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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
GALFAR ENGINEERING & CONTRACTING SAOG

Report on the audit of the Parent Company and consolidated financial statements

Disclaimer of Opinion

We were engaged to audit the Parent Company and consolidated financial statements (the "financial statements") of Galfar Engineering & Contracting SAOG (the "Parent Company" or "Company") and its subsidiaries (together "the Group"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Parent Company and the Group. Because of the significance of the matters 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

a) Effective 1 January 2019, the Parent Company commenced migration of its Information Technology system from Oracle ERP to Xpedeon ERP. Based on the audit procedures performed, we have assessed that IT General Controls (manage access, manage change and manage operations) ("ITGCs") on the Xpedeon ERP were not effective. Consequently, we could not test IT applications controls. In the absence of any alternative audit procedures that we could perform; we were unable to satisfy ourselves on the controls surrounding the data generated from the Xpedeon ERP system for financial reporting as at and for the year ended 31 December 2019. Consequently, we are not able to determine whether any adjustments to the financial statements were necessary.

b) At 31 December 2019, the Parent Company carried trade payables in the statement of financial position amounting to RO 45,219 thousand. We have requested balance confirmations on a sample basis. On confirmations received and where reconciliations were prepared by management, a difference of RO 3,623 thousand was identified and not recorded in the books at 31 December 2019. On confirmations received amounting to RO 18,453 thousand; management were unable to perform reconciliations on differences identified. We did not receive confirmations for trade payable balances amounting to RO 2,529 thousand. In the absence of these confirmations and reconciliations, we were unable to obtain sufficient appropriate audit evidence on the carrying value of trade payables as at 31 December 2019. Consequently, we were unable to determine whether any adjustments might have been necessary in respect of trade payables as at 31 December 2019 and the related impact on contract cost, contract revenue, contract work in progress and results for the year ended 31 December 2019.

c) During the year ended 31 December 2019, the management of the Parent Company was informed of a significant number of invalid purchase orders to suppliers that were raised by the supply chain management unit. An internal investigation carried out on these purchase orders and the procurement process resulted in a number of findings and irregularities identifying violations of procurement policies and procedures of the Parent Company. As at 31 December 2019, the financial impact of these irregularities could not be ascertained. Consequently, we are unable to determine whether any adjustments might have been necessary in respect of cost of sales and profit or loss for the year ended 31 December 2019, any corresponding adjustments to trade payables and accumulated losses as at 31 December 2019 and the related impact, if any, on prior years.

d) As disclosed in note 33 to the financial statements, the Parent Company has transacted with related parties during the year ended 31 December 2019. However, in the absence of a detailed reconciliation of movement of related party balances; we were unable to verify the accuracy of the amounts reported as related party transactions during the year. Consequently, we were unable to determine whether any adjustments might have been necessary in respect of related party transactions disclosed for the year ended 31 December 2019.

Report on the audit of the Parent Company and consolidated financial statements (continued)

In addition to above mentioned Basis for Disclaimer of Opinion matters, we have identified additional matters as below, that would have otherwise required a modification of our audit opinion:

a) During our audit for the year ended 31 December 2018, we noted that, the Parent Company's accruals for purchases and sub-contracts as of 31 December 2018 were carried in the statement of financial position at RO 27,508 thousand. Although the Parent Company began its implementation of the Xpedeon ERP system from 1 January 2019; as at 21 March 2019, the date of our audit report on the financial statements for the year ended 31 December 2018, the implementation of Xpedeon ERP was not complete. As a result, the Parent Company had not recorded all the invoices subsequent to 1 January 2019 in its accounting records. In the absence of the related accounting information, we were unable to obtain sufficient appropriate audit evidence on the value of accruals for purchases and sub-contracts as at 31 December 2018. Consequently, we were unable to determine whether any adjustments might have been necessary in respect of these accruals as of 31 December 2018 and the related impact on contract cost, contract revenue and contract work in progress for the year ended 31 December 2018 and the consequent impact for the year ended 31 December 2019 and the balances as at 31 December 2019.

b) As disclosed in note 6A to the financial statements, the Parent Company has disposed of its Indian operations comprising three subsidiaries and three associates, to a related party, during the year ended 31 December 2019. The gain on sale of these investments in the Parent Company's financial statements and the consolidated financial statements amounted to RO 1,265 thousand and RO 15,215 thousand, respectively, and the related disclosures in accordance with IFRS 5 are disclosed in note 6A to the financial statements. However, the gain on the sale of the Indian operations, loss for the period from discontinued operations and the related disclosures are based on financial information of these entities as at 31 December 2018, and not upto the date of their disposal on 27 June 2019. We had qualified our opinion on account balances of assets held for sale and liabilities held for sale for the year ended 31 December 2018 and results for year then ended as mentioned in point (e) below that may have an impact on the determination of gain on sale of Indian operations, loss for the period from discontinued operations and the related disclosures. Accordingly, we were unable to obtain sufficient appropriate audit evidence in respect of gain on sale of these investments, loss for the period from discontinued operations and the related disclosures included in these financial statements as at and for the year ended 31 December 2019. Consequently, we are unable to determine whether any adjustments might have been necessary for the gain determined on the sale of Indian operations and loss for the period from discontinued operations for the year ended 31 December 2019 and the related disclosures.

c) Assets held for sale at 31 December 2018
We were unable to obtain sufficient audit evidence relating to the Group's subsidiary in India classified as disposal group held for sale due to the following reasons as explained in note 6A:

- Incomplete fixed asset register as of 31 December 2018
- Non-compliance with the Goods and Service Tax Act, 2017
- Non-availability of balance confirmation from the suppliers and the related reconciliation statements.

Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of the account balances as set out below:

- Assets held for sale amounting to RO 8,493 thousand as of 31 December 2018
- Liabilities held for sale amounting to RO 6,870 thousand as of 31 December 2018
- Results from discontinued operations amounting to a loss of RO 2,149 thousand for the year ended 31 December 2018.

Report on the audit of the Parent Company and consolidated financial statements (continued)

d) As at 31 December 2019, one of the subsidiaries of the Group has created a provision for employee bonus amounting to RO 350 thousand. Based on the modified opinion issued by the subsidiary company's auditor, there was no sufficient appropriate audit evidence on the appropriateness of this provision as at 31 December 2019. Consequently, we are unable to determine whether any adjustments to provisions and accruals might have been necessary as at 31 December 2019 and the consequential impact on the results for the year ended 31 December 2019.

Emphasis of Matters:
Further, we would like to draw attention to the below matters:

i) We draw attention to Note 33 of the financial statements which describes irregularities noted in the related parties procurement process and key management personnel remuneration and transactions, an internal investigation was conducted during the current year. The review has resulted in significant findings and irregularities indicating violation of policies and procedures of the Parent Company.

ii) Note 24.1 to the financial statements, which describes the position taken by the Parent Company relating to allowability of write off of provision for impairment amounting to RO 283 thousand, RO 1,981 thousand and RO 10,597 thousand, while computing the income tax payable for the year ended 31 December 2019, 31 December 2018 and 31 December 2017, respectively. The tax assessment for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 has not commenced.

iii) Notes 39(b)(iii), (iv), (v), (vi), (vii) and (viii) of the financial statements which sets out the status of certain ongoing negotiations, arbitration and litigation proceedings relating to certain claims raised by the Parent Company and their recoverability. Notes 39(b)(iii), (iv), (v), (vi), (vii) and (viii) also describe the Parent Company's position on the following matters:
   - The details regarding a final settlement reached on the Muscat Expressway contract and the Central Corridor project.
   - The status of arbitration proceedings and ongoing negotiations initiated by the Parent Company towards recovery of certain claims filed against other clients. A portion of these claims amounting to RO 23,833 thousand is included in contract and trade receivables by the Parent Company.

iv) During prior years, the Capital Market Authority (CMA) had carried out certain investigative audits relating to certain of the Group's transactions for the years from 2010 to 2014. Management have informed us that as of date, based on the draft investigation audit reports received from independent auditors appointed by the CMA, the management has taken corrective actions and had filed responses to the clarification sought by the CMA. Management has informed that no adjustment to the financial statements in respect of such years is anticipated and the Group has not yet received any further communication from the CMA in respect of this matter.

The above emphasis of matters does not constitute basis for disclaimer of opinion.

Material uncertainty related to going concern
We draw attention to note 2.4 of the financial statements, which indicates that the Parent Company and the Group has incurred loss from continuing operations of RO 21,414 thousand and RO 21,509 thousand respectively for the year ended 31 December 2019 and as of that date the Parent Company and the Group has accumulated loss position of RO 28,952 thousand and RO 25,695 thousand respectively, (2018: accumulated loss position of RO 8,753 thousand and RO 19,346 thousand respectively). It further describes the measures implemented by the Parent Company's Board of Directors to improve its financial position and the grounds on which the financial statements have been prepared on going concern basis. However, these measures are highly dependent on timely execution of; ongoing projects, certification of billed receivables and settlement of contract and trade receivables from projects, the majority of which are from Government or Government related entities as disclosed in note 36 of the financial statements.

These factors indicate that a material uncertainty exists that may cast a significant doubt on the Group's ability to continue as a going concern should the measures implemented not achieve a successful outcome. The above matter does not constitute basis for disclaimer of opinion.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
GALFAR ENGINEERING & CONTRACTING SAOG (CONTINUED)

Responsibilities of management and those charged with governance for the financial statements
Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law, as amended, and the CMA of the Sultanate of Oman, and for such internal control as those charged with governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance are 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 those charged with governance either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for 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 Parent Company's financial statements and Group's consolidated financial statements in accordance with International Standards on Auditing (ISAs) and to issue an auditor's report. However, because of the matter described in the Basis of 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law, as amended, and CMA of the Sultanate of Oman.

Ernst & Young LLC

Philip Dennis Stanton
Muscat
7 June 2020