

**MAGNUS ENERGY GROUP LTD.**

(Incorporated in Singapore)

(Registration No. 198301375M)

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**DISCLAIMER OF OPINION BY THE INDEPENDENT AUDITORS ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 JULY 2020 TO 31 DECEMBER 2021**

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In compliance with Rule 704(4) of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist ("**Catalist Rules**"), the Board of Directors ("**Board**") of Magnus Energy Group Ltd (the "**Company**" and its subsidiaries, collectively the "**Group**") wishes to announce that the independent auditors of the Company, Baker Tilly TFW LLP ("**Independent Auditors**") have included a disclaimer of opinion on the audit of the consolidated financial statements of the Group ("**Disclaimer of Opinion**") in its Independent Auditor's report dated 14 April 2022 ("**Report**") in relation to the audited consolidated financial statements of the Group and the Company for the financial period from 1 July 2020 to 31 December 2021 ("**FY2021**") ("**Financial Statements**"). The Disclaimer of Opinion is in respect of a material uncertainty on the outstanding significant legal case against the Company wherein the ability of the Group and the Company to remain as going concerns are dependent on the outcome of the aforesaid legal case.

A copy of the Report which sets out the basis of the Disclaimer of Opinion, together with extracts of the relevant Notes to the Financial Statements, are annexed to this announcement for further information.

This announcement is to be read in conjunction with the attached Report and the Financial Statements. Shareholders of the Company are advised to refer to the complete set of the Financial Statements included in the Company's annual report for FY2021, which was released on the same day as this announcement.

The Board confirms that all material disclosures/information have been provided by the Company through the announcements made and documents published on the SGXNET. Further announcements will be made by the Company and the Board via SGXNET as and when there are material developments in compliance with the Catalist Rules of the SGX-ST. Shareholders of the Company should note that there is no certainty or assurance that the shares of the Company will eventually resume trading on the SGX-ST. Shareholders and potential investors are advised to read this announcement and any further announcement(s) by the Company carefully, and to exercise caution when dealing or trading in the shares of the Company. When in doubt as to the action they should take, Shareholders and potential investors should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

**BY ORDER OF THE BOARD**

Charles Madhavan  
Executive Director and Chief Executive Officer  
14 April 2022

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*This announcement has been prepared by the Company and reviewed by the Company's sponsor, Novus Corporate Finance Pte. Ltd. (the "Sponsor"), in compliance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalist.*

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

*The contact person for the Sponsor is Mr Pong Chen Yih, Chief Operating Officer, at 7 Temasek Boulevard, #18-03B Suntec Tower 1, Singapore 038987, telephone (65) 6950 2188.*

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAGNUS ENERGY GROUP LTD.**

## **Report on the Audit of the Financial Statements**

### ***Disclaimer of Opinion***

We were engaged to audit the accompanying financial statements of Magnus Energy Group Ltd. (the "Company") and its subsidiaries (the "Group") as set out on pages 12 to 80 which comprise the statements of financial position of the Group and of the Company as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial period from 1 July 2020 to 31 December 2021, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### ***Basis for Disclaimer of Opinion***

As disclosed in Note 37 to the financial statements, there is an outstanding significant legal case against the Company as at the end of the reporting period. The significant legal case, HC/S 1075/2020 ("Suit 1075"), which is an action by Mr. Thong Soon Seng against the Company for repayment of an alleged loan, could result in material outflow of resources in future periods. The claim for repayment of alleged loan of principal and contractual interest totaling \$5,118,572 have not been recorded in these financial statements.

In addition, as disclosed in Note 3 to the financial statements, the Group and the Company incurred net loss for the financial period from 1 July 2020 to 31 December 2021 of \$3,261,417 and \$2,794,014 (Note 29) respectively. During the financial period, the Group incurred net operating cash outflows of \$2,406,639.

The ability of the Group and the Company to remain as going concerns are dependent on the outcome of the legal case, Suit 1075 and the directors' basis as described in Note 3, which are premised on future events and market conditions, the outcomes of which are inherently uncertain. As disclosed in Note 37, management is of the view that no material losses will arise in respect of the Suit 1075 at the date of these financial statements and accordingly, no provision for any liability has been made in these financial statements. As at the date of these financial statements, there is material uncertainty in relation to the outcome of Suit 1075 and the possibility of material outflow of resources in future periods arising from Suit 1075 and this material uncertainty may cast significant doubt about the Group's and the Company's ability to continue as going concerns.

Nevertheless, for the reasons disclosed in Note 3 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 period from 1 July 2020 to 31 December 2021 is appropriate.

We are unable to ascertain whether the Group and the Company should record the alleged loan principal and contractual interest of \$5,118,572 in these financial statements. We are also unable to obtain sufficient appropriate audit evidence to conclude on the appropriateness of the use of the going concern assumption for the preparation of the accompanying financial statements and whether any adjustments might be necessary in respect of the accompanying financial statements.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAGNUS ENERGY GROUP LTD. (cont'd)**

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

#### ***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 provision of the Companies Act 1967 (the "Act") and Singapore Financial Reporting Standards (International) ["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 responsibility is to conduct an audit of the accompanying financial statements in accordance with Singapore Standards on Auditing and to issue an independent auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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.

### **Report on Other Legal and Regulatory Requirements**

In our opinion, except for the matters described in the *Basis for Disclaimer of Opinion* sections of our report, 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

14 April 2022

## MAGNUS ENERGY GROUP LTD. AND ITS SUBSIDIARIES

### NOTES TO THE FINANCIAL STATEMENTS

For the financial period from 1 July 2020 to 31 December 2021

#### 3 Critical accounting judgement and key sources of estimation uncertainty

##### *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 period from 1 July 2020 to 31 December 2021, the Group and the Company incurred a net loss of \$3,261,417 and \$2,794,014 (30.6.2020: \$2,518,329 and \$4,142,783) respectively. In addition, the Group incurred net operating cash outflows of \$2,406,639 (30.6.2020: \$2,701,125) during the financial period from 1 July 2020 to 31 December 2021. These factors and the circumstances disclosed in Note 37 indicate that a material uncertainty events which may cast doubt about the of the Group and the Company to generate sufficient cash flows to meet their obligations in order to continue to operate as a going concern.

However, the cash flows projection for the 15-month period from 31 December 2021 (the reporting date) that has been prepared and approved by management confirms that the Group and the Company are able to meet all of their debts and obligations during the said 15-month forecast period.

The key assumptions for the said 15-month cash flow projection are as follows:

- i) The sales proceeds from the disposal of the asset classified as held for sale of \$6,328,888 have been received on 23 March 2022;
- ii) Deregistration of the dormant entities from oilfield equipment supply and services segment and renewable energy segment;
- iii) No potential cash outflows from the legal case, HC/S 1075/2020 ("Suit 1075") - action by Mr. Thong Soon Seng against the Company (described more particularly in Note 37); and
- iv) Mid-Continent Equipment, Inc will continue to generate significant operating cash inflows for the Group.

The directors of the Company are therefore satisfied that the financial statements for the financial period from 1 July 2020 to 31 December 2021 adequately reflect the Group's and the Company's ability to continue as going concerns for the financial year ending 31 December 2022.

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.

##### *Key sources of estimation uncertainty*

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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 and right-of-use assets*

At each reporting date, the Group assesses whether there are any indications of impairment for property, plant and equipment and right-of-use assets. The Group also assesses whether there is any indication that an impairment loss recognised in prior periods for a property, plant and equipment, other than goodwill, may no longer exist or may have decreased.

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

#### *Key sources of estimation uncertainty (cont'd)*

##### *Impairment of property, plant and equipment and right-of-use assets (cont'd)*

If any such indication exists, the Group estimate the recoverable amount of that asset. An impairment loss exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. An impairment loss recognised in prior periods shall be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Where value in use calculations are undertaken, management is required to estimate the expected future cash flows from the asset or cash-generating unit and a suitable discount rate in order to determine the present value of the cash flows. The carrying values of the Group's property, plant and equipment and right-of-use assets are disclosed in Notes 14 and 23.

##### *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 receivables and loans 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 values of trade and other receivables are disclosed in Note 34(b)(iii).

##### *Impairment of investment in subsidiaries*

During the financial period, the Company performed an impairment assessment to determine the recoverable amounts of the Company's cost of investment in subsidiaries. The Company has assessed the recoverable amount of its investment in subsidiaries based on fair value less cost to sell and value-in-use of the investment in subsidiaries using the discounted cash flow method. The determination of fair value less cost to sell involves valuation of freehold and leasehold properties by independent valuers and estimation of the underlying fair value of the net assets of the subsidiaries with consideration on the impact of COVID-19 pandemic. The use of the value-in-use calculations involves significant judgement and estimates in the cash flows forecast for the next five years and terminal value. The value-in-use calculations also include assumptions on the discount rate and terminal year growth rate. These key inputs and assumptions were estimated by management based on prevailing market, economic and other conditions at the end of the reporting period, and based on management's estimations of the expected revenue growth and recovery in business conditions amidst the current COVID-19 pandemic.

The Company recognised an impairment loss on investment in subsidiaries of \$434,560 (2020: \$2,348,320) during the financial period from 1 July 2020 to 31 December 2021. The carrying amount of investment in subsidiaries is disclosed in Note 15. The impairment loss has no impact on the consolidated financial statements of the Group.

### **37 Contingent liabilities**

*HC/S 1075/2020 (“Suit 1075”) - action by Mr. Thong Soon Seng (“Mr. Thong”) against the Company and third-party proceedings commenced by Company against Luke Ho*

The Company was served with the letter of demand dated 29 February 2020 from solicitors acting on behalf of Mr. Thong notifying the Company of his claim for repayment of loans which Mr. Luke Ho, the former chief executive officer, allegedly borrowed from Mr. Thong in 2016 purportedly on behalf of the Company. However, the Company has no records of the alleged loan.

Mr. Thong had demanded payment from the Company of \$5,118,572.49 representing the amount of loan principal and contractual interest owed as of 18 January 2018 of \$4,600,000 and further interest of 5.33% per annum on the same, pursuant to Section 12 of the Civil Law Act, Chapter 43 of Singapore, of \$518,572.49.

On 10 November 2020, the Company was served with the Writ of Summons and Statement of Claim in respect of Mr. Thong’s claim against the Company for the alleged loans purportedly provided to the Company. The Company in turn commenced third-party proceedings against Luke Ho in Suit 1075 on 6 December 2020, seeking that Luke Ho fully indemnifies the Company for Mr. Thong’s claims in the event the Company is found liable to Mr. Thong.

The Company and Mr. Thong have been directed by the Court to file and exchange the Affidavits of Evidence-in-Chief of their respective witnesses of fact by 4 January 2022.

On 17 January 2022, the Company had reached a settlement with Luke Ho where the Company will file a Notice of Discontinuance of the third-party proceedings in Suit 1075 against Luke Ho.

There were no material updates in respect of the Suit 1075 as at the date of this financial statements. Notwithstanding the lodgement of Suit 1075, management holds the view that no material losses detrimental to the Group’s and the Company’s financial position as a going concern will arise from this Suit for the financial year ending 31 December 2022. As such, there is no provision made in these financial statements.