

Extracted Note 2 to the Audited Financial Statements of Alpha Energy Holdings Limited for the financial year ended 31 December 2018.

Going concern

The financial statements have been prepared on a going concern basis notwithstanding the Group incurred a net loss of US\$1,004,181 (2017: US\$306,847) for the current financial year and is in a net current liabilities position of US\$25,208,314 (2017: US\$22,840,583) as at 31 December 2018.

On 5 March 2019, the shareholders approved the Mustang Project Transactions (as defined in Note 27) which includes the acquisition of 100% ordinary and preferred membership in Mustang Operations Centre 1 LLC (“MOC1”), 100% of equity interest in Mustang Road LLC (“MRLLC”) and 100% equity interest in TP North Slope Development, LLP (“TPNSD”) (together, the “Enlarged Group”) (collectively the “Mustang Project Transactions”). Please refer to Note 27 for details on the Mustang Project Transactions.

With the Mustang Project Transactions, the Enlarged Group will own the following:

- 90.1% working interest in the Mustang Field;
- 97.5% shareholding interest in Brooks Range Petroleum Corporation (“BRPC”);
- 100% ownership of MRLLC, which holds the title of the road and Gravel Pad that support the development of the Mustang Field;
- 100% ownership of MOC1, which owns the MOC1 Processing Facility for the Mustang Field; and
- 7.5% working interest in the Badami Unit.

The Group expects to complete the Mustang Project Transactions in April 2019.

The directors of the Company, having considered the following factors, are of the view that the going concern basis of the Group on an enlarged basis remains appropriate:

- Subsequent to year end, the Group obtained funding of US\$10.9 million from the TPNSD beneficial owners, which would allow the Group to achieve first oil on or about 2Q 2019. The term loan bears interest of 4% per month is prorated daily, secured by the shares of Caracol Petroleum LLC (a subsidiary of the Company) and TPNSD upon the completion of the acquisition of TPNSD and is due on 3 July 2019. This funding satisfies the critical condition precedent of obtaining funding of US\$6.2 million to meet the capital expenditure requirements of the Mustang Project, for the completion of the Mustang Project Transactions.
- The expected cash flows from the production of first oil at the Mustang Field in 2Q 2019, together with oil production on the Badami Unit, would generate revenue and cash flows for the Group.
- US\$25,000,000 fixed 2nd tranche payment of acquisition cost of the Mustang Project, US\$13,125,000 being the Group’s current share of the payable, which was due and payable on 30 May 2016. The Group, together with other working interest owners of the Mustang Project (collectively “other Working Interest Owners”), are currently in negotiation with the sellers of the Mustang Project to convert the amount payable to long-term notes payable at a discount. The Group is confident of reaching an agreement that will enable the Group to defer payment of the liability to after December 2019.
- The aggregated bank loan due to ING Capital of US\$18,732,353 as at 31 December 2018, US\$8,596,745 being the Group’s current share of the payable, matured on 1 May 2017. On 6 September 2018, ING Capital proposed an amended term sheet to restructure the remaining amount of the loan to a non-default status and a revised repayment schedule with first payment commencing on 31 December 2019. Currently, the Group, together with other Working Interest Owners, are negotiating to reduce the quarterly payments, extend the schedule of the first payment by another 6 months to align with the expected tax credit receipts and obtain waiver for the default interest, and are confident to complete the negotiation by 2Q 2019.

- Trade payables of US\$11,200,120 is an outstanding payable due to an external vendor, US\$5,880,063 being the Group's current share of the payable, incurred by the Mustang Field operator on behalf of the Group and other Working Interest Owners. The Group, together with the other Working Interest Owners of the Mustang Field, are currently in negotiation with the external vendor and are confident to convert the trade payables to a long-term notes payable.
- The Group was expected to acquire the assets and liabilities of MOC1 on 1 June 2018. As at 31 December 2018, the Group is not deemed to have any contractual obligation and hence, is not required to consolidate its share of the assets and liabilities of MOC1 as the Group's obligations under the existing agreement were released as part of the Mustang Project Transactions, defined in Note 27.
- As part of the Mustang Project Transactions as described in Note 27, the Enlarged Group will also assume the following liabilities and are currently in negotiation with the relevant parties to align the payment schedule of these liabilities to the production of Mustang Project:
 - Loan payable to the Alaskan government for the acquisition of MOC1 and MRLLC amounting to US\$64 million to be repaid between 2019 to 2026.
 - Overdue line of credit and payable to the Alaskan government of US\$19,316,636, which is secured by State of Alaska tax credits receivable as mentioned below.
 - Payable of US\$7 million to a previous working interest owner for the acquisition of 13.5% working interest ownership by BRPC.
- The Enlarged Group, inclusive of MOC1, has tax credit receivables due and payable by the State of Alaska of US\$39,585,097 as at 31 December 2018. The Enlarged Group has received US\$9,373,904 in January 2019, out of which US\$5,214,539 was used to repay the ING bank loan and US\$4,159,365 was used to repay the line of credit and payable to the Alaskan government.

The Group wishes to emphasise the tax credits remain a liability of the State of Alaska to be paid when funded through annual budgets.

Arising from discussions with the lending bank and the State of Alaska, as at the date of these financial statements, the Group is reasonably confident that repayment of the balance of the bank loan and line of credit from the State of Alaska can be deferred until receipt by the Group of the remaining non-current tax credits.

As at the date of these financial statements, the Company is still in negotiations with its creditors and the Group has not received any legal demand from the creditors for repayment of the liabilities. The Directors are of the view that the cash of the Group is sufficient to satisfy the immediate daily operational requirements of the Group and that the existence of these liabilities do not prevent the Group from continuing with its operations, which it continues to negotiate with its creditors. The Group will also continue to raise funds either through additional debt or the capital markets.