INDEPENDENT AUDITORS' REPORT

To the Members of Anchor Resources Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Anchor Resources Limited (the "Company") and its subsidiaries (the "Group"), which comprise:

- the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019;
- the consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows of the Group 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 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)s") 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 2019, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group 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 *Auditors' 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 4 to the financial statements, which indicates that the Group's and Company's current liabilities exceeded their current assets by approximately RM20,298,000 and RM2,216,000 respectively as at 31 December 2019. The Group incurred a net loss of approximately RM15,818,000 and had negative cash flows from operating activities of approximately RM7,499,000 for the financial year ended 31 December 2019. As at 31 December 2019, the Group and the Company have cash and cash equivalents of approximately RM1,735,000 and RM2,000 respectively.

As at 31 December 2019, the Group and the Company have obligations due to borrowings in the form of guaranteed, non-guaranteed and exchangeable bonds ("Bonds") amounting to approximately RM23,316,000 and RM14,934,000 respectively as referred to in Note 15 to the financial statements. Of these amounts, approximately RM18,858,000 and RM10,476,000 for the Group and the Company respectively fall due and are repayable within the next 12 months from the financial year-end.

The ability of the Group and the Company to continue as a going concern is dependent on the Group's ability to generate positive cash flows from operations, obtain additional funding and receive continued financial support from its creditors.

These events or conditions, along with other matters as set forth in Note 4, indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

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 matters described below to be the key audit matters to be communicated in our report.

Key Audit Matters	Audit Response
1 Mining Operations	
The Group operates mining and production of gold and granite respectively at Lubuk Mandi and Bukit Chetai Mines located in Terengganu, Malaysia. As at 31 December 2019, the assets related to mining operations ("Mining Assets") mainly comprise the following: 1. Mine properties 2. Property, plant and equipment 3. Investments in subsidiaries of the Company Mine properties and property, plant and equipment form a significant component of the Group's assets, i.e. 75.7% of the Group's total assets as at 31 December 2019. Mine properties represent those capitalised exploration, evaluation and development costs incurred for Lubuk Mandi and Bukit Chetai Mines. The Group applies a unit-of-production amortisation policy on its gold mine properties and straight-line method over the concession period for granite mine properties. Property, plant and equipment are mainly those on-site processing facilities and infrastructure. As the Group's gold and granite mining business segment incurred operating losses for the financial year ended 31 December 2019, management determined if there are impairment losses based on the value-in-use ("VIU") by estimating the expected present value of future cash flows from the Group's gold and granite mining operations. In addition, management also determined that there are indications of impairment on the investments in subsidiaries operating the mines as their net assets are lower than the costs of investment. Based on the respective recoverable amounts determined by management, impairment losses on the cost of investments in the subsidiaries operating the gold mine and granite mine of approximately RM17,769,000 and RM37,331,000 respectively were recognised in the Company's profit or loss.	We performed the following audit procedures, amongst others: • Read the Independent Qualified Person's Reports ("IQPR") issued by the independent external specialists to obtain an understanding of the reports. • Assessed the reasonableness of the amortisation policy which is based on a unit-of-production method by reference to the ratio of the actual production volume in the financial year to the recoverable ore reserves of the gold mine as extracted from the IQPR as well as assessed the reasonableness of the amortisation policy which is based on a straight-line method over the concession period of the granite mine. • Checked the mathematical accuracy of management's computation of the VIU of the respective CGU and discussed with management to understand the basis for the key assumptions made. • Evaluated the reasonableness of significant judgements and key assumptions used in the VIU by checking against relevant underlying data including current developments to the COVID-19 situation and performing sensitivity analysis.

Key Audit Matters	Audit Response
1 **Mining Operations** (Continued)	

Key Audit Matters

We focused on this area as a key audit matter due to the inherent subjectivity in management's judgement in:

- determining the respective VIU of the gold and granite cash generating units ("CGU") which involves key assumptions on gold future prices, granite prices, future production volumes and discount rates, amongst others.
- applying the unit-of-production amortisation policy on the gold mine properties which involves an estimation of the rate of depletion.
- applying the straight-line amortisation policy over the concession period of the granite mine.

In addition, the recoverable ore reserves of the mines are another key inputs to the VIU, for which management has engaged independent external specialists to assist in the estimations.

Refer to Note 3.1 (i) to the financial statements which describes the critical judgements made in relation to impairment of the mine properties.

Refer to Notes 5 and 6 to the financial statements relating to the carrying amounts of the Group's property plant and equipment and mine properties which amounted to approximately RM15,982,000 and RM14,963,000 respectively as at 31 December 2019.

Refer to Note 7 to the financial statements relating to the carrying amount of the Company's investments in subsidiaries which amounted to RM116,657,000 as at 31 December 2019.

Refer to Note 32 to the financial statements relating to events after the reporting period on the potential effects of COVID-19 pandemic and proposed settlement of the Group's and the Company's bonds obligations.

Due to the recent COVID-19 pandemic, the Group's mining operations have been temporarily disrupted by the Movement Control Order in Malaysia where the operations are based. However, approvals have since been obtained for resumption of the mining operations.

Audit Response

We performed the following audit procedures, amongst others: (Continued)

- Performed retrospective review by comparing the actual revenue incurred during the current financial year with those included in the prior year's forecasts so as to assess the accuracy of the Group's budgeting process.
- Assessed the appropriateness of the cash flow projection periods used in the respective VIU of the gold mine and granite mine.
- Engaged our internal valuation specialist to evaluate the reasonableness of the discount rate used.
- Assessed and reviewed the underlying assumptions of the VIU with regards to the expected disposal of the gold mining operations subsequent to the financial year-end.
- Evaluated the adequacy of the related disclosures in the financial statements.

Other Information

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

Auditors' 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 auditors' 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.

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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.
- 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 auditors' 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 auditors' 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 auditors' 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 its subsidiary corporation 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 auditors' report is Leong Hon Mun Peter.

BDO LLP
Public Accountants and
Chartered Accountants

Singapore
11 June 2020

4. Going concern

The Group's and Company's current liabilities exceeded its current assets by approximately RM20,298,000 and RM2,216,000 respectively as at 31 December 2019. The Group incurred a net loss of approximately RM15,818,000 and had negative cash flows from operating activities of approximately RM7,499,000 for the financial year ended 31 December 2019. As at 31 December 2019, the Group and the Company have cash and cash equivalents of approximately RM1,735,000 and RM2,000 respectively.

The Group's Guaranteed Bond II, i.e. Guaranteed First-Tranche Non-Convertible Bond of S$1,500,000 (equivalent to RM4,243,000) was originally due for repayment in April 2019. Repayment date has been extended from April 2019 to May 2019 for the first S$750,000 (equivalent to RM2,022,000) and April 2020 for the remaining S$750,000 (equivalent to RM2,221,000) respectively as disclosed in Note 15.4 to the financial statements. The Group's Guaranteed Bond II has been further extended to 3 October 2020 as disclosed in Note 32.3 to the financial statements.

The Group's Guaranteed Bond III, i.e. Guaranteed Second-Tranche Non-Convertible Bond of S$3,310,000 (equivalent to RM9,414,000) was originally due for repayment in April 2019. Repayment date has been extended from April 2019 to May 2019 for the first S$1,655,000 (equivalent to RM4,707,000) and the remaining S$1,655,000 (equivalent to RM4,707,000) was exchanged with an issue of S$1,903,000 (equivalent to RM5,426,000) in aggregate principal amount of 10% guaranteed non-convertible bonds which will mature in April 2020 as disclosed in Note 15.5 to the financial statements. The Group's Guaranteed Bond III has been further extended to 3 October 2020 as disclosed in Note 32.4 to the financial statements.

The Group's Non-Guaranteed Bond I of S$1,500,000 (equivalent to RM4,458,000) is originally due for repayment in September 2021. On 29 April 2020, the Group had entered into a deed of settlement as disclosed in Note 32.5 to the financial statements.

The Group's Non-Guaranteed Bond II of S$1,023,000 (equivalent to RM2,829,000) was originally due for repayment in December 2019. However, the repayment date was extended from December 2019 to June 2020. On 29 April 2020, the Group had entered into a deed of settlement as disclosed in Note 32.6 to the financial statements.

The Group also has exchangeable bond of S$2,645,000 (equivalent to RM8,382,000) due for repayment in August 2019. However, the repayment date was extended from 25 August 2019 to June 2020. On 29 April 2020, the Group had entered into a deed of settlement as disclosed in Note 32.7 to the financial statements.

The proposed settlements are subject to certain key conditions, including approval from authorities and shareholders in extraordinary general meeting. Further conditions are included in Note 32.7 to the financial statements.

These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as going concerns, which is highly dependent on the Group's and Company's ability to obtain funding and generate sufficient cash flows from operations.

To meet the short-term financing needs, the Group has obtained or plans to obtain the following sources of funding:

(a) The Company received net cash proceeds of S$645,000 (equivalent to RM1,935,000), on 5 June 2020, from the proposed disposal of Angka Alamjaya Sdn. Bhd., which is the subsidiary involved in the gold mining segment of the Group. As at the date of the financial statements, the Company is still in the process of preparing the necessary documents. Thereafter, an extraordinary general meeting will be convened to seek the approval of all the shareholders of the Company for the proposed disposal (Note 32.5 to the financial statements); and

4. Going concern (Continued)

(b) Continued support from one of the controlling shareholders Mr. Lim Chiau Woei, who has undertaken to provide adequate funds to enable the Group to meet its payment obligations as they fall due.

Management continues to evaluate various strategies to improve profitability and generate positive cash flows from the Group's current business activities. These strategies include, *inter alia*, obtaining more projects for our granite mining segment; working with business partners to expand business operations and expedite the plan to achieve the revenue base and simultaneously reducing our operating and capital commitment which include the following:

(a) The Group plans to raise additional funds of RM10 million in August 2020, by assigning its concession at Bukit Machang, Terengganu, held by GGTM Sdn. Bhd., which is the subsidiary involved in the granite mining segment of the Group. This transaction is subject to completion, upon signing of a Definitive Agreement, amongst other principal terms and conditions that are set out in the heads of agreement. An earnest deposit of RM200,000, being 2% of purchase price, has been placed for the entire duration of the exclusivity period (within six months from the date of heads of agreement) and the balance of the purchase price to be settled with cash or any other mode of settlement, agreeable by both parties under the Definitive Agreement.

Management has prepared a cash flow forecast which shows that the Company and the Group will have adequate funds for its operational requirements and to meet their debt obligations as and when they fall due for at least 12 months from the end of the financial year, having taken account of the funds available and cash flows to be generated from the operations based on the plans set out above and the potential effects of COVID-19 pandemic. Accordingly, the Directors of the Company are of the opinion that it is appropriate for the financial statements to be prepared using a going concern basis of accounting.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge its liabilities in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the consolidated statement of financial position of the Group and the statement of financial position of the Company. In addition, the Group and the Company may need to reclassify non-current assets and non-current liabilities to current assets and current liabilities respectively. No such adjustments have been made to these financial statement.