

*Extracted from the Independent Auditors Report to the Audited Financial Statements of Alpha Energy Holdings Limited for the financial year ended 31 December 2018.*

## **Independent auditors' report**

Members of the Company  
Alpha Energy Holdings Limited and its subsidiaries

### **Report on the audit of the financial statements**

#### *Disclaimer of opinion*

We were engaged to audit the financial statements of Alpha Energy Holdings Limited (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year ended 31 December 2018, and notes to the financial statements, including a summary of significant accounting policies as set out on pages FS1 to FS66.

We do not express an opinion on the accompanying financial statements of the Group. Because of the significance of the matters described in the *Basis of 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*

We draw attention to Note 2 to the consolidated financial statements which indicates that the Group incurred a net loss of US\$1,004,181 (2017: US\$306,847) for the year ended 31 December 2018 and, as of that date, the Group's current liabilities exceeded its current assets by US\$25,208,314 (2017: US\$22,840,583). Included in the current liabilities are:

- US\$13,125,000 (2017: US\$13,125,000) fixed 2<sup>nd</sup> tranche payment of acquisition cost of the Mustang Project, 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;
- A bank loan owing to ING Capital of US\$8,596,745 (2017: US\$7,800,977), which is currently overdue, with the repayment date last postponed to 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 with ING Capital to (i) reduce the quarterly payments, (ii) extend the schedule of the first payment by another 6 months to align with the expected tax credit receipts and (iii) obtain waiver for the default interest; and
- Net trade payables of US\$3,891,064 (2017: US\$4,851,805) due to an external vendor (comprising a gross amount of US\$5,880,063 less advance payment of US\$1,988,999) incurred by the Mustang Field operator on behalf of the Group. The Group, together with other Working Interest Owners, are currently in negotiation with the external vendor to the Mustang Project to convert the gross outstanding balance of US\$5,880,063 to long-term notes payable.

Furthermore, as disclosed in Notes 2 and 27 to the financial statements, the Group has entered into a series of agreements to acquire 100% interest in Mustang Operations Center 1 (“MOC1”), Mustang Road LLC (“MRLLC”) and TP North Slope Development (“TPNSD”) (together, the “Enlarged Group”) (collectively the “Mustang Project Transactions”). The Mustang Project Transactions, which is expected to be completed in April 2019, is conditional, among other things, on the ability of the Group to obtain US\$6.2 million to meet the capital expenditure of the Mustang Project.

On 4 April 2019, the Group signed a loan agreement to obtain funding of US\$10.9 million. The loan, which bears interest of 4% per month, is due on 3 July 2019 and secured by the shares of Caracol Petroleum LLC (a subsidiary of the Company) and TPNSD upon the completion of the acquisition of TPNSD. The Group will raise funds through additional debt or the capital market to repay the loan when it falls due.

Upon the completion of the Mustang Project Transactions, the Group would assume the following additional liabilities:

- Trade and other payables relating to the Mustang Project, in accordance with the increased working interest ownership in the Mustang Project;
- Loan payable to the Alaskan government of US\$64 million for the acquisition of MOC1 and MRLLC to be repaid between 2019 to 2026;
- Payable of US\$7 million to a previous working interest owner for the acquisition of 13.5% working interest ownership; and
- Overdue line of credit and payable to the Alaskan government of US\$19.3 million.

The Group also does not have any unconditional facilities that are available to draw on to meet its obligations as and when required.

These matters indicate the existence of material uncertainties that cast significant doubt about the ability of the Group to operate as a going concern.

As the various negotiations, as described above, are ongoing, we were unable to obtain sufficient appropriate audit evidence regarding the ability of the Group and Company to generate sufficient cash flows to pay their liabilities as and when they become due. We are therefore unable to conclude whether the use of the going concern assumption for the preparation of the accompanying financial statements is appropriate. If the Group is unable to continue in operational existence for the foreseeable future, several adjustments would have to be made to the consolidated financial statements to reflect the situation that assets may need to be realised under circumstances other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded. In addition, the Group may have to provide for further liabilities that might arise. The consolidated financial statements do not reflect these adjustments.

#### *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 (“the Act”) and Singapore Financial Reporting Standards (International) (“SFRS(I)s”) 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.

*Auditors' responsibilities for the audit of the financial statements*

Our responsibility is to conduct an audit of the consolidated 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 of disclaimer of opinion* section of our report, we were not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *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, because of the significance of the matters described 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 auditors' report is Chiang Yong Torng.

**KPMG LLP**  
*Public Accountants and  
Chartered Accountants*

**Singapore**  
5 April 2019