy as disclosed in Note 2(k). Significant judgement is required to assess whether the Group can settle the convertible loans by issuing a fixed number of shares in exchange for a fixed amount of cash ("fixed for fixed criteria") based on the terms and conditions of the respective convertible loan agreements. Management has exercised judgement and assessed that the terms of the Ang Investment Agreement and Chaw Investment Agreement meet the fixed for fixed criteria and hence these are accounted for as compound financial instruments. Management assessed that the terms of the Yadi Investment Agreement does not meet the fixed for fixed criteria due to its foreign currency nature and accordingly accounted for it as a hybrid financial instrument.

The initial maturity date for the Ang Investment Agreement and Chaw Investment Agreement was 31 March 2020. In February 2020, the Company had modified its loan terms and extended the maturity dates of the loans to 31 December 2021 which was determined to be a substantial modification of financial liabilities as the difference between the discounted present value of the cash flows under the new loan terms is at least a 10% difference from the discounted present value of the remaining cash flows of the original convertible loan. Therefore, the carrying amount of the financial liabilities under the original loan terms were extinguished and new financial liabilities under the new loan terms were recognised accordingly.

As disclosed in Note 3(a) Going concern assumption, the emergence of COVID-19 pandemic since early 2020 had resulted in delay in the development and work flow of the proposed acquisition. As at 31 December 2020, SGX-ST has granted an extension of time for the Company to submit its trading resumption proposal by 16 August 2021 as a final concession. Therefore, there has been a change in the maturity period to 16 August 2021 used in the valuation of the convertible loans for the financial year ended 31 December 2020. The Group has engaged external expert to determine the fair value of the convertible loans based on the respective loan modification dates and the revised estimated maturity date of 16 August 2021.

For compound financial instruments, the engaged external expert determined the fair value of the liability component on the day of loan modification as the new inception date through discounted cash flow analysis. The discount rate used is based upon the market borrowing rates for a similar liability without the conversion feature which will be available to the Group. The valuer has estimated this discount rate to be 15.79% to 16.63% (FY 2019: 20.91% to 21.11%). A higher discount rate used will result in a lower liability component and a higher equity component at initial inception date with higher interest expense during the period when the convertible loan is outstanding.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

3 Critical accounting judgement and key sources of estimation uncertainty (cont'd)

(a) Critical judgement in applying the Group's accounting policies (cont'd)

Convertible loans (cont'd)

For hybrid financial instruments, the engaged external expert determined the fair value of the derivative liability component on the reporting date through the use of valuation techniques such as the probability-weighted average value of two assumed scenarios, redemption and conversion. Significant unobservable inputs to the model are used such as the likelihood of each scenario happening and the fair value of shares at conversion date. Changes in these estimates could affect the fair value of the embedded derivative liability component recognised.

Further details on the borrowings, derivative liability component on the convertible loans are disclosed in Note 16 and Note 17. The assumptions and models used for estimating fair value of the embedded derivative liability component are disclosed in Note 23(d).

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of property, plant and equipment

As at each reporting date, the Group assesses whether there is any objective evidence that property, plant and equipment is impaired. An impairment loss exists when the carrying value of the property, plant and equipment exceeds their recoverable amount. Fair value less cost to sell calculation is based on observable market prices or market valuations less incremental costs for disposing asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Based on management's assessment, an allowance for impairment loss of US\$238,000 on the Group's property, plant and equipment was necessary at the end of the reporting period. Further details of the key assumptions applied in the impairment assessment are disclosed in Note 11(b). The carrying amounts of the Group's property, plant and equipment are disclosed in Note 11.

Calculation of loss allowance

When measuring ECL, the Group uses reasonable and supportable forward-looking information, which is based on assumptions and forecasts of future economic conditions with consideration on the impact of COVID-19 pandemic and how these conditions will affect the Group's ECL assessment. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

As the calculation of loss allowance on trade and other receivables is subject to assumptions and forecasts, any changes to these estimations will affect the amounts of loss allowance recognised and the carrying amounts of trade and other receivables. Details of ECL measurement and carrying value of trade and other receivables at the reporting date are disclosed in Note 22(b) and Note 13 respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

25 Capital management

The Group's and the Company's objectives when managing capital are to safeguard the Group's and the Company's ability to continue as going concerns and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group and the Company may adjust the amount of dividend payment, return capital to shareholders, issue new shares, obtain new borrowings or sell assets to reduce borrowings.

Management monitors capital based on a gearing ratio. The Group's and the Company's overall strategies remains unchanged in 2019 and 2020.

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total liabilities less tax payable less cash and cash equivalents. Total capital is calculated as total equity plus net debt.

	Group		Company	
	2020	2019	2020	2019
	US\$'000	US\$'000	US\$'000	US\$'000
Net debt	5,743	4,846	5,694	4,712
Total equity	(5,019)	(3,633)	(4,398)	(3,448)
Total capital	724	1,213	1,296	1,264
Gearing ratio	793%	400%	439%	373%

26 Contingent liabilities

Rinjani - Legal claim

On 11 February 2015, a claim was made by H. Adji Mohamad Salehoeddin a.k.a Adji Pangeran Adipati Praboe Anoem Soerya Adiningrat and H. Adji Azuar Poeger bin Adji Anuar a.k.a Adji Pangeran Hario Kesuma Poeger bin Adji Moh Parikesit (the "Claimant") against a subsidiary, Rinjani for compensation totaling IDR399,300,000,000 (equivalent to US\$30,518,000). The claim relates to the total land area of 1,933 ha of the subsidiary covered by Coal Mining Production licence, 308.4 ha of which is covered by a Borrow-to-Use Permit for Forestry Areas.

In the petition submitted to the State Court of Tenggara (the "Court"), the Claimant asserts that such total area of 1,933 ha was crown land of Kesultanan Kutai, which now belongs to the Claimant through grant or "hibah" and inheritance. The directors of the Company and the subsidiary consider the claim to have no legal standing since the total area of 1,933 ha is located in an active forest area controlled and owned by the Forestry and Environment Ministry of the Republic of Indonesia, and the subsidiary holds valid permits including Coal Mining Production licence and Borrow-to-Use Permit for Forest Areas.

Based on court decision from the Court dated 5 November 2015, the Court has rejected all claims submitted by the Claimant.

Due to court decision, the Claimant then appealed to the Higher Court of Samarinda which issued a decision in the favour of the subsidiary based on decision No. 11/DPT/2016/PT.SMR dated 22 February 2016.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

26 Contingent liabilities (cont'd)

Rinjani - Legal claim (cont'd)

As of 22 February 2016, in its court decision, the Higher Court of Samarinda rejected all claims submitted by the Claimant. Further to the Higher Court decision, the Claimant submitted an appeal to the Supreme Court along with the "Memori Kasasi". On 13 May 2016, the subsidiary sent the response for Memori Kasasi to the Supreme Court. As of 9 October 2017, such appeal is under review by the judges of the Supreme Court.

As disclosed in Note 3(a), with the loss of control of Rinjani on 24 August 2017, the Company and its Board has no authority to administer or represent Rinjani. All litigation matters and decisions will be handled by the curators appointed by the Commercial Court of Jakarta. As at 31 December 2020, the Company and its Board did not receive any further updates from the curators.

Rinjani - Royalty claims

On 19 August 2015, a claim was submitted by a farmers group "Bentuhung" to the District Court of Tenggarong against Mr. Nordiansyah Nasrie (director of Rinjani) for a total royalty claim of IDR90,720,000,000 (equivalent to US\$6,720,000). Bentuhung claimed that on 27 October 2008, an agreement was entered between the subsidiary (Rinjani) and Mr. Erhamsyah, Head of Bentuhung, in which the subsidiary (Rinjani) agreed to provide Bentuhung with a royalty fee in the amount of US\$1/MT of the subsidiary's coal production in return for Bentuhung providing the subsidiary (Rinjani) with assistance in its field operations. Bentuhung claimed that they have provided assistance to the subsidiary (Rinjani) in accordance with the agreement and therefore they have the right to claim the royalty fee.

Based on court decision from District Court dated 20 April 2016 and Appeal Court dated on 23 November 2016, both the claim and appeal of Bentuhung were rejected by the respective courts.

As a follow-up to the above rejections, Bentuhung then made final legal request to the Supreme Court on 13 March 2017. As of 9 October 2017, the status of the claim is ongoing in the Supreme Court and the subsidiary (Rinjani) is in the midst of sourcing alternative legal counsel to represent it in the Supreme Court.

As disclosed in Note 3(a), with the loss of control of Rinjani on 24 August 2017, the Company and its Board has no authority to administer or represent Rinjani. All litigation matters and decisions will be handled by the curators appointed by the Commercial Court Jakarta. As at 31 December 2020, the Company and its Board did not receive any further updates from the curators.

Rinjani - Legal proceedings commenced by Mr Tan Kim Sing ("TKS")

On 14 November 2016, the subsidiary, Rinjani was formally served with a writ of summons and statement of claim. The plaintiff of the claim is Tan Kim Sing (the "Plaintiff"). The legal proceedings against the subsidiary commenced in the High Court of the Republic of Singapore by way of Suit No. 1211 of 2016. According to the statement of claim, the Plaintiff claims against the subsidiary for the payment of approximately S\$16.1 million, representing fees and expenses allegedly owed in respect of fund raising and other services rendered to the subsidiary pursuant to an agreement entered into between the subsidiary and Newbreed Capital Limited in or around March 2011 (the "Fund Raising Agreement"), or alternatively damages for breaches of the Fund Raising Agreement. The Plaintiff alleges that he is the current assignee of all the benefits under the Fund Raising Agreement.

As of 9 October 2017, legal proceedings were ongoing in the High Court of the Republic of Singapore.

As disclosed in Note 3(a), with the loss of control of Rinjani on 24 August 2017, the Company and its Board has no authority to administer or represent Rinjani. All litigation matters and decisions will be handled by the curators appointed by the Commercial Court of Jakarta. As at 31 December 2020, the Company and its Board did not receive any further updates from the curators.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

26 Contingent liabilities (cont'd)

Rinjani - Matters concerning Agus Sugiono - Arbitration proceedings

Further to the arbitration proceedings commenced by TKS in November 2016 against Agus Sugiono, Executive Chairman and Chief Executive Officer of the Company, in May 2017 TKS served an application to include the Group's subsidiary, Rinjani, as a party to the arbitration proceedings and pursuant thereto to claim against Rinjani. TKS's claim against Rinjani under the arbitration proceedings is for payment of S\$8.5 million, representing fees and expenses allegedly owed in respect of fund raising and other services rendered to the Group pursuant to an agreement allegedly entered into with Rinjani. The claim of S\$8.5 million against Rinjani is additional to the claim of S\$16.1 million against Rinjani as noted above.

The Company has since been advised and has received a copy of the order of the tribunal dated 9 April 2018, wherein the tribunal orders pursuant to Rule 32.10 of the Rules and Articles 30 and 32 of the UNCITRAL Model Law on International Commercial Arbitration that the Arbitration be terminated (the "**Order**"). The Order, which also terminates the joinder application served on Rinjani came into force and effect following the payment of the outstanding costs of SIAC Arbitration No 283 of 2016.

All legal and arbitration costs and fees are to be borne by Agus Sugiono and/or TKS.

Pilar Mas - Statement of Claim

The Group's subsidiary, Pilar Mas, received a notice dated 24 January 2018 from the State Court of West Jakarta, Indonesia (the "**Notice**") in relation to a statement of claim filed by a former shareholder of Rinjani, being Ruznie Oms., S.H. M.Hum ("**Ruznie**"). The statement of claim is filed against, Pilar Mas, Agus Sugiono, the Group's Executive Chairman and Chief Executive Officer ("**Defendant II**"), Rinjani ("**Defendant III**"), Nordiansyah Nasrie, the Group's Chief Operating Officer ("**Defendant IV**") and other third parties (collectively, the "**Defendants**").

The statement of claim against the Defendants, claims, *inter alia*, losses arising from events and transactions pertaining to the sale and purchase of Rinjani's shares from its original shareholders prior to the reverse takeover back in 2014, one of which being Ruznie. The amount being claimed of Rp665 billion (approximately US\$50 million), represents, amongst others, Ruznie's loss of rights from the sale of Rinjani's shares and loss of opportunity to profit from the sale of Rinjani coal.

Following a decision of the West Jakarta District Court to exclude Rinjani from the mediation process due to its bankruptcy and unwillingness to participate, the mediation process recommenced with the first mediation hearing scheduled on 3 July 2018. The mediation hearing was before a panel of 3 judges and included Ruznie, Pilar Mas, and Defendants II and IV amongst others.

At the 3 July 2018 mediation hearing, no agreement was reached between the parties and as such an initial hearing was set for 10 July 2018 during which Pilar Mas and Defendants II and IV submitted their response to Ruznie's statement of claim. Following a number of hearings the latest on which was held on 15 August 2018 a further hearing has been scheduled for 29 August 2018 for Pilar Mas and Defendants II and IV to provide their updated response to Ruznie's statement of claim. Following completion of the mediation and hearing process and the presentation of witnesses the panel of judges shall then decide either in favour of Ruznie or Pilar Mas and Defendants II and IV.

At 11 December 2018, the panel of judges decided in favour of Pilar Mas and Defendants II and IV. The formal decision of the Court has been received and Ruznie has appealed against the decision to the Higher Court. No further actions are required by Pilar Mas, and Defendants II and IV while the higher court considers Ruznie's appeal. The Company will continue to defend its position and does not expect to incur any costs arising from the appeal process.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

26 Contingent liabilities (cont'd)

Pilar Mas - Corporate Guarantee

On 23 September 2014, a corporate guarantee was issued by Pilar Mas placed as security for the debt owed by Rinjani to its main supplier amounting to approximately US\$15 million. The Group has assessed that the expected credit loss exposure is immaterial.

27 Authorisation of financial statements

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company were authorised for issue in accordance with a resolution of the directors dated 11 June 2021.