Extracted from the Independent Auditors' Report to the Audited Financial Statements of Alpha Energy Holdings Limited for the financial year ended 31 March 2016

Independent auditors' report

Members of the Company
Alpha Energy Holdings Limited

Report on the financial statements

We have audited the accompanying financial statements of Alpha Energy Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 March 2016, the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility 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 Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 March 2016 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 of the financial statements which indicates that the financial statements have been prepared on a going concern basis notwithstanding the Group incurred a net loss of $5,266,071 for the current financial year and is in a net current liabilities position of $28,978,367 as at 31 March 2016. These conditions, along with other matters as set forth in Note 2, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern, and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on other legal and regulatory requirements

In our opinion, 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.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
7 July 2016

Extracted Note 2 to the Audited Financial Statements of Alpha Energy Holdings Limited for the financial year ended 31 March 2016

Going concern

The financial statements have been prepared on a going concern basis notwithstanding the Group incurred a net loss of $5,266,071 for the current financial year and is in a net current liabilities position of $28,978,367 as at 31 March 2016.

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

(i) The Group is currently in negotiations with the sellers of Caracol Petroleum LLC, which holds an interest in the Mustang Project, to vary the $18.7 million fixed 2nd tranche payment of acquisition cost, which is due and payable on 30 May 2016, to a consideration that is contingent upon achieving certain hydrocarbon production and sales volume targets. The Group is confident of reaching an agreement that will enable the Group to defer payment of the liability to after December 2017; and

(ii) The Group, together with other joint operators of the Mustang Project, are currently in negotiations with a supplier to the Mustang Project and are confident of reaching an agreement to convert trade payables of $8.4 million to long term notes payable.

If the Group is unsuccessful in its negotiations on the matters highlighted in notes (i) and (ii) above, the Group may not be able to meet payment commitments in respect of its bank borrowings and trade and other payables. These negotiations are still ongoing as at the date of these financial statements.

These are material uncertainties which may cast significant doubt on the Group’s ability to continue as a going concern, and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.