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Abu Timam
Chartered Certified Accountants

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Independent Auditor's Report

To the Shareholders of
Galfar Engineering and Contracting SAOG
P.O. Box 533
Postal Code 113
Sultanate of Oman

Report on the Audit of the Separate and Consolidated Financial Statements

Qualified Opinion

We have audited the separate and consolidated financial statements (the "financial statements") of Galfar Engineering and Contracting SAOG (the "Parent Company") and its subsidiaries (together, the "Group"), which comprise the statement of financial position as at 31 December 2020, 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.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Parent Company and the Group as at 31 December 2020, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

The Parent Company's sundry creditors as of the previous year ended 31 December 2019 were carried in the statement of financial position at RO 45,219 thousand for which the predecessor auditor issued a disclaimer of opinion as they were unable to obtain sufficient appropriate audit evidence on the carrying value of sundry creditors as at that date. Since the opening balance of sundry creditors affects the determination of the contract costs, contract revenue and contract work in progress, we were unable to determine whether any adjustments might have been necessary to the results of operations and opening accumulated losses for the year ended 31 December 2020. Our opinion on the current year's financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures.

Independent Auditor's Report (continued)

Basis for Qualified Opinion (continued)

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related to Going Concern

Note 2.4 of the financial statements, indicates that the Parent Company and the Group have incurred gross loss of RO 16,025 thousand and RO 16,536 thousand, respectively, and net loss of RO 26,111 thousand and RO 28,268 thousand, respectively, for the year ended 31 December 2020. Further, as of that date, the current liabilities of the Parent Company and the Group exceed their current assets by RO 4,415 thousand and RO 1,998 thousand, respectively, and the Parent Company and the Group have accumulated losses of RO 55,063 thousand and RO 53,965 thousand, respectively. It further describes the measures implemented by the Group's management to improve its financial position and the grounds on which the financial statements have been prepared on a going concern basis. However, these measures are highly dependent on timely execution of the 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 and settlement of payment terms with the banks as disclosed in Note 19 of the financial statements. These factors indicate that a material uncertainty exists that may cast significant doubt on the Parent Company's and the Group's ability to continue as a going concern should the measures implemented not achieve a successful outcome. Our opinion is not further modified in respect of this matter.

Emphasis of Matter

We draw attention to Note 37.3 of the financial statements, which states that 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 has informed us that as of date, based on the draft investigation audit reports received from independent auditor appointed by the CMA, management has taken corrective actions and had filed responses to the clarifications 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. Our opinion is not further modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. 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, Material Uncertainty Related to Going Concern* and *Emphasis of Matter* sections of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

Independent Auditor's Report (continued)

Key Audit Matters (continued)

We have determined the matters described below to be the key audit matters to be communicated in our report:

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on construction contracts involves significant judgement	
Refer to accounting policies for the financial statements and Note 27. Revenue from construction contracts for the year ended 31 December 2020 amounts to RO 194,933 thousand, and as at that date, contract and trade receivables amounts to RO 122,283 thousand and contract work in progress amounts to RO 35,195 thousand. For all the contracts, the Group recognises revenue over time and measures the progress based on the input method by considering proportion of contract costs incurred for the work performed to the balance sheet date, relative to the estimated total forecasted costs of the contracts upto the completion. The recognition of revenue and profit/loss therefore depends upon estimates in relation to the forecasts of total costs of each contract. Cost contingencies may also be included in these estimates to take account of specific provisions arising within each contract. These contingencies are reviewed by the Group on a regular basis throughout the contract life and amounts are re-estimated, until the outcome of the contract is known. The revenue on contracts may also include variations, which fall under either the variable consideration or contract modification requirements of IFRS 15 '*Revenue from Contracts with Customers*'. These are recognised on a contract-by-contract basis when evidence supports that the contract modification is enforceable or when variable consideration is highly probable that a significant reversal in the amount of revenue recognised will not occur. The effect of these matters is that, as part of our risk assessment, we determined that contract revenue and other related contract balances have a risk of estimation uncertainty.	Our procedures included, among others: • Obtaining an understanding of the project execution processes and relevant controls relating to the accounting for customer contracts; • For the revenue recognized throughout the year, we tested the key controls, including results reviews by management, for their operating effectiveness and performed procedures to gain sufficient appropriate audit evidence on the accuracy of the accounting for customer contracts and related financial statement captions; • These procedures included reading significant new contracts to understand the terms and conditions and their impact on revenue recognition. We performed enquiries with management to understand their project risk assessments and inspected meeting minutes from project reviews performed by management to identify relevant changes in their assessments and estimates. We challenged these estimates and judgments made for over the time projects including comparing estimated project financials between reporting periods and assessed the historical accuracy of these estimates; • Analysing the end of job forecasts on contracts selected and challenging the estimates within the forecasts by considering the amounts already procured, the amounts still to be procured, the site and time related cost forecasts against programme and run rates, and any contingency held; • On a sample basis, we reconciled revenue to the supporting documentation, validated estimates of costs to complete, tested the mathematical accuracy of calculations and the adequacy of project accounting. We also examined costs included within contract assets on a sample basis by verifying the amounts back to source documentation and tested their recoverability through comparing the net realizable values as per the agreements with estimated costs to complete; and • Considered appropriateness of the disclosures in the financial statements in accordance with the relevant requirements of IFRSs.

Independent Auditor's Report (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of contract receivables and work in progress	
Refer to accounting policies for the financial statements and Notes 9 and 10. Contract work in progress and contract and trade receivables are significant to the Group as of 31 December 2020. The certification of the contract work in progress and collectability of contract receivables is a key element of Group's working capital management. These balances include certain claims raised by the Group against certain customers mainly relating to variations from the originally agreed scope, and changes in costs incurred due to extension of the project completion time. Given the judgment involved in the certification of variation orders and collectability assessment of contract receivables, and considering delayed payments due to the present market conditions, impairment of contract receivables and contract work in progress was a key audit matter. The application of judgment and the use of assumptions are described in critical accounting estimates and judgments in Note 2.2 of the financial statements. Specific factors considered by management included: • the age of the outstanding amounts; • independent reports on the recoverability of claims; • results of consultations with external lawyers; • existence of disputes; • recent historical payment patterns; and • expectations of timing of collectability and any other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for impairment is required for a specific transaction for each customer's balance.	We evaluated management's assumptions and methods applied in the calculating the provision for impairment of contract receivables and work in progress by carrying out the following procedures, among others: • We obtained contract receivables balance confirmations; • We analysed the aging of contract receivables and work in progress; • We obtained a list of long outstanding receivables and assessed the recoverability of these through inquiry with management and by obtaining sufficient corroborative evidence to support the conclusions; • Reviewed the appropriateness of the assumptions used (future and historical), the methodology and policies applied to assess the expected credit losses in respect of financial assets of the Group. Reviewed the working of Management for expected credit losses; and • Considered appropriateness of the disclosures in the financial statements in accordance with the relevant requirements of IFRSs.

Independent Auditor's Report (continued)

Other Matter

The financial statements of the Parent Company and the Group for the year ended 31 December 2019, were audited by another auditor who expressed a disclaimer of opinion on those statements on 7 June 2020.

Other Information

Management is responsible for other information. The other information comprises the Chairman's Report, Management Discussion and Analysis Report and Corporate Governance 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 on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard, except for the possible effects of matter described in the *Basis for Qualified Opinion* section of our report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, with the relevant disclosure requirements of the Capital Market Authority and with the applicable provisions of the Commercial Companies Law, 2019 of the Sultanate of Oman, and for such internal control as management 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, 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report (continued)

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 ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism 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 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance 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 those charged with governance, 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.

Independent Auditor's Report (continued)

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements as of and for the year ended 31 December 2020 comply, in all material respects, with the relevant disclosure requirements of the Capital Market Authority and the Commercial Companies Law, 2019 of the Sultanate of Oman.

We further report that, the Parent Company has lost more than 50% of its share capital as at the reporting date. This has resulted in the application of Article 147 of the Commercial Companies Law, 2019 of the Sultanate of Oman, which requires the Board of Directors of the Parent Company to convene an extraordinary general meeting, within 30 days from the date when the aforementioned loss is ascertained by the Board of Directors, for adopting the necessary resolutions for remedying the causes which led to such losses and restore the Parent Company to the status of profitability.

Nasser Al Mugheiry
Licence No. L1024587
ABU TIMAM
(Chartered Certified Accountants)

10 March 2021