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MGI N RAJAN ASSOCIATES
PUBLIC ACCOUNTANTS AND
CHARTERED ACCOUNTANTS SINGAPORE

# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MERCATOR ENERGY PTE. LTD.

**Report on the Financial Statements**

We have audited the accompanying financial statements of **MERCATOR ENERGY PTE. LTD.** ("The Company") , which comprise the balance sheet of the Company as at 31 March 2015, and the statement of comprehensive income , statement of changes in equity and statement of cash flows of the Company for the period from 04 February 2014 (date of incorporation) to 31 March 2015, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility 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 Singapore Companies Act, Cap.50 (the "Act") and Singapore Financial Reporting Standards, 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 profit and loss accounts and balance sheets and to maintain accountability of assets.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company as at 31 March 2015 and the results, changes in equity and cash flows of the Company for the period from 4th February (date of incorporation) to 31st March 2015.

## Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

**MGI N RAJAN ASSOCIATES**
**PUBLIC ACCOUNTANTS AND**
**CHARTERED ACCOUNTANTS**
**SINGAPORE**

**Date:** 28 MAY 2015

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## BALANCE SHEET AS AT 31 MARCH 2015

| | NOTE | US$ |
|---|---|---|
| **Non-Current Assets** | | |
| Property,plant & equipment | 7 | 747,935 |
| Investment in Subsidiaries | 8 | 240,092 |
| Investment in Associate | 9 | 2,424,859 |
| Loan to associate | 10 | 5,118,673 |
| | | 8,531,559 |
| **Current Assets** | | |
| Cash and cash equivalents | 11 | 3,699,480 |
| Trade and other receivables | 12 | 6,710,498 |
| | | 10,409,978 |
| **Current Liabilities** | | |
| Trade and other payables | 13 | 141,960 |
| Amount due to Immediate Holding company | 14 | 739,051 |
| | | 881,011 |
| **Net Current Assets** | | 9,528,967 |
| **Non-Current Liabilities** | | |
| Borrowings | 15 | 17,065,599 |
| | | 17,065,599 |
| Net Assets | | 994,927 |
| **Equity** | | |
| Issued capital | 16 | 507,577 |
| Other reserves | 17 | 3,462,368 |
| Loss for the period | | (2,975,018) |
| | | 994,927 |

*(The annexed notes form an integral part of and should be read in conjunction with these accompanying financial statements).*

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE PERIOD FROM 4 FEBRUARY 2014 (DATE OF INCORPORATION) TO 31 MARCH 2015

| | NOTE | US$ |
|---|---|---|
| **REVENUE - Service Fees** | | 2,799,756 |
| Interest income from borrowings | | 139,615 |
| Gain on exchange | | 6,868 |
| Staff costs | 3 | (1,987,086) |
| Depreciation | 7 | (164,526) |
| Finance costs | 4 | (3,149,968) |
| Other operating expenses | | (619,677) |
| Loss before tax | 5 | (2,975,018) |
| Tax expense | 6 | - |
| Loss after tax | | (2,975,018) |
| Other comprehensive income | | - |
| Total comprehensive income | | (2,975,018) |

*(The annexed notes form an integral part of and should be read in conjunction with these accompanying financial statements.)*

## STATEMENT OF CHANGES IN EQUITY
## FOR THE PERIOD FROM 4 FEBRUARY 2014 (DATE OF INCORPORATION) TO 31 MARCH 2015

| | Share capital US$ | Other reserves US$ | Loss for the period US$ | Total US$ |
|---|---|---|---|---|
| **At the date of incorporation** | **2** | **-** | **-** | **2** |
| Issue of shares | 507,575 | - | - | 507,575 |
| Convertible loan-equity component | - | 3,462,368 | - | 3,462,368 |
| Total comprehensive income | - | - | (2,975,018) | (2,975,018) |
| **Balance at 31 March 2015** | **507,577** | **3,462,368** | **(2,975,018)** | **994,927** |

*(The annexed notes form an integral part of and should be read in conjunction with these accompanying financial statements.)*

## STATEMENT OF CASH FLOWS
## FOR THE PERIOD FROM 4 FEBRUARY 2014 (DATE OF INCORPORATION) TO 31 MARCH 2015

| | NOTE | US$ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before taxation | | (2,975,018) |
| Adjustments | | |
| Interest expense | | 3,149,968 |
| Depreciation | | 164,526 |
| Interest income | | (139,615) |
| **Operating profit before working capital changes** | | 199,861 |
| Other receivables | | (347,853) |
| Other payables | | 141,960 |
| **Cash (used in) operating activites** | | (6,032) |
| | | |
| **Cash flows from investing activities** | | |
| Purchase of fixed assets | | (912,461) |
| Investment in subsidiaries | | (240,092) |
| Investment in associate | | (2,424,859) |
| Amount due from fellow subsidiaries | | (947,021) |
| Amount due from immediate subsidiary | | (5,358,441) |
| Amount due from related party | | (36,241) |
| Loan to associate | | (5,000,000) |
| **Net cash (used in) investing activities** | | (14,919,115) |
| | | |
| **Cash flows from financing activities** | | |
| Loan obtained | | 17,876,960 |
| Amount due to immediate holding company | | 240,090 |
| Issue of shares | | 507,577 |
| **Net cash generated from financing activities** | | 18,624,627 |
| | | |
| **Net change in cash and cash equivalents** | | 3,699,480 |
| Cash and cash equivalents at beginning of period | | - |
| Cash and cash equivalents at the end of period | 11 | 3,699,480 |

*(The annexed notes form an integral part of and should be read in conjunction with these financial statements.)*

**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 04 FEBRUARY 2014 (DATE OF INCORPORATION) TO 31 MARCH 2015**

*These notes form an integral part of and should be read in conjunction with the accompanying financial statements*

## 1. GENERAL INFORMATION

The Company was incorporated on 04 February 2014 as a Private Company Limited by Shares and domiciled in the Republic of Singapore.

The principal activities of the Company are that of petroleum, mining, prospecting and services incidental to oil and gas extraction excluding surveying. In the current financial period the Company has provided management services to its immediate and fellow subsidiaries.

The company's registered office is located at:-
8 Temasek Boulevard, #07-01,
Suntec Tower 3
Singapore 038988.

The Company's immediate holding Company is Mercator International Pte. Ltd., a Company incorporated in Singapore and the ultimate holding Company is Mercator Limited, a company incorporated in India.

The financial statements of the company for the period from 04 February 2014 to 31 March 2015 were authorised for issue in accordance with a resolution of the directors on the date of the Statement by Director.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of the financial statements in conformity with Singapore Financial Reporting Standards requires using of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the financial year. The Company has assessed that there are no estimates or judgements used that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, contd...

### 2.2 PROPERTY, PLANT & EQUIPMENT

Property, plant & equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

**i) Depreciation**

Depreciation on property, plant and equipment is calculated on a straight-line method to write-off the cost of the assets over their estimated useful lives. The rates of depreciation are as follows:

| | Years |
|---|---|
| Office equipment | 2 |
| Renovation | 3 |

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any significant change in estimate accounted for on a prospective basis.

**ii) Subsequent expenditure**

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Other subsequent expenditure is recognized as repair and maintenance expense in the income statement during the financial year in which it is incurred.

**iii) Disposal**

On disposal of property, plant and equipment, the difference between the net disposal proceeds and carrying amount is recognized in the income statement. Any revaluation reserve relating to that asset is transferred to retained earnings directly.

### 2.3 IMPAIRMENT OF NON FINANCIAL ASSETS

The carrying amounts of the assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) of the asset is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The impairment loss is recognised in the income statement unless the asset is carried at re valued amount, in which case, such impairment loss is treated as a revaluation decrease.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, contd...**

**2.4 REVENUE**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Revenue is recognized as follows:

*a) **Service fees***

Revenue from Management service fees is recognized upon services rendered.

*b) **Interest income***

Interest income is recognized using the effective interest method.

**2.5 FINANCIAL ASSETS**

Loans and receivables

Loans and receivables include "cash and cash equivalents", "other receivables" in the balance sheet.

These financial assets are initially recognised at fair value plus transaction cost and subsequently carried at amortised cost using the effective interest method. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets.

The Company assesses at each balance sheet date whether there is objective evidence that these financial assets are impaired are recognises an allowance for impairment when such evidence exists. Allowance for impairment is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

**2.6 FINANCIAL LIABILITIES**

*Initial recognition and measurement*

Financial liabilities are recognised on the balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

*Other financial liabilities*

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through amortisation process.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, contd...

### 2.6 FINANCIAL LIABILITIES, cont'd

*Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged, expelled or expired. When an existing financial liability is replaced by another from the same lender or substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

### 2.7 CURRENCY TRANSLATION

*Functional currency*

Items included in the financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the company ("the functional currency"). The financial statements are prepared in United States Dollar, which is the functional currency of the Company.

*Transactions and balances*

Monetary assets and liabilities in foreign currencies are translated into United States dollar at rates of exchange closely approximating those ruling at balance sheet date. Transactions in foreign currencies are converted at rates closely approximating those ruling at transaction dates. Exchange differences arising from such transactions are recorded in the profit and loss account in the year in which they arise. However, where a foreign currency transaction is to be settled at a contracted rate or is covered by a related or matching forward exchange contract, the rate of exchange specified in the contract will be used and any corresponding monetary assets or liabilities will not be retranslated.

### 2.8 TAXATION

The liability method of tax effect accounting is adopted by the company. Current taxation is provided at the current taxation rate based on the tax payable on the income for the financial year that is chargeable to tax. Deferred taxation is provided at the current taxation rate on all temporary differences existing at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognized for all taxable temporary differences ( unless the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss).

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized (unless the deferred tax asset arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss).

The statutory tax rates enacted at the balance sheet date are used to determine deferred income tax.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, contd.....

### 2.9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and bank deposits.

### 2.10 RELATED PARTY

A party is considered to be related to the Company if:-

a) The party directly or indirectly through one or more intermediaries,

    i) controls, is controlled by, or is under common control with, the Company;
    ii) has an interest in the Company that gives it significant influence over the Company; or
    iii) has joint control over the Company;

b) The party is an associate;
c) The party is a jointly-controlled entity;
d) The party is a member of the key management personnel of the Company or its parent;
e) The party is a close member of the family of any individual referred to in a) or d); or
f) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly referred to in d) or e); or
g) The party is a post-employment benefit plan for the benefit of the employees of the Company, or of any entity that is a related party of the Company.

### 2.11 PROVISIONS

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised in the income statement as interest expense.

### 2.12 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

### 2.13 BORROWING COSTS

All borrowing costs are recognized in profit or loss as per effective interest rate method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, contd...

### 2.14 BORROWINGS

All loans and borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transactions costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings which are due to be settled within 12 months after the balance sheet date are presented as current borrowings even though the original term was for a period longer than 12 months and an arrangement to refinance, or reschedule payments, on a long term basis is completed after the balance sheet date and before the financial statements are authorized for issue. Other borrowings due to be settled more than 12 months after the balance sheet date are presented as non- current borrowings in the balance sheet. Trade and other payables and interest bearing borrowings are stated at cost. Interest bearing borrowings are recognised initially at cost less attributable transaction costs. Subsequent to initial recognition, interest – bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit & loss account over the period of the borrowings on effective interest basis.

### 2.15 SUBSIDIARY

Subsidiary is an entity over which the company has power to govern the financial and economic policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the company controls another entity.

Investment in the subsidiary is stated in the financial statements of the Company at cost less impairments losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. The subsidiary's results have not been consolidated as the ultimate holding company, Mercator Limited, a Company incorporated in India publishes the consolidated financial statements.

### 2.16 ASSOCIATES

An associated company is an entity, not being a subsidiary or a joint venture, in which the company has significant influence. This generally coincides with the company having 20% or more of the voting power, or has representation on the board of directors.

The investment in associate is stated at cost less any impairment in net recoverable value. The Company has not accounted for its associate using the equity method of accounting as the Company itself is a wholly-owned subsidiary of another company. Consolidated financial statements are prepared and published for public use by the Company's ultimate holding company, Mercator Limited, a company incorporated in India.

### 2.17 CONVERTIBLE TERM LOAN

The total proceeds from convertible term loan availed are allocated to the liability component and the equity component, which are separately presented on the balance sheet

The liability component is recognized initially at its fair value, determined using a market interest rate for equivalent non-convertible term loan. It is subsequently carried at amortised cost using the effective interest method until the liability is extinguished on conversion or repayment of the loan.

The difference between the total proceed and the liability component is allocated to the conversion option (equity component), which is presented in equity net of any deferred tax effect. The carrying amount of the conversion is not adjusted in subsequent periods. When the conversion option is exercised, the carrying amounts of the liability and equity components are transferred to the share capital. When the conversion option lapses, its carrying amount is transferred to retained profits.

### 2.18 FAIR VALUE ESTIMATION

The carrying amounts of current financial assets and liabilities, carried at amortised cost, are assumed to approximate their fair values.

### 2.19 EMPLOYEE BENEFITS

Defined Contribution plans
Defined contribution plans are post – employment benefit plans under which the company pays fixed contributions into separate entities such as the Central Provident Fund, and will have no legal or constructive obligation to pay further contributions, if any of the funds does not sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. The Company's contribution to defined contribution plans are recognised in the financial year to which they relate.

Employee leave entitlements
Employee entitlements to annual leave are recognised when they accrue to employees. The Company allows up to 7 days of employee leave to be carried forward for a maximum period of 12 months.

### 2.20 OPERATING LEAVE AS LESSEE

Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognized as a reduction of rental expense over the lease term on a straight-line basis.

## 3. STAFF COSTS

| | Period from 04 February 2014 to 31 March 2015 US$ |
|---|---|
| Staff salaries | 1,947,677 |
| CPF | 38,299 |
| SDL | 1,110 |
| | 1,987,086 |

## 4. FINANCE COSTS

| | Period from 04 February 2014 to 31 March 2015 US$ |
|---|---|
| Interest on borrowings | 3,149,968 |
| | 3,149,968 |

## 5. LOSS BEFORE TAX

| Loss before tax has been arrived at after charging: | Period from 04 February 2014 to 31 March 2015 US$ |
|---|---|
| Office rent | 242,115 |

## 6. TAX EXPENSE

| | Period from 04 February 2014 to 31 March 2015 US$ |
|---|---|
| Current period tax expense | - |
| | - |

The tax expense on the results of the financial period varies from the amount of income tax determined by applying the Singapore Statutory rate of income tax on Company's loss as a result of the following:-

| | Period from 04 February 2014 to 31 March 2015 US$ |
|---|---|
| Loss before tax | (2,975,018) |
| Tax @ 17% | (505,753) |
| Deferred tax assets not recognized | 505,753 |
| Tax expense | - |

No current tax for the financial period ended 31 March 2015 has been provided in the financial statements, as the Company has no taxable profit. The Company has unabsorbed losses and unutilized wear and tear allowances as at 31 March 2015 which could be carried forward for offsetting against future taxable income provided that the provision of Section 23 and 37 of the Singapore Income Tax Act, Cap. 134 are complied with.

## 6. TAX EXPENSE contd...

Deferred tax assets will be recognised only when it is probable that the Company will have future taxable income.

## 7. PROPERTY, PLANT EQUIPMENT

| | Office equipment US$ | Renovation US$ | Total US$ |
|---|---|---|---|
| At the date of incorporation | - | - | - |
| Addition during the period | 138,299 | 774,162 | 912,461 |
| Charge for the period | (35,853) | (128,673) | (164,526) |
| Net Book Value as at 31.3.2015 | 102,446 | 645,489 | 747,935 |

## 8. INVESTMENT IN SUBSIDIARIES

| | 2015 US$ |
|---|---|
| Unquoted shares stated at cost | 240,092 |
| | 240,092 |

The company has incorporated the following subsidiaries and the details are as follows:

| Name of Subsidiary | Principal activities | Cost of investment US$ | Country of incorporation | Equity holding % |
|---|---|---|---|---|
| Mercator Offshore Assets Holding Pte Ltd | Investment holding | 240,090 | Singapore | 100 |
| Mercator Projects Pte Ltd | EPC, specialized construction & structural works on a turnkey basis | 2 | Singapore | 100 |
| TOTAL | | 240,092 | | |

## 9. INVESTMENT IN ASSOCIATE

| | 2015 US$ |
|---|---|
| Unquoted shares stated at cost | 2,424,859 |
| | 2,424,859 |

Details of the Associate as at 31 March 2015 are as follows:

| Name of Associate | Principal activities | Cost of investment US$ | Country of incorporation | Equity holding % |
|---|---|---|---|---|
| Mercator Petroleum Limited | Surveying, exploration, producing petroleum &petroleum products, their derivatives & allied products | 2,424,859 | India | 49 |

## 10. LOAN TO ASSOCIATE

A loan of US$5,000,000 was disbursed on 31 July 2014. It is unsecured, carries interest of LIBOR + 3.5% and repayable along with principal and interest accrued at the end of the 4th year from the date of loan disbursed.

## 11. CASH AND CASH EQUIVALENTS

| | 2015 |
|---|---|
| | US$ |
| Cash at bank | 3,695,166 |
| Cash in hand | 4,314 |
| | 3,699,480 |

## 12. TRADE AND OTHER RECEIVABLES

| | 2015 |
|---|---|
| | US$ |
| Trade receivables: Fellow subsidiaries | 748,935 |
| Immediate subsidiaries | 2,246,804 |
| Amount due from fellow subsidiaries | 198,086 |
| Amount due from immediate subsidiaries | 3,111,637 |
| Amount due from related parties | 36,241 |
| Advances to vendors | 129,758 |
| Deposits | 115,022 |
| Prepayments | 33,188 |
| Staff loans | 63,925 |
| Other receivable | 20,942 |
| Other advances | 5,960 |
| | 6,710,498 |

***Amount due from fellow subsidiaries***

The amounts due from fellow subsidiaries are trade and non-trade in nature. They are unsecured, interest-free and receivable on demand.

***Amount due from immediate subsidiaries***

The amounts due from immediate subsidiaries are trade advance and non-trade in nature. They are unsecured, interest-free and receivable on demand.

***Amount due from related parties***

The amount due from related parties is non-trade, unsecured, interest-free and receivable on demand.

## 13. TRADE AND OTHER PAYABLES

| | 2015 US$ |
|---|---|
| **Trade payables:** | |
| GST | 125,989 |
| | |
| **Other payables:** | |
| CPF payable | 11,571 |
| Accruals | 4,400 |
| | 141,960 |

## 14. Amount due to immediate holding company

The amount due to immediate holding company is unsecured, carries interest of 4% and repayable on demand.

## 15. BORROWINGS

On 13th June 2014, the Company has drawdown a convertible term loan of US$20,000,000 against an approved limit of US$55,000,000 as per facility agreement dated 4 June 2014. The loan and all accrued and unpaid interest is due for repayment in six years from the date of loan yielding an IRR of 15.10% per annum or conversion into shares of the Company if the borrower launches an IPO at any time during the facility period. Lender and the Company as per the terms of the agreement have a Put and Call option at the end of the 5th year from the first date of utlisation to prepay the loan in full at the aforesaid agreed IRR. If the conversion occurs, the whole outstanding amount of the loan shall automatically be converted into shares subject to the IPO size being more than USD 50 million and the conversion shall yield an IRR of 22.10% to the lender for the entire facility period.

The fair value of the liability component, included in non-current borrowings, is calculated using a market interest rate for an equivalent non-convertible loan at the date of loan. The residual amount, representing the value of the equity conversion component, is included in shareholder's equity in other reserves.

The carrying amount of the liability component of the convertible term loan at the balance sheet is derived as follows:

| | 2015 US$ |
|---|---|
| Face value of convertible term loan, net of transaction costs | 17,876,960 |
| Equity conversion component on initial recognition net of transaction cost | (3,462,368) |
| Liability component on initial recognition | 14,414,592 |
| Amortisation of interest expense upto 31st March 2015 | 2,651,007 |
| Liability component at end of the period | 17,065,599 |

## 15. BORROWINGS contd...

The fair value of the liability component of the convertible term loan at 31 March 2015 is $17,065,599. The fair value is calculated by discounting cash flows so as to achieve 15.10% IRR for the facility period.

Security

1. Third preferred Mortgage of MOPU & FSO owned by fellow subsidiary Mercator Offshore (P) Pte Ltd
2. Lender will have subordinated charge over future acquisitions by the Company and its subsidiaries.
3. Letter of Support from the immediate holding company

## 16. SHARE CAPITAL

| | No. of shares issued | Amount US$ |
|---|---|---|
| **At the date of incorporation** | 2 | 2 |
| Issue of shares during the period | 641,026 | 507,575 |
| **Balance at end of period** | **641,028** | **507,577** |

During the financial period, the Company has issued 641,026 shares for a cash consideration of US$507,575.

The ordinary shares are denominated in Singapore dollar and are converted to United States dollar at historical rates.

The ordinary shares are with no par value and entitled for dividend as and when declared and carry one vote per share with no restriction.

## 17. RESERVES

Equity component on Convertible Term loan

| | 2015 US$ |
|---|---|
| Recognition of equity on convertible term loan | 3,462,368 |
| Balance at end of period | 3,462,368 |

## 18. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risk, including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Director reviews and agrees on the policies for managing each of these risks and they are summarised as follows:

### *a) Foreign exchange risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The company transacts mainly in United States Dollar, which is the functional currency of the Company. The Company has limited exposure to other currencies.

## 18. FINANCIAL RISK MANAGEMENT contd...

### *b) Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The company's exposure to movements in market interest rates relate to interest-bearing assets with variable interest rates.

The Company's exposure to changes in interest rates relates primarily to its variable interest rate loan. If the interest rates of the financial instrument increased / (decreased) by 0.5% with the all other variables including tax rate held constant the (loss) after tax for the year would have been lower/higher by US$ 20,750 as result of higher/lower interest income.

### *c) Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company is exposed to credit risk to the extent of its receivable from related parties amounting to US$6,341,703.

The Company's cash deposits are held with financial institutions of good standing.

### *d) Liquidity risk*

Liquidity or funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The company ensures that there are adequate funds to meet all its obligations out of its existing operation and will have in the form of continuing financial support from its immediate & fellow subsidiaries.

The table below analyses the maturity profile of the Company's borrowings based on contractual undiscounted cash flows:

| | Less than 1 year | Between 1 to 2 years | Between 2 to 5 years | After 5 years |
|---|---|---|---|---|
| | US$ | US$ | US$ | US$ |
| Borrowings | 1,000,000 | 1,000,000 | 3,000,000 | 38,716,800 |
| **Total** | **1,000,000** | **1,000,000** | **3,000,000** | **38,716,800** |

### e) *Fair value instruments by category*

The carrying amount of the different categories of financial instruments is as follows:-

| | 2015 US$ |
|---|---|
| Loans and receivables | **15,495,463** |
| Financial liabilities amortised at cost | **17,946,610** |

## 19. RELATED PARTY TRANSACTIONS

In addition to those related party information disclosed elsewhere in the financial statements, the following significant transactions between the Company and related parties who are members of the Company took place during the period at terms agreed between the parties.

| | 2015 US$ |
|---|---|
| Services fee received from immediate subsidiaries & fellow subsidiaries | **2,799,756** |
| Interest received from Associate | **139,615** |
| Loan received from immediate holding company | **46,353,159** |
| Loan repaid to immediate holding company | **46,300,041** |
| Expenses incurred by immediate holding company on behalf | **186,972** |
| Interest paid to immediate holding Company | **498,961** |
| Expenses incurred on behalf of fellow subsidiary | **204,298** |
| Expenses incurred by fellow subsidiary on behalf | **6,211** |
| Loan received from fellow subsidiary | **300,000** |
| Loan repaid to fellow subsidiary | **300,000** |
| Loan received from immediate Subsidiary | **41,050,165** |
| Loan repaid to immediate Subsidiary | **43,738,950** |
| Expense paid on behalf of immediate subsidiary | **48,110** |
| Loan given to immediate Subsidiary | **374,745** |
| Expenses incurred on behalf of related parties | **36,241** |

Other related parties comprise of fellow subsidiaries.

Outstanding balances at 31 March 2015, arising from loans receivables/payables within 12 months from balance sheet date are disclosed in Notes 11 & 13.

## 20. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other members of key management personnel during the period was as follows:-

| | 2015 US$ |
|---|---|
| Salaries | **958,546** |

## 21. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and net current asset position in order to support its business. The capital structure of the Company comprises issued share capital and retained earnings.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company is not subject to any externally imposed capital requirements.

The Company is not subject to any externally imposed capital requirements.

## 22. OPERATING LEASE COMMITMENTS

The Company leases office space under non-cancellable operating lease agreement. This lease has varying terms, escalation clauses and renewal rights.

The future minimum rental payable under non-cancellable operating lease contracted for at the balance sheet date but not recognized as liabilities, are as follows:

| | **2015** |
|---|---|
| | **US$** |
| Not later than one year | **390,101** |
| Later than one year but not later than five years | **585,151** |

## 23. NEW/REVISED FINANCIAL REPORTING STANDARDS

The Company has not applied the following new/revised FRS or interpretations that have been issued as of the balance sheet date but not yet effective:

| **Annual periods commencing on** | **Description** |
|---|---|
| 1 July 2014 | Amendments to FRS 19 (R) Employee Benefits<br>-Defined Benefit Plans: employee Contributions |
| | Annual improvements 2012<br>-FRS 102 Share-Based Payment<br>-FRS 103 Business Combinations<br>-FRS 108 Operating segments<br>-FRS 16 Property, Plant & Equipment<br>-FRS 38 Intangible Assets<br>-FRS 24 Related Party Disclosures |
| | Annual improvements 2013<br>-FRS 103 Business Combinations<br>-FRS 113 Fair Value Measurement<br>-FRS 40 Investment Property |
| 1 January 2016 | -FRS 114 Regulatory Deferral |

The initial application of these standards and interpretations, where applicable, are not expected to have any material impact on the financial statements of the Company.

## 23. COMPARATIVE FIGURES

No comparatives are available as this is the first financial period for the Company.

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