

ENECO ENERGY LIMITED
(Incorporated in the Republic of Singapore)
Company Registration No. 200301668R

**QUALIFIED OPINION BY INDEPENDENT AUDITOR ON THE AUDITED FINANCIAL
STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

Pursuant to Rule 704(5) of the Listing Manual of the SGX-ST, the Board of Directors (the "Board") of Eneco Energy Limited ("Company"), and together with its subsidiaries, the "Group") wishes to announce that the Company's Independent Auditor, Foo Kon Tan LLP has issued a Qualified Opinion in their report (the "Independent Auditor's Report") on the audited financial statements of the Group for the financial year ended 31 December 2020 ("FY2020") (the "Audited Financial Statements").

A copy of the Independent Auditor's Report, together with the extract of the relevant Notes to the Audited Financial Statements, are annexed to this announcement. The Independent Auditor's Report and the Audited Financial Statements will form part of the Company's 2020 Annual Report.

Shareholders are advised to read the full Audited Financial Statements contained in the 2020 Annual Report, which will be announced to SGXNet and made available on the Company website in due course.

BY ORDER OF THE BOARD
ENECO ENERGY LIMITED

Colin Peter Moran
Executive Director and Chief Executive Officer
08 April 2021

Independent Auditor's Report

To the members of Eneco Energy Limited

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of Eneco Energy 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 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis of Qualified Opinion section of our report, 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 the 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 for the year ended on that date.

Basis for Qualified Opinion

1. Amount due from a broker

Ramba Energy West Jambi Ltd ("REWJ"), a wholly owned subsidiary of the Company, who is the contractor to the West Jambi concession (the "Concession"), was required to furnish a banker's guarantee to the concession holder in order to secure the extension of the exploratory permit for the Concession which had expired in FY 2017. The ex-Chief Executive Officer and ex-Executive Director who is also the substantial shareholder of the Company had withdrawn S\$3.88 million (equivalent to US\$2.83 million) (the "Queried Payment") from another subsidiary's bank account which was then advanced to the broker to secure the banker's guarantee in favour of REWJ. The amount was initially recorded as an amount due from the broker and management subsequently made full impairment allowance on the amount after queries were raised about its recoverability.

The predecessor auditor of the Company had noted in their auditor's report for the financial year ended 31 December 2018 inconsistencies in the explanations and documents provided by the predecessor management and they were unable to obtain satisfactory audit evidence or explanations to ascertain the commercial rationale of such arrangement, and the nature, existence and recoverability of the amount. Accordingly, they were unable to determine whether the payment was appropriately accounted for, presented, disclosed and whether the allowance recorded against the carrying amount was appropriate. The above issue remained unresolved for the financial year ended 31 December 2019.

Independent Auditor's Report

To the members of Energy Energy Limited (Cont'd)

Basis of Qualified Opinion (Cont'd)

1. Amount due from a broker (Cont'd)

On 15 June 2020, the Group and the broker entered into a Settlement Agreement where the broker formally acknowledged the receipt of the amount of US\$2.88 million via the bank account of the ex-Chief Executive Officer and ex-Executive Director for the procurement of the bank guarantee and the broker agreed to a repayment plan for the amount which will be repaid in 30 instalments comprising of a first instalment of IDR 375 million and subsequent 29 instalments of IDR 1.5 billion each quarter, respectively.

On 19 January 2021, the Company announced that the broker had only paid the first instalment and had consequently defaulted on the second and third instalments which were due on 15 October 2020 and 15 January 2021, respectively. Accordingly, an event of default has been triggered as defined in the Settlement Agreement.

Following the formalisation of the Settlement Agreement in June 2020, it has satisfactorily resolved the qualification points over (a) the inconsistencies in the explanations and documents provided by the predecessor management of the Company over the nature of the amount due from the broker as well as (b) the existence and accuracy of the amount due from the broker. In addition, the amount due from the broker continues to be credit-impaired as at 31 December 2020 in accordance with SFRS(I) 9 – *Financial Instruments* since the broker is in default in accordance with the terms set out in the Settlement Agreement.

Despite the above, we were unable to ascertain (a) whether the impairment loss amounting to S\$3.88 million which was recorded in the consolidated statement of comprehensive income in FY 2018 should instead be recognised in FY 2019 or FY 2020; and (b) whether the carrying amount due from the broker as at 31 December 2019 and 1 January 2019 had been properly reported and presented in the consolidated statement of financial position.

2. Access to accounting information of a joint arrangement of PT Hexindo Gemilang Jaya ("PT Hexindo")

As at 31 December 2020, PT Hexindo, an indirect subsidiary of the Company and Jadestone Energy (Lemang) Pte. Ltd. ("Jadestone") each own 10% and 90% participating interests, respectively, in the Lemang Production Sharing Contract ("Lemang PSC"). Jadestone has completed the acquisition of the 90% interest in Lemang PSC from Mandala Energy Lemang Pte. Ltd. ("Mandala") and has assumed the role of the operator of Lemang PSC in December 2020. The Group, through PT Hexindo, recognised its interest in the Lemang PSC in accordance with the accounting treatment of a joint operation under SFRS(I) 11- *Joint Arrangements*.

We had previously highlighted in our FY 2019 audit report that the auditors of PT Hexindo ("component auditors") were unable to gain access to the audit work papers of the auditors of Mandala, who was the then operator of the Lemang PSC and was responsible for the preparation of the monthly statement of accounts of Lemang PSC. Accordingly, the component auditors were unable to perform and complete their audit procedures to obtain sufficient and appropriate audit evidence over the financial statements of PT Hexindo for the financial year ended 31 December 2019.

Independent Auditor's Report

To the members of Eneco Energy Limited (Cont'd)

Basis of Qualified Opinion (Cont'd)

2. Access to accounting information of a joint arrangement of PT Hexindo Gemilang Jaya ("PT Hexindo") (Cont'd)

Following the completion of the sale of the 90% participating interest between Mandala and Jadestone (collectively known as the "Operators"), the Group's management was furnished with the necessary statements of account for FY 2019 and FY 2020 respectively. A prior year adjustment amounting to approximately S\$2 million (equivalent to US\$1.46 million) was recorded to reverse the over-recognition of the Group's proportionate share of the net expenses in Lemang PSC in the consolidated financial statements for the financial year ended 31 December 2019 in accordance with SFRS(I) 1-8 – *Accounting Policies, Changes in Accounting Estimates and Errors*.

As at the date of this report, the component auditors have not been provided access to the supporting documents other than the statements of account nor were they able to review the audit working papers of the auditors of the Operators. Consequently, the component auditors were unable to complete their audit procedures to obtain sufficient and appropriate audit evidence over the financial statements of PT Hexindo for the financial years ended 31 December 2019 and 31 December 2020, respectively.

In view of the matters highlighted in the above paragraphs, there could be adjustments and/or disclosures, that may arise on certain financial statement items i.e., opening accumulated losses, inventories, other receivables and other payables.

3. Provision for legal claim

As disclosed in Note 16(D) to the financial statements, PT Hexindo has entered into a legal settlement with Super Power Enterprise Group Ltd ("SPE") whereby it agreed to pay US\$10 million to SPE by way of assigning the proceeds from future sale of oil and gas from the Lemang PSC, subject to certain carve out provisions that allow PT Hexindo to first repay the other existing obligations identified to SPE. As at 31 December 2020, the Group continued to record a provision for legal claims measured at amortised cost amounting to S\$6.8 million (equivalent to US\$5.1 million) which was based on a cashflow projection of Lemang PSC obtained from Mandala as at 31 December 2018.

As at 31 December 2019 and 2020, management did not receive the cashflow projection of Lemang PSC from Jadestone for the forecast period. Accordingly, we were unable to perform and complete our audit procedures to obtain sufficient and appropriate audit evidence over the completeness and accuracy of the provision for legal claim as at 31 December 2019 and 2020.

We conducted our audit in accordance with Singapore Standards on Auditing ("SSA"). 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 qualified opinion.

Independent Auditor's Report

To the members of Eneco Energy Limited (Cont'd)

Information other than the Financial Statements and Auditor's Report thereon

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 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 are unable to obtain sufficient appropriate evidence about the matters as described in the Basis for Qualified Opinion section above. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to these matters.

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 matters described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

1. Going concern assumption

We draw attention to Note 2 to the financial statements. The Group and the Company had net current liabilities of S\$8.5 million and S\$1.8 million, respectively as at 31 December 2020, and the Group reported an adjusted loss before tax of S\$9.6 million after excluding gains on extinguishment of liabilities of S\$20.6 million and Job Support Scheme ("JSS") Grants of S\$2.8 million.

On 3 December 2019, the Singapore Exchange Securities Trading Limited ("SGX-ST") notified the Company that it has been placed on the Watch-list due to 3 consecutive years' losses with effect from 4 December 2019. The Company will have to fulfil the requirements under Rule 1314 of the SGX-ST Listing Manual ("Listing Manual") for its exit from the Watchlist within 36 months from 4 December 2019, i.e. by 3 December 2022, failing which SGX-ST would delist the Company or suspend trading in the Company's shares with a view to delist the Company.

On 9 March 2020, the Company requested a voluntary suspension pursuant to Rule 1303(3) of the Listing Manual, pending the satisfactory conclusion and resolution of the issues raised by the Company's auditors in connection with its ability to operate as a going concern. Arising from this voluntary suspension of the Company's shares, the Company may have difficulty to raise fresh funds to meet the various operational cashflows needs through fund raising options. On 4 March 2021, the Company announced that they have submitted an application to seek SGX-ST's approval to lift the voluntary trading suspension.

Independent Auditor's Report

To the members of Eneco Energy Limited (Cont'd)

Key Audit Matters (Cont'd)

1. Going concern assumption (Cont'd)

These events and conditions indicated above cast doubt on the ability of the Group and the Company to continue as a going concern.

Management's basis for preparing the financial statements on a going concern basis as at 31 December 2020 is provided in Note 2, including the fact that (i) the Group's logistics segment in both Singapore and Indonesia is able to generate sufficient cash flows in the next 12 months, (ii) the Company has successfully secured a facility of S\$1.5 million from a third party in November 2020 and (iii) the deficiency in net current assets of the Group is solely from the Group's oil and gas segment domiciled in Indonesia and they continue to be ringfenced through multiple layers of shareholdings and would not have an impact to the viability of the Group's and the Company's financial positions in the event of contingent or actual legal claims by third party creditors against these oil and gas entities.

As the going concern assessment is a significant risk area of our audit and involves significant judgement, we have identified this as a key audit matter.

Our response and work performed:

We evaluated management's assessment of the Group's and the Company's ability to continue as a going concern, relying on the sources of liquidity and funding available to the Group and the Company. We challenged management on the key assumptions used in the cash flows forecasts for the next 12 months from the balance sheet date. We also assessed if these forecasts are reasonable by performing sensitivity analysis on the forecasts by considering potential downside scenarios and the resultant impact on available funds. We have also considered the liquidity and recoverability of existing financial and non-financial assets on the balance sheet date.

Furthermore, we have obtained and read the legal confirmations from the Company's legal counsels in Singapore and Indonesia to assess the probability of crystallisation of the Group's contingent liabilities as disclosed in Notes 16 and 33 to the financial statements that may possibly have an adverse impact on the Group's and the Company's ability to continue as a going concern. Disclosure of the pertinent information has also been set out in Note 2 to the financial statements.

2. Recoverability of trade receivables

The Group's trade receivables as at 31 December 2020 amounted to S\$9.7 million, representing 24% of the Group's total assets. The collectability of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis by management. Management determines impairment of trade receivables by making debtor-specific assessment for credit-impaired debtors. For the remaining group of debtors, management provides lifetime expected credit losses using a provision matrix. The provision rates are determined based on the Group's historical default rates analysed in accordance to days past due by grouping customers based on the customer profiles, adjusted for current and forward-looking information.

Independent Auditor's Report

To the members of Eneco Energy Limited (Cont'd)

Key Audit Matters (Cont'd)

2. Recoverability of trade receivables (Cont'd)

This area is a key audit matter due to the amounts involved, as well as the inherent subjectivity that was involved in making judgement by the management in relation to assumptions used in the expected credit loss ("ECL") model such as forward-looking macroeconomic factors.

Our response and work performed:

As part of our audit, we assessed the Group's processes and key controls relating to the monitoring of trade receivables including the process in determining whether a debtor is credit impaired and the Group's processes in collating the key data sources and assumptions for data used in the ECL model. We have reviewed the key data sources and assumptions for data used in the determination of default rate and the correlation between the default rate and the current and forward-looking adjustment factor. We have also considered the age of the debts as well as the trend of collections to identify the collection risks. We have reviewed for collectability by way of obtaining evidence of receipts from the debtors on a sampling basis subsequent to the balance sheet date. We also considered the disclosures in the financial statements about the extent of estimation and judgement involved in determining allowance for doubtful debts.

Disclosure of the pertinent information has been set out in Notes 10 and 34.1 to the financial statements.

Other Matter

In respect of point 1 to our Basis of Qualified Opinion, the Audit Committee of the Company has appointed an independent reviewer, to review, inter alia, the circumstances surrounding the Queried Payment to the broker and the Group's corporate governance and internal controls related to the Queried Payment. As at the date of this audit report, the review by the independent reviewer is still ongoing. Accordingly, the matter arising remains unresolved.

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.

Independent Auditor's Report

To the members of Eneco Energy Limited (Cont'd)

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.
- 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.

Independent Auditor's Report To the members of Eneco Energy Limited (Cont'd)

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

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 Kong Chih Hsiang Raymond.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore, 08 April 2021

Extract of Relevant Notes to Audited Financial Statements FY2020

2 Going concern

As at 31 December 2020, the Group and the Company reported net current liabilities of S\$8.5 million and S\$1.8 million, respectively, and the Group reported an adjusted loss before tax of S\$9.6 million after excluding gains on extinguishment of liabilities of S\$20.6 million and Job Support Scheme (“JSS”) Grants of S\$2.8 million, which cast doubt on the ability of the Group and the Company to continue as a going concern.

On 3 December 2019, the Singapore Exchange Securities Trading Limited (“SGX-ST”) notified the Company that it has been placed on the Watch-list due to 3 consecutive years’ losses with effect from 4 December 2019. The Company will have to fulfil the requirements under Rule 1314 of the SGX-ST Listing Manual (“Listing Manual”) for its exit from the Watchlist within 36 months from 4 December 2019, i.e. by 3 December 2022, failing which SGX-ST would delist the Company or suspend trading in the Company’s shares with a view to delist the Company.

On 9 March 2020, the Company requested a voluntary suspension pursuant to Rule 1303(3) of the Listing Manual, pending the satisfactory conclusion and resolution of the issues raised by the Company’s auditors in connection with its ability to operate as a going concern. Arising from this voluntary suspension of the Company’s shares, the Company may have difficulty to raise fresh funds to meet the various operational cashflows needs through fund raising options. On 4 March 2021, the Company announced that they have submitted an application to seek SGX-ST’s approval to lift the voluntary trading suspension.

Notwithstanding these conditions, the directors are of the view that the preparation of the financial statements on a going concern basis remains appropriate based on the following considerations:

- a. The Group’s logistics segment in both Singapore and Indonesia is able to generate sufficient cash flows,
- b. The Company obtained a credit facility of S\$1.5 million from a third-party lender in November 2020; and
- c. As at the reporting date, the Group’s net current liabilities arose solely from the Group’s oil and gas segment, domiciled in Indonesia. The Board is of the view that the Group’s shareholdings in the entities which own the various oil and gas assets in Indonesia, are ringfenced through multiple layers of shareholdings and would not have an impact to the viability of the Company’s financial position in the event of contingent or actual legal claims by third party creditors against these entities.
- d. The financial statements have been prepared on a going concern basis which contemplate the realisation of assets and the satisfaction of liabilities in the normal course of business. As described above, management has a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. If for any reason the Group and the Company are unable to continue as a going concern, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may have to provide for further liabilities which may arise and to reclassify non-current assets and liabilities as “current assets” and “current liabilities”, respectively. No such adjustments have been made to the financial statements of the Group and the Company in respect of these.

10 Trade receivables

The Group	2020 S\$'000	2019 S\$'000
Third party customers	9,805	9,816
<u>Allowance for doubtful trade receivables:</u>		
Balance at beginning of year	79	-
Write-back during the year	(9)	-
Impairment loss recognised	49	87
Impairment loss recognised, net (Note 27)	40	87
Exchange differences	(10)	(8)
Balance at end of year	109	79
Net trade receivables	9,696	9,737

Trade receivables are non-interest bearing and are generally on 30 - 105 (2019 – 30 - 105) days' credit terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Trade receivables that are past due but not impaired

The Group has trade receivables amounting to S\$2,359,000 (2019 - S\$2,114,000) that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their ageing at the end of the reporting period is as follows:

The Group	2020 S\$'000	2019 S\$'000
Trade receivables past due but not impaired:		
Less than 30 days	1,692	1,570
30 to 60 days	416	384
61 to 90 days	108	109
91 to 120 days	5	51
More than 120 days	138	-
	2,359	2,114

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

Trade receivables denominated in foreign currencies, other than in the respective functional currency of the entities within the group, are as follow:

The Group	2020 S\$'000	2019 S\$'000
United States Dollars ("USD")	347	107

16 Other payables

Note D: Sundry payables (Non-current)

As at 31 December 2020, sundry payables comprise (a) a legal claim of S\$1.9 million (equivalent to US\$1.4 million) (2019 - S\$1.9 million (equivalent to US\$1.4 million) by Verona Capital Pty. Ltd and a legal settlement sum of S\$13.7 million (equivalent to US\$10 million), payable to Super Power Enterprise Group Ltd (“SPE”), recorded at amortised cost of S\$6.8 million (2019 - S\$6.9 million) respectively. The Group does not expect the amounts to be repaid within the next 12 months.

In March 2015, SPE commenced arbitration proceedings against PT Hexindo. PT Hexindo and SPE had previously entered into a contractual joint venture established under a joint operating agreement (“JOA”) on 13 October 2009. Under the JOA, PT Hexindo and SPE each held 51% and 49% participating interest in Lemang PSC respectively.

SPE’s interest in the Lemang PSC was however forfeited by the Government of Indonesia as a result of a supposed breach in the JOA, which resulted in the eventual substitution of another third party, Eastwin Global Investment Limited (“Eastwin”). SPE alleged that the forfeiture and subsequent substitution with Eastwin were unlawful and the forfeiture provisions relied upon by PT Hexindo were allegedly penal and unenforceable. SPE also sued PT Hexindo for damages, less any compensation due to PT Hexindo, plus interest up to the date of the award. Arising from the arbitration, the proceedings found in favour of SPE and granted them a partial final award on 1 August 2016. In response, PT Hexindo filed an originating summons in the High Court of Singapore, to set aside the partial final award granted to SPE.

In FY2019, PT Hexindo entered into a legal settlement, whereby it agreed to pay US\$10 million to SPE, by way of assignment of proceeds from future sale of oil and gas from Lemang PSC, subject to carve out provisions that allow PT Hexindo to first repay other existing obligations identified to SPE, namely the repayments of advances from joint venture partner (Note A) and loans and borrowings (Note 20).

Eastwin has previously agreed to indemnify PT Hexindo against any claims from SPE arising from the substitution. As at 31 December 2020, the Group did not recognise the indemnity receivable on its statement of financial position due to uncertainty of recovery.

33 Contingencies

Contingent liabilities

(a) Guarantees

The Group has provided the following guarantees at the end of the reporting period.

- (i) Guarantee to landlord on the rental obligation taken by subsidiaries of S\$703,000 (2019 - S\$703,000); and
- (ii) Guarantee to a vendor and customers for a performance bond of S\$726,000 (2019 - S\$864,000).

(b) Oil and gas operations

The Group's oil and gas operations in Indonesia are subject to Indonesian laws and regulations governing the discharge of materials into the environment or otherwise relating to environment protection. These laws and regulations may require the acquisition of a permit before drilling commences, which may restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling and production activities, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas, and require remedial measures to prevent pollution resulting from the Group's operations. The Government has imposed environmental regulations on oil and gas companies operating in Indonesia and in Indonesian waters. Operators are prohibited from allowing oil into the environment and must ensure that the area surrounding any onshore well is restored to its original state insofar as this is possible after the Operator has ceased to operate on the site.

Management believes that the Group and the Operator of the Block are in compliance with current applicable environmental laws and regulations.

(c) Operating hazards and uninsured risks

The Group's oil and gas operations are subject to hazards and risks inherent in drilling for and production and transportation of natural gas and oil, such as fires, natural disasters, explosions, encountering formations with abnormal pressures, blowouts, cratering, pipeline ruptures and spills, which can result in the loss of hydrocarbons, environmental pollution, personal injury claims and other damage to properties of the Group. Additionally, certain of the Group's oil and natural gas operations are located in areas that are subject to tropical weather disturbances, some of which can be severe enough to cause substantial damage to facilities and possibly interrupt production.

As protection against operating hazards, the Group maintains insurance against some, but not all potential losses. The Group's insurance coverage for its oil and gas exploration and production activities includes, but is not limited to, loss of wells, blowouts and certain costs of pollution control, physical damage to certain assets, employer's liability, comprehensive general liability, and automobile and worker's compensation insurance.