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 44 to 119, which comprise the consolidated statement of financial position of Group and the statement of financial position of the Company as at 31 December 2016, 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 incurred a loss of approximately $120 million for the financial year ended 31 December 2016. As at 31 December 2016, the Group's and Company's current liabilities exceeded their current assets by approximately $126 million and $39 million respectively, while the Group's cash and bank balances amounted to approximately $433,000.

During the financial year, arising from the receipt of notices of termination of contracts from certain major customers and letters of demands from certain creditors and borrowers, the Company, together with two of its significant wholly-owned subsidiaries, Koastal Industries Pte Ltd ("KIPL") and EMS Energy Solutions Pte Ltd ("EES"), filed an application with the High Court of the Republic of Singapore to propose schemes of arrangement under the Companies Act, Chapter 50 in connection with the proposed restructuring of the respective debt obligations and liabilities.

As at the end of the financial year, as disclosed in Note 37, the Group is unable to determine if any further liabilities will be required to be included arising from the various legal claims.

Subsequent to the financial year end, the Company's and EES's schemes of arrangement were approved without modification while KIPL's scheme of arrangement ("SOA") was withdrawn. Following the withdrawal of the SOA, KIPL has initiated the process of creditor's voluntary liquidation.

As at the date of our report, all bank facilities of the Group have been withdrawn by its bankers and the Group has no revenue-generating activities in Singapore as KIPL and EES have since 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 sufficient information to support the key assumptions used in the projected cash flows forecast., including whether 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 2016 and assess whether the use of the going concern basis of accounting in the preparation of the accompanying financial statements is appropriate.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF EMS ENERGY LIMITED

Report on the Audit of the Financial Statements (Continued)

Basis for Disclaimer of Opinion (Continued)

2. Impairment of Property, plant and equipment

As at 31 December 2016, the Group's property, plant and equipment comprise mainly a yard under construction with carrying amount of approximately $8.9 million which is held by the Company. The construction of the yard was stalled as at 31 December 2016 as the Group did not have sufficient funds to complete the construction.

As at the date of our report, the Group is in the process of seeking new funds to restart the construction of the yard.

Furthermore, the yard sits on a piece of land that the Group leased from a landlord. During the financial year, the Group renegotiated 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 extension 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 2016. No provision for impairment has been made for the yard for the financial year ended 31 December 2016.

Based on the limited information provided by management, we were unable to obtain sufficient appropriate audit evidence on whether the Company will be able to raise the necessary 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 $8.9 million as at 31 December 2016 that was recognised in the financial statements.

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. Included therein are trade and other receivables of KIPL and EES amounting to approximately $4.6 million, net of an allowance of approximately $20 million, which significant portion of these receivables remained outstanding as at date of this report.

As these receivables had been long outstanding, coupled with the cessation of operations of KIPL and EES, there was objective evidence of impairment of these receivables as at 31 December 2016. Based on management's assessment, an allowance of approximately $20 million was made during the financial year and recognised in the Group's profit or loss.

We were unable to obtain sufficient appropriate audit evidence to determine whether the allowance made of approximately $20 million during the financial year is appropriate and whether the remaining amount of approximately $4.6 million is recoverable as management was unable to provide sufficient information 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF EMS ENERGY LIMITED

Report on the Audit of the Financial Statements (Continued)

Basis for Disclaimer of Opinion (Continued)

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

As disclosed in Note 16 to the financial statements, the Group recognised available-for-sale financial assets amounting to approximately $3.99 million as at 31 December 2016. These unquoted equity shares represents the Group's 10% interest in PV Drilling Overseas Company Private Limited ("PVDO"). The financial performance of PVDO is experiencing downturn as a result of the overall situation in the oil and gas sector. Based on management's assessment, an impairment loss of approximately $4.5 million was made during the financial year and recognised in the Group's profit or loss.

We were unable to obtain sufficient appropriate audit evidence to determine whether the provision 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 2016.

5. **Valuation of financial derivative liabilities**

As disclosed in Note 29 to the financial statements, the Group recorded financial derivative liabilities at their fair values amounting to approximately $2.9 million as at 31 December 2016. The fair values of these financial derivative liabilities were determined based on an internal valuation performed by management as of 31 December 2016.

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.

Consequently, we were unable to determine whether adjustments may be necessary to the carrying amount of approximately the financial derivative labilities of $2.9 million recognised in the financial statements as at 31 December 2016.

Responsibilties 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF EMS ENERGY LIMITED

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 Company 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 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

12 October 2017