INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF EMS ENERGY LIMITED

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of EMS Energy Limited (the "Company") and its subsidiaries (the "Group") as set out on pages 43 to 110, which comprise the consolidated statement of financial position of Group and the statement of financial position of the Company as at 31 December 2017, 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.

We do not express an opinion on the accompanying consolidated financial statements of the Group and the statement of financial position of the Company. 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

1. Going Concern and Completeness of Liabilities

As disclosed in Note 4 to the financial statements, the Group generated a profit of $34.9 million for the financial year ended 31 December 2017. The profit mainly arose from the gain on deconsolidation of Koastal Industries Pte Ltd and its subsidiaries ("KIPL") amounting to $64.6 million which, were place under liquidation. As at 31 December 2017, the Group's current liabilities exceeded its current assets by $82.8 million and its total liabilities exceeded its total assets by $71.7 million. The Company's current liabilities exceeded its current assets by $41.5 million and its total liabilities exceeded its total assets by $30.6 million. The Group's cash and bank balances as at 31 December 2017 amounted to approximately $511,000.

EMS Energy Solutions Pte. Ltd. ("EES") ceased activities since September 2016 due to insufficient working capital. The scheme of arrangement of EES has been approved by its creditors on 11 May 2018. The management is in the process of applying for the sanction of EES scheme of arrangement by the High Court. The Company has not completed implementing its scheme of arrangement sanctioned by the High Court on 8 September 2017.

All bank facilities of the Group have been withdrawn by the respective banks. The Group has no revenue generating activities as Koastal Industries Pte. Ltd. ("KIPL") is under liquidation and EES has ceased operations.

Notwithstanding that these conditions, together with the other matters disclosed in Note 4, cast significant doubt about the Group's and the Company's abilities to continue as going concerns, the Directors of the Company are of the view that it is appropriate to prepare the financial statements of the Group and the Company on a going concern basis having regard to management's plans as disclosed in Note 4.

We were unable to obtain sufficient appropriate audit evidence to evaluate the feasibility and effectiveness of management's plans in relation to going concern as management has not provided us with a cash flow forecast for us to assess whether the scheme of arrangements and the strategic investment will enable the Group to generate sufficient cash flows for at least the next twelve months from the date of the financial statements. There were no practical alternative audit procedures that we could carry out to determine this. In addition, further liabilities may be required to be recognised by the Group arising from the various legal claims and ongoing schemes of arrangement.

Accordingly, we were not able to determine the completeness of liabilities recognised by the Group as at 31 December 2017 and assess whether the use of the going concern basis of accounting in the preparation of the accompanying financial statements is appropriate. Our opinion on the prior year financial statements was also modified on the same basis.

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Basis for Disclaimer of Opinion

2. Impairment of Property, plant and equipment

As at 31 December 2017, the Group's property, plant and equipment comprise mainly a yard under construction with carrying amount of approximately $10.7 million which is held by the Company. The construction of the yard was stalled since 2016 as the Group did not have sufficient funds to complete the construction.

As at the date of our report, the Company has signed a non-binding term sheet to raise $7.5 million cash for the development of the yard. The funding is subject to various conditions precedent before completion.

Furthermore, the yard sits on a piece of land that the Group leased from a landlord. The Group negotiated its lease payment schedule with the landlord and requested for an extension of time to complete the construction of the yard as the stipulated deadline in the lease agreement had past. In the event that the Group is not able to make the necessary payment or unable to obtain further extensions of the construction period, the landlord may repossess the land and the yard under construction.

These conditions indicate that the yard under construction may be impaired as at 31 December 2017. No provision for impairment has been made for the yard for the financial year ended 31 December 2017.

Based on the limited information available, we were unable to obtain sufficient appropriate audit evidence on whether the Company will be able to obtain the said funds to complete the construction of the yard and to make the monthly lease payments to the landlord. We were also unable to satisfy ourselves that there was no impairment loss on the yard as management did not provide us with their assessment of the recoverable amount of the yard. Accordingly, we were unable to determine whether adjustments may be necessary to the carrying amount of the yard of approximately $10.7 million as at 31 December 2017 that was recognised in the financial statements. Our opinion on the prior year financial statements was also modified on the same basis.

3. Recoverability of Trade and other receivables

The Group's trade and other receivables as at 31 December 2016 amounted to approximately $9.6 million, which included trade and other receivables of $4.6 million which have been long outstanding. There was objective evidence of impairment of these receivables as at 31 December 2016. We were unable to obtain sufficient appropriate audit evidence to determine whether the allowance of $20 million made during the financial year ended 31 December 2016 was appropriate and whether the remaining amount of $4.6 million is recoverable as management was unable to provide sufficient information to support their basis for their recoverable amounts of these receivables. We were also unable to satisfy ourselves through alternative means. Consequently, for the financial year ended 31 December 2016, we were unable to determine whether adjustments to these amounts may be necessary.

For the financial year ended 31 December 2017, we have obtained sufficient and appropriate evidence to determine the recoverable amounts of trade and other receivables as at the end of the financial year.

4. Recoverability of amounts due from deconsolidated subsidiaries

The Group's and the Company's amount due from deconsolidated subsidiaries as at 31 December 2017 amounted to $20.3 million and $1.6 million respectively. As these receivables are long outstanding and coupled with the liquidation of KIPL, there was objective evidence of impairment of these receivables as at 31 December 2017.

We were unable to obtain sufficient appropriate audit evidence to determine whether these amounts are recoverable as management was unable to support their basis for the recoverable amounts of these receivables. We were also unable to satisfy ourselves, through alternative means. Consequently, we were unable to determine whether adjustments to these amounts may be necessary.

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Basis for Disclaimer of Opinion

5. Impairment of available-for-sale financial assets – Investment in unquoted equity shares

As disclosed in Note 16 to the financial statements, the Group recorded impairment loss of approximately $4.5 million and $4.0 million for available-for-sale financial assets for the financial year ended 31 December 2016 and 31 December 2017 respectively. The available-for-sale financial assets which amounted to approximately $8.5 million was fully impaired as at 31 December 2017. These unquoted equity shares represents the Group's 10% interest in PV Drilling Overseas Company Private Limited ("PVDO").

We were unable to obtain sufficient appropriate audit evidence to determine whether the provision for impairment made in the current financial year is appropriate as management was unable to provide sufficient information to substantiate their determination of the recoverable amount of the investment. We were also unable to satisfy ourselves through alternative means. Consequently, we were unable to determine whether adjustments may be necessary to the carrying amount of the available-for-sale financial assets and the impairment loss recognised for the financial year ended 31 December 2017. Our opinion on the prior year financial statements was also modified on the same basis.

6. Valuation of financial derivative liabilities

As disclosed in Note 32 to the financial statements, the Group recorded financial derivative liabilities at their fair values amounting to approximately $1.9 million and $2.9 million as at 31 December 2017 and 31 December 2016 respectively. During the current financial year, the Group credited approximately $1.08 million to profit or loss due to the expiry of the share warrants.

As management was unable to provide us with supporting documents on their determination of the fair values and there were no practical alternative audit procedures that we could carry out, we were unable to obtain sufficient appropriate audit evidence on the fair values of the financial derivative liabilities and the effect of the reversal of $1.08 million to profit or loss with regards to the expired share warrants.

Consequently, we were unable to determine whether adjustments may be necessary to the carrying amount of the financial derivative labilities of approximately $1.9 million recognised in the financial statements as at 31 December 2017 and the credit to profit or loss amounting to $1.08 million. Our opinion on the prior year financial statements was also modified on the same basis.

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 Companies Act (Chapter 50) and Financial Reporting Standards in Singapore (FRSs), 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.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of these financial statements in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group within the meaning of the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred to in the Basis for Disclaimer of Opinion section of our report, we do not express an opinion on whether 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 Ng Kian Hui.

BDO LLP
Public Accountants and
Chartered Accountants
Singapore

8 June 2018