



Anglo African Oil & Gas plc

Registered number: 04140379



# Annual Report 2017

year ended 31 December 2017

# Contents

- 1 Company information
- 2 Chairman's letter
- 4 Chief Executive's report
- 6 Group strategic report
- 9 Directors' report
- 12 Independent Auditor's report
- 16 Consolidated Statement of Comprehensive Income
- 17 Consolidated Statement of Financial Position
- 18 Consolidated Statement of Changes in Equity
- 19 Consolidated Statement of Cash Flows
- 20 Company Statement of Financial Position
- 21 Company Statement of Changes in Equity
- 22 Company Statement of Cash Flows
- 23 Notes to the Consolidated Financial Statements

# Company Information

<b>Directors</b>	David G F Sefton Anthony J Berwick James A Cane Philip J Beck Nicholas J Butler Sarah Cope Brian M Moritz
<b>Company secretary</b>	Cargil Management Services Limited 27-28 Eastcastle Street London W1W 8DH
<b>Company number</b>	04140379
<b>Registered office</b>	27-28 Eastcastle Street London W1W 8DH
<b>Website</b>	<a href="http://www.aaog.co">www.aaog.co</a>
<hr/>	
<b>Nominated advisor and broker</b>	finnCap Limited 60 New Broad Street London EC2M 1JJ
<b>Solicitors (UK)</b>	DLA Piper UK LLP 3 Noble Street London EC2V 7EE
<b>Solicitors (UK and Congo)</b>	Bracewell LLP Tower 42, 25 Old Broad Street London EC2N 1HQ
<b>Solicitors (Republic of the Congo)</b>	Cabinet d'Avocats Fernand Carle BP 607 – Pointe-Noire Republique du Congo-Brazzaville
<b>Independent Auditors</b>	Crowe U.K. LLP St Bride's House 10 Salisbury Square London EC4Y 8EH
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# Chairman's letter

Dear shareholder

Although this report and accounts covers the twelve months to 31 December 2017, it is since that date that significant events have taken place which are now bearing fruit in building on the promise of AAOG and its interest in the Tilapia field.

## Placing

The entire board and I are very grateful to members for their support in the recent placing. By raising sufficient capital, AAOG can now ensure that TLP-103 is drilled and any delay in partner contributions can be better managed. This well is pivotal to the value of the Company and we are determined to execute the drilling operation and achieve our planned timetable.

## The Tilapia field

At the risk of repeating what is well understood by many shareholders, it is worth taking the opportunity to explain why TLP-103 is such an important well for AAOG.

AAOG holds, through Petro Kouilou ("PK"), its wholly owned subsidiary, a 56 per cent interest in the Tilapia field, which covers an area straddling both on-shore and off-shore in the Republic of the Congo.

Unusually for a small E&P<sup>1</sup> company, AAOG is already a producer and the field has been in production for over ten years. We have successfully worked over both existing wells, TLP-101 and TLP-102, and while production from these wells is small, the Company does generate some cashflow and, as a result, there is a base value to PK that acts as a backstop and downside protection for investors.

The current focus of AAOG is on drilling a new well, TLP-103, in this field. This well is a multi-target well, which aims to hit three horizons:

- **R1/R2** – the existing producing horizon, from which it is expected that approximately 100 bopd<sup>2</sup> can be added with no exploration risk, and minimal execution or technical risk;
- **The Mengo Sands** – a well-known horizon from which we have direct proof of producible hydrocarbons from an earlier test well. This horizon should add between 400 and 500 bopd with no exploration risk but with a small amount of execution or technical risk; and
- **The Djeno Sands** – an horizon recently brought into production in neighbouring licence areas. In those areas, oil flow rates of approximately 5,000 bopd have been achieved. While seismic data indicate the possibility of the reservoir extending into Tilapia, this will be the first time that it has

been drilled in our licence area. For this reason, we will not know whether there is producible oil at this level within our licence until it is tested, which means that this part of the drilling plan clearly carries exploration risk. However, the value that could accrue from a new discovery in the Djeno clearly makes drilling deeper a compelling opportunity.

Importantly, a profitable, valuable business can be developed from bringing only the Mengo Sands on line. Just one well would make AAOG significantly cashflow positive and a full field Mengo development plan would make the asset very valuable. This opportunity provides a backstop that has no exploration risk while the Company still has the considerable exploration upside potential from the Djeno.

In this context, if we are not successful in the Djeno on TLP-103, we will put in place a Mengo field development plan. Where there is a technical case for further testing of the Djeno, we will continue to consider the opportunity worth investigating.

## New management team

It is never easy to decide to change the management team of a company, but the decisive action we took in 2017 and early 2018 to replace the senior operating executives has clearly worked. Whereas the operational team was previously floundering in delays and unable to achieve any success, since the appointment of James Berwick as CEO, the plan for AAOG has finally been properly executed. The workovers have been carried out on time, under budget and with successful outcomes. The drilling plan for TLP-103 has been meticulously put together and James has assembled an experienced team who are working very hard to deliver the well safely, successfully and on budget. As a board, we have complete confidence in the ability of James to take AAOG forward.

## New board members

I was very pleased in January to welcome Phil Beck, Nick Butler and Sarah Cope to the board to join Brian Moritz as non-executive directors. We now have a non-executive team with an excellent and complementary mixture of skills and experience and I have already seen how valuable their advice can be to AAOG as we take the company forward. I also want to thank our finance director, James Cane, for his continuing hard work and sometimes unsung contribution to the success of AAOG.

<sup>1</sup> Exploration and Production

<sup>2</sup> Barrels of oil per day



# Chairman's letter (continued)

## **New licence**

We have worked carefully on the process for a new licence for the Tilapia field and received the welcome news in February that the state oil company, SNPC, has recommended that PK be granted a 20-year extension. This recommendation is now going through the Congolese regulatory and administrative processes. We have recently received assurances that our work on TLP-103 is of critical importance to the finalisation of this process.

## **Overall strategy**

At the moment, the clear and overriding focus of everyone is on drilling TLP-103. However, as we move forward, we will look to further opportunities available to the Company, provided they fit with its strategy of becoming a lean, profitable oil producer with a focus on the bottom line and a clear and unswerving commitment to the payment of dividends.

We look forward to keeping members updated on progress.

## **David Sefton**

*Executive chairman*

28 June 2018

# Chief Executive's report

Dear shareholder,

Although the annual report covers the twelve months to 31 December 2017, I am using my report to provide an update on the latest progress on these three wells:

## TLP-101

Following the successful work to disconnect, clean through and reconnect the flowlines to TLP-101, and testing of flow through the annulus, the well was then re-directed to production through the coiled tubing. Having done so, pressure stabilised in April, at which time the well was re-opened. It was successfully brought back on line and the flow rate immediately surpassed the previous rate of 35 bopd. The Company is now allowing the flow rate to increase gradually until it achieves the maximum level of sustainable flow.

## TLP-102

As announced in April, Schlumberger conducted a successful intervention focussed on the integrity of the perforations on TLP-102. Following the intervention, oil and gas samples were taken at the surface and were sent to Total's laboratory in Pointe-Noire for testing. The test result has now been received and has confirmed the Company's evaluation that TLP-102 is now in contact with the reservoir. The pressure in the well continued to increase steadily.



Well TLP-102 was opened on 17 June 2018 with a view to bringing the well online. When the well was opened, it was believed that water was found to be blocking the tubing. As a result of this information, the Company decided to conduct a swabbing exercise and engaged Slick Line to carry out the work on a turnkey contract. Slick Line commenced work on 19 June.

Eight runs were made down hole and oil was recovered to surface. The oil samples appear to be identical to samples from TLP-101 and have been sent for testing. The well requires two further runs in order to fully complete the work programme, which will be finished shortly.

Due to the absence of gas in the well, a pump will need to be installed. The Company intends to install this pump following completion of Slick Lines' work programme.

Based on the data obtained during the work, the Company's reservoir engineers now expect a minimum flow rate of 120 bopd from TLP-102 once the pump has been installed.

## TLP-103

Drilling operations have commenced ahead of mobilisation of the rig:

- The team has completed construction of the wellhead cellar and a 30-inch conductor case has been hammered in situ in preparation for drilling.

# Chief Executive's report (continued)

- Due to the size of the rig an additional access road to the site has been constructed.
- The majority of long lead items have now cleared customs and are in country.
- The Company has procured two wellheads from FMC that have been prepared and tested and they are on site at FMC's facility in Pointe-Noire.
- The well design has been completed and is undergoing final verification testing with a third-party contractor using specialised software.
- HSE planning and procedures have been completed and documented following site visits by specialist consultants.
- The environmental impact assessment is nearing completion ahead of submission to the Minister of the Environment.
- Security procedures and site protection are underway with the construction of fencing to secure the drill site.
- All draft contracts from suppliers have been received and have either been signed or are in the final stages of negotiation.
- Logistics, such as personnel and catering, have all been identified or contracted.

The Company has also received a notification from its specialist transport contractor, Ocean Transport, who are responsible for delivering the rig, SMP 102, from Port Gentil in Gabon to the Tilapia site, that the transport vessel, the *Kota Bakat*, on which the rig is to be loaded, is late in arriving and is now due to arrive in Port Gentil on 4 July.

After the delays over the last year, it is very pleasing to have a rig under contract and underway, and the entire team is focused on drilling a successful well.

## Finance

The funding for the next stage of development was completed in early June. We now have the necessary resources to finance the total cost of the planned work, when previously we had anticipated SNPC paying its 44 per cent contribution as costs were incurred. We will be able to recover their unpaid contribution from future oil sales cash flow.

## Business development

Our top priority remains the optimisation of our drilling programme from TLP-103 and, to a lesser extent, enhancing production from TLP-101 and TLP-102. In addition, we are reviewing other opportunities that come across our desks as we seek to build a high-quality oil and gas company.

## Summary

Since my appointment at the turn of the year, I have been very pleased and am grateful to all the staff and contractors to the Company, who have supported me and worked hard to enable a turnaround in operational performance and effectiveness. They have worked impressively on the workovers, which have also allowed me to have a dry-run with the team and make such further tweaks to the organisation as needed ahead of drilling TLP-103. I approach the new well with confidence, while being very aware that it is hard work as well as care and attention to detail that have delivered the performance so far this year; more of the same will be needed in the second half.

## James Berwick

*Chief executive officer*

28 June 2018

# Group strategic report

for the year ended 31 December 2017

The directors present the strategic report of Anglo African Oil & Gas plc ("**AAOG**" or the "**Company**") and its subsidiary (together, the "**Group**") for the year ended 31 December 2017. The Company was incorporated in England and Wales on 12 January 2001.

## Principal activity

The Group owns 100 per cent of an oil and gas company, Petro Kouilou SA ("**PK**"), situated in the Republic of the Congo ("**the Congo**"). Through PK, it holds a 56 per cent stake in the producing Tilapia oil field in the Congo.

## Group strategy

The directors aim to secure the Company's financial stability by increasing production from existing wells in the short term and to generate significant upside over the next twelve months through the targeting of deeper horizons within the licence area.



## Results

The Group reports a loss from operating activities of £3,086,657 for the year to 31 December 2017. This loss is after charging £329,825 of costs related to the Initial Public Offering and the admission of the ordinary shares to trading on AIM, which took place on 6 March 2017 (a further £613,657 was charged in FY16). A balance of AIM admission costs of £1.1 million has been written off to share premium.

During the year, the Company acquired PK (in two tranches, in March and August), reorganised the administrative and operational structure of PK, and laid the initial groundwork for the drilling programme that is now underway.

## Future development of the Group

### Enhancing production from the Tilapia field

The Company's planned production development programme is as follows:

*Stage One – The Company has completed successful workovers of TLP-101 and TLP-102. It is in the process of bringing TLP-101 back into production and bringing TLP-102 into production for the first time.*

*Stage Two – The more significant potential increase in the value of the Tilapia field is expected to be achieved by a new drilling programme that will go through R1/R2 and then into deeper geological structures, the Mengo and Djeno Sands, which Tilapia shares with surrounding fields. The Company has data from an earlier test well into the Mengo Sands that indicates producible hydrocarbons and therefore this part of the first new well is classified as appraisal. The Company has seismic and other data which suggests the possibility of producible hydrocarbons in the Djeno Sands, and therefore this deepest part of the first new well is classified as exploration. Depending on the results achieved from drilling into the Mengo and Djeno Sands, there is also a further, deeper horizon, the Vanji, which the Company may also target. The first of these new wells, TLP-103, will be drilled during the summer of 2018, with the result of the well due in late Q3/18.*

*Stage Three – If the drilling of TLP-103 is successful, a second well, TLP-104, will be drilled. Following that, a full field development plan can be put in place.*

The directors believe this development programme is commercially attractive because:

1. **Low cost** – the Company's budgeted break-even cost of production at 5,300 bopd is less than US\$5 per barrel and, at an oil price of US\$35 per barrel, it can be profitable at approximately 500 bopd. The financial models produced by the directors, and, in particular, the low and flexible cost base that allows the Company to be break even at production levels lower than 500 bopd, provide evidence that the Company can withstand low oil prices even at modest rates of production.
2. **Upside** – The drilling programme into the Mengo Sands and the Djeno Sands provides qualified potential upside to the existing production. Further, while the Djeno Sands represent the most significant potential



# Group strategic report (continued)

upside to the Company, a profitable, valuable business can be developed from R1/R2 and the Mengo Sands alone.

3. **Existing production and storage facilities in place** – there are in place existing facilities that have been constructed to international standards, have been regularly maintained and are fully amortised. PK's facilities currently have the capacity to achieve production of up to 4,000 bopd, with scope for expansion.
4. **Already in production** – the workovers and drilling programme, well design and authorisation for expenditure were agreed with SNPC.
5. **Ability to drill from on-shore** – Tilapia is near off-shore, being only 1.8 kilometres from the coastline. This gives PK the considerable advantage of being able to drill from on-shore using deviated wells, at a considerably reduced cost compared to off-shore drilling.
6. **Light oil** – The oil currently produced from Tilapia is high-quality, light, sweet crude (39 – 41 API) with a market value that currently tracks Brent crude oil.
7. **Availability of equipment** – Drilling equipment and ancillary services to carry out the development programme are available in-country or close by. If drilling into the Djeno Sands proves unsuccessful, the Company nevertheless intends to perforate the well at the Mengo Sands and/or Pointe Indienne R1/R2 reservoir and thereby increase daily production, with a positive effect on cash flows and asset value.

## Significant events after the balance sheet date

On 5 June 2018, the Company issued 92,551,459 ordinary shares of nominal value of five pence at eight pence per share, generating gross cash proceeds of £7,404,117 (US\$10 million).

## Review of business and financial performance

The Board has reviewed whether the Annual Report, taken as a whole, presents a fair, balanced and comprehensive summary of the Group's position and prospects. The Board considers that the results included in this Annual Report bear no relation to the Group's position and prospects, which are set out in detail under 'Future development of the Group' above.

Information on the financial position and development of the Group is set out in the Chairman's letter, this report, the Directors' report and the annexed financial statements.

## Key performance indicators (KPIs)

The Company, directors and staff are focused over the next six to twelve months on delivering a successful well TLP-103, optimising production at TLP-101 and TLP-102, and minimising the risks and uncertainties set out below.

The board of directors reviews the Company's performance and plans regularly and will assess its KPIs as operations develop.

## Risks and uncertainties

The Board regularly reviews the risks to which the Group is exposed and ensures, through its meetings and regular reporting, that these risks are minimised as far as possible.

The principal risks and uncertainties facing the Group at this stage in its development are:

### Exploration risk

The Group's business will include oil and gas exploration and evaluation, which are speculative activities, and there is no certainty that the Group will be successful in the definition of economic resources, or that it will proceed to the development of any of its projects or otherwise realise their value.

The Group aims to mitigate this risk when evaluating new business opportunities by targeting areas of potential where there is historical drilling or geological data available.

### Exploration risk (licence)

The licence in respect of the Tilapia field expires in July 2020. There is a risk that the licence will not be renewed. The Group mitigates this risk by developing and delivering on its planned development plans for the asset and engaging in regular dialogue with the Congolese authorities.

### Resource risk

All oil and gas projects have risk associated with defined resources and recoverability. Resources will be calculated by the Group in accordance with accepted industry standards and codes but are always subject to uncertainties in the underlying assumptions, which include geological projection and commodity price assumptions.

### Development risk

Delays in permitting, financing and commissioning a project may result in delays to the Group meeting its production targets. Changes in commodity prices can affect the economic viability of the drilling programme and affect decisions on continuing exploration activity.

# Group strategic report (continued)

## **Production technical risk**

Notwithstanding the completion of test work, and pilot studies indicating the technical viability of an operation, unforeseen variations may still render an oil and gas recovery operation economically or technically non-viable.

The Group will have available to it a small team of professionals experienced in geological evaluation, exploration, financing and development of oil and gas projects. To mitigate development risk, the Group supplements this from time to time with the engagement of external expert consultants and contractors.

## **Environmental risk**

Exploration and development of a project can be adversely affected by environmental legislation and the unforeseen results of environmental studies carried out during evaluation of a project. Once a project is in production, unforeseen events can give rise to environmental liabilities.

## **Financing and liquidity risk**

The Company may have an ongoing requirement to fund its activities through the equity markets and in future may need to obtain finance for project development. There is no certainty such funds will be available when needed.

## **Partner risk**

In the Republic of the Congo, the Group operates in partnership with parastatal entities. The Group can be adversely affected if partners are unable or unwilling to perform their obligations or fund their share of future developments, or if legislation is introduced varying the legal requirements for such partnerships.



## **Bribery risk**

The Group has adopted an anti-corruption policy and whistle-blowing policy under the Bribery Act 2010. Notwithstanding this, the Company may be held liable for offences under that Act committed by its employees or subcontractors, whether or not the Company or the directors have knowledge of the commission of such offences.

## **Internal controls and risk management**

The directors are responsible for the Group's system of internal financial control. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

In carrying out their responsibilities, the directors have put in place a framework of controls to ensure, as far as possible, that ongoing financial performance is monitored in a timely manner, that, where required, corrective action is taken and that risk is identified as early as practically possible. The directors have reviewed the effectiveness of internal financial control.

The Board, subject to delegated authority, reviews capital investment, property sales and purchases, additional borrowing facilities, guarantees and insurance arrangements.

## **Forward-looking statements**

This annual report contains certain forward-looking statements that have been made by the directors in good faith, based on the information available at the time of the approval of the annual report. By their nature, such forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements.

## **Outlook**

The Company is executing the three-stage production development programme that was set out in the admission document. If the Company is successful in obtaining significant production from the Mengo and/or Djeno Sands, the directors will take technical advice in conjunction with SNPC on field optimisation. This could include up to ten additional wells alongside expanded surface facilities. As a field-optimisation plan could take several years to implement, the Company would likely seek to agree the plan with SNPC in conjunction with securing a new licence.

On behalf of the Board:

**James Cane**  
Director

28 June 2018

# Directors' report

The directors present their report together with the audited financial statements of Anglo African Oil & Gas plc and its subsidiaries for the year ended 31 December 2017.

A review of the business, future developments, subsequent events and risks and uncertainties is included in the strategic report.

## Results

The Group reports a loss for the year to 31 December 2017 (after tax) of £2,925,555 for the year to 31 December 2017 (Period ended 31 December 2016: £937,313).

## Dividends

The directors do not recommend payment of a dividend for the year to 31 December 2017 (Period ended 31 December 2016: £nil).

## Political donations

There were no political donations during the year (Period ended 31 December 2016: £nil).

## Corporate governance statement

The Board is committed to maintaining high standards of corporate governance. Following the recent changes in the AIM rules, the directors have reviewed the corporate governance arrangements and intend on applying the QCA Corporate Governance Code and will report on the Company's compliance with that Code in the next annual report.

The Company's corporate governance procedures take due regard of the principles of good governance.

The Company has established audit and remuneration committees, with formally delegated duties and responsibilities.

## Audit committee

In January 2018, Sarah Cope was appointed chairman of the audit committee, on which Brian Moritz also sits.

## Remuneration committee

In January 2018, Nick Butler was appointed chairman of the remuneration committee, on which Phil Beck also sits.

## Directors

The following directors served during the year to 31 December 2017:

D G F Sefton  
J A Cane  
P J Davies – appointed 30 January 2017  
A A B Macdonald  
B M Moritz  
O S Schkoda – resigned 22 September 2017

The following appointments of directors took place after 31 December 2017 but prior to the signing of this report:

P J Beck	}	appointed 22 January 2018
A J Berwick		
N J Butler		
S Cope		

# Directors' report (continued)

The following resignations of directors took place after 31 December 2017 but prior to the signing of this report:

P J Davies  
A A B Macdonald } resigned 22 January 2018

## Directors' interests

The beneficial interests of the directors holding office at 31 December 2017 in the issued share capital of the Company were as follows:

	Ordinary shares of 5p each		Ordinary shares of 1p each	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
B M Moritz	861,634	441,656	—	—

There was a capital reorganisation on Admission that meant that the holders of the deferred shares no longer have an economic interest in the Company.

As part of the placing in June 2018, Brian Moritz subscribed for 625,000 ordinary shares and Nick Butler subscribed for 312,500 ordinary shares in the Company.

## Directors' remuneration

During the year, the following directors received remuneration from the Company:

	2017 £	2016 £
D G F Sefton	126,500	—
J A Cane	126,500	—
P J Davies	20,430	—
A A B Macdonald	126,500	—
B M Moritz	20,430	—
O S Schkoda	89,345	—
Total	509,705	—

Included in administrative expenses in the year is £120,000 in respect of pay in lieu of notice for O Schkoda.

During the year, the Company paid £120,000 to business entities owned by directors.

## Directors' indemnities and insurance

During the year ended 31 December 2017, the Company had no directors' indemnities in place. The Company did have directors' insurance in place throughout the year.

## Going concern

The directors have adopted the going-concern basis in preparing these financial statements. This is further explained in note 2 to the financial statements.

## Financial instruments

Details of risks associated with the Group's financial instruments are given in Note 22 to the financial statements. The Company does not utilise any complex financial instruments.

## Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the Group's results for that year.



# Directors' report (continued)

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements comply with IFRS as adopted by the European Union; and
- prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Statement of disclosure to auditor

Each director at the date of approval of this annual report confirms that:

- so far as the directors are aware, there is no relevant audit information of which the Group's and Company's auditor is unaware; and
- all the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

## Auditor

Crowe U.K. LLP (formerly Crowe Clark Whitehill LLP) were appointed auditors by the directors following the resignation of the previous auditors, Maxwell & Co, Chartered Accountants, in April 2017.

On 25 June 2018, Crowe Clark Whitehill LLP changed its name to Crowe U.K. LLP.

Crowe U.K. LLP has indicated its willingness to be reappointed as statutory auditor.

By order of the Board

**James Cane**  
*Director*

28 June 2018

# Independent Auditor's Report

For the year ended 31 December 2017

## Opinion

We have audited the financial statements of Anglo African Oil & Gas plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2017, which comprise:

- the Group statement of comprehensive income for the year ended 31 December 2017;
- the Group and parent company statements of financial position as at 31 December 2017;
- the Group and parent company statements of cash flows for the year then ended;
- the Group and parent company statements of changes in equity for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- The directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Overview of our audit approach

### Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £180,000 (FY16: £40,000), based on a percentage of gross assets as the company is still investing in developing the mining asset and not yet focused on generating revenue.

# Independent Auditor's Report (continued)

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £9,000 (2016: £2,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

## Overview of the scope of our audit

The Parent Company is principally accounted for in the United Kingdom and the subsidiaries are accounted for from one central operating location in Pointe-Noire, Republic of the Congo. Our audit was conducted from the main operating location in the United Kingdom but the Partner and Senior Manager also travelled to Pointe-Noire to review component auditor working papers and to visit the principal operating location of the subsidiaries.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
<i>Carrying value of Exploration and Evaluation assets, Development assets and Oil and gas assets.</i>	<p>We reviewed management's assessment of the carrying value of the asset.</p> <p>In considering this assessment, we reviewed the following sources of evidence:</p> <ul style="list-style-type: none"><li>• board minutes, budgets and other operational plans setting out the Group's current plans for the continued commercial appraisal of the assets;</li><li>• discussed with management the current status of discussions with the Congolese authorities on the renewal of the licence; and</li><li>• current oil reserves and licence appraisals.</li></ul> <p>We also discussed current plans and intentions for the assets with management.</p>
<i>There may be evidence of impairment to the carrying value of the assets</i>	
<i>Estimation of the future liability in respect of decommissioning</i>	<p>We reviewed the underlying economic models challenging the key assumptions made by management. This included:</p> <ul style="list-style-type: none"><li>• the basis of the assumptions included in the third-party valuation of the decommissioning cost;</li><li>• considering the appropriateness of the assumptions concerning the timing and discounting of the cash flows; and</li><li>• Performing scenario analysis of the various underlying assumptions.</li></ul>
<i>The carrying value of the decommissioning provision, relating to the Tilapia field, is £2.6m and reflects the cost estimate. We consider the risk that the assumptions were not appropriate in current market conditions and that the liability was materially misstated.</i>	
<p>Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.</p>	

# Independent Auditor's Report (continued)

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report and strategic report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 12 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and parent company'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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



# Independent Auditor's Report (continued)

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Matthew Stallabrass (Senior Statutory Auditor)

For and on behalf of

**Crowe U.K. LLP**

Statutory Auditor

St Bride's House  
10 Salisbury Square  
London  
EC4Y 8EH  
28 June 2018

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £	Period ended 31 December 2016 £
<b>Continuing operations</b>			
Revenue		226,757	—
Cost of sales		(405,349)	—
		(178,592)	—
Administrative expenses	8	(2,769,733)	(931,829)
Share-based payment charges	20	(138,332)	—
		(3,086,657)	(931,829)
<b>Loss from operating activities</b>			
Finance income		8,131	—
Finance costs		(62,543)	(5,484)
		(3,141,069)	(937,313)
<b>Loss before tax</b>			
Taxation	10	—	—
		(3,141,069)	(937,313)
<b>Loss for the year from operating activities</b>			
Exchange translation on foreign operations		215,514	—
		(2,925,555)	(937,313)
<b>Total comprehensive loss for the year</b>			
<b>Loss per ordinary share (pence)</b>			
Basic and diluted	11	(5.75)	(2.21)

The notes on pages 23 to 42 form an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

as at 31 December 2017

	Notes	31 December 2017 £	31 December 2016 £
<b>Non-current assets</b>			
Property, plant and equipment	12	3,048,818	—
Intangible assets	13	7,592,008	—
		<u>10,640,826</u>	<u>—</u>
<b>Current assets</b>			
Trade and other receivables	15	245,275	84,346
Prepayments		4,215	—
Cash and cash equivalents	16	2,696,911	2,078
		<u>2,946,401</u>	<u>86,424</u>
<b>Total assets</b>		<b><u>13,587,227</u></b>	<b><u>86,424</u></b>
<b>Equity</b>			
Share capital	19	7,851,238	4,463,008
Share premium		12,003,418	1,555,144
Currency translation reserve		372,071	156,557
Retained deficit		(10,293,637)	(7,290,900)
		<u>9,933,090</u>	<u>(1,116,191)</u>
<b>Current liabilities</b>			
Trade and other payables	17	1,027,091	1,029,091
Loans and borrowings	18	15,000	50,000
Provisions	21	123,524	123,524
		<u>1,165,615</u>	<u>1,202,615</u>
<b>Long-term liabilities</b>			
Provisions	21	2,488,522	—
<b>Total equity and liabilities</b>		<b><u>13,587,227</u></b>	<b><u>86,424</u></b>

The financial statements of Anglo African Oil & Gas plc were approved by the Board and authorised for issue on 28 June 2018. They were signed on its behalf by:

**David Sefton**  
Director

The notes on pages 23 to 42 form an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Share capital £	Share premium £	Currency translation reserve £	Retained deficit £	Total £
Balance at 28 February 2016	4,463,008	1,555,144	156,557	(6,353,587)	(178,878)
Loss and total comprehensive loss for the financial period	—	—	—	(937,313)	(937,313)
Total comprehensive loss for the period	—	—	—	(937,313)	(937,313)
<b>Balance at 31 December 2016</b>	<b>4,463,008</b>	<b>1,555,144</b>	<b>156,557</b>	<b>(7,290,900)</b>	<b>(1,116,191)</b>
Issue of share capital	3,388,230	11,585,029	—	—	14,973,259
Costs of issue of share capital	—	(1,136,755)	—	—	(1,136,755)
Loss for the year from operating activities	—	—	—	(3,141,069)	(3,141,069)
Share-based payment charges	—	—	—	138,332	138,332
Foreign exchange difference	—	—	215,514	—	215,514
Total comprehensive loss for the year	3,388,230	10,448,274	215,514	(3,002,737)	11,049,281
<b>Balance at 31 December 2017</b>	<b>7,851,238</b>	<b>12,003,418</b>	<b>372,071</b>	<b>(10,293,637)</b>	<b>9,933,090</b>

The currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of the foreign operation.

The notes on pages 23 to 42 form an integral part of these consolidated financial statements.



# Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £	Period ended 31 December 2016 £
<b>Cash flows from operating activities</b>			
Total comprehensive loss for the year		(2,925,555)	(937,313)
Depreciation and amortisation		86,473	—
Provision movement		2,488,522	100,000
Share-based payment charge		138,332	—
		(212,228)	(837,313)
Increase in trade and other receivables		(160,929)	(26,141)
(Increase)/decrease in prepayments		(4,215)	71,998
(Decrease)/increase in trade and other payables		(2,000)	742,303
<b>Cash used in operating activities</b>		<b>(379,372)</b>	<b>(49,153)</b>
<b>Cash flows from investing activities</b>			
– Purchase of tangible fixed assets		(3,112,816)	—
– Purchase of intangible fixed assets		(1,051,348)	—
– Acquisition of subsidiaries net of cash received		(6,563,135)	—
<b>Net cash used in investing activities</b>		<b>10,727,299</b>	<b>—</b>
<b>Cash flows from financing activities</b>			
Loan (repayment)/received		(35,000)	50,000
Issue of share capital		14,973,259	—
Costs of issuing share capital		(1,136,755)	—
<b>Net cash flows from financing activities</b>		<b>13,801,504</b>	<b>50,000</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,694,833</b>	<b>847</b>
Cash and cash equivalents at beginning of year	16	2,078	1,231
<b>Cash and cash equivalents at year-end</b>	16	<b>2,696,911</b>	<b>2,078</b>

The notes on pages 23 to 42 form an integral part of these consolidated financial statements.

# Company Statement of Financial Position

as at 31 December 2017

	Notes	31 December 2017 £	31 December 2016 £
<b>Assets</b>			
Property, plant and equipment	12	3,381	—
Investments	14	6,801,972	—
<b>Non-current assets</b>		<u>6,805,353</u>	<u>—</u>
<b>Current assets</b>			
Trade and other receivables	15	1,777,092	84,346
Prepayments		4,215	—
Cash and cash equivalents	16	2,131,865	2,078
		<u>3,913,172</u>	<u>86,424</u>
<b>Total assets</b>		<b><u>10,718,525</u></b>	<b><u>86,424</u></b>
<b>Equity</b>			
Share capital	19	7,851,238	4,463,008
Share premium		12,003,418	1,555,144
Retained deficit		(9,384,108)	(7,005,444)
		<u>10,470,548</u>	<u>(987,292)</u>
<b>Current liabilities</b>			
Trade and other payables	17	232,977	1,023,716
Loans and borrowings	18	15,000	50,000
		<u>247,977</u>	<u>1,073,716</u>
<b>Total equity and liabilities</b>		<b><u>10,718,525</u></b>	<b><u>86,424</u></b>

The Company's loss and total comprehensive loss for the year ended 31 December 2017 was £2,516,996 (Period ended 31 December 2016: £900,597).

The financial statements of Anglo African Oil & Gas plc, company number 04140379, were approved by the Board and authorised for issue on 28 June 2018. They were signed on its behalf by:

**James Cane**  
Director

The notes on pages 23 to 42 form an integral part of these consolidated financial statements.

# Company Statement of Changes in Equity

for the year ended 31 December 2017

	Share capital £	Share premium £	Retained deficit £	Total equity £
Balance at 28 February 2016	4,463,008	1,555,144	(6,104,847)	(86,695)
Total comprehensive loss for the period	—	—	(900,597)	(900,597)
<b>Balance at 31 December 2016</b>	<b>4,463,008</b>	<b>1,555,144</b>	<b>(7,005,444)</b>	<b>(987,292)</b>
Share issue in the year	3,388,230	11,585,029	—	<b>14,973,259</b>
Cost of issuing share capital	—	(1,136,755)	—	<b>(1,136,755)</b>
Share-based payment charge	—	—	138,332	<b>138,332</b>
Total comprehensive loss for the year	—	—	(2,516,996)	<b>(2,516,996)</b>
<b>Balance at 31 December 2017</b>	<b>7,851,238</b>	<b>12,003,418</b>	<b>(9,384,108)</b>	<b>10,470,548</b>

The notes on pages 23 to 42 form an integral part of these consolidated financial statements.

# Company Statement of Cash Flows

for the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £	Period ended 31 December 2016 £
<b>Cash flows from operating activities</b>			
Loss for the year		(2,516,996)	(900,597)
<b>Adjustments for:</b>			
Depreciation		873	—
Share-based payment charge		138,332	—
Property, plant and equipment impairment		—	100,000
		(2,377,791)	(800,597)
Increase in trade and other receivables		(1,692,746)	(62,857)
(Increase)/decrease in prepayments		(4,215)	71,998
(Decrease)/increase in trade and other payables		(790,739)	742,303
<b>Cash used in operating activities</b>		<b>(4,865,491)</b>	<b>(49,153)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(4,254)	—
Purchase of fixed asset investments		(6,801,972)	—
<b>Cash used in investing activities</b>		<b>(6,806,226)</b>	<b>—</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		14,973,259	—
Costs of issuing share capital		(1,136,755)	—
Loan (repayment)/received		(35,000)	50,000
<b>Net cash flows from financing activities</b>		<b>13,801,504</b>	<b>50,000</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,129,787</b>	<b>847</b>
Cash and cash equivalents at beginning of year		2,078	1,231
<b>Cash and cash equivalents at year-end</b>	16	<b>2,131,865</b>	<b>2,078</b>

The notes on pages 23 to 42 form an integral part of these consolidated financial statements.



# Notes to the Consolidated Financial Statements

for the year ended 31 December 2017

## 1. Reporting entity

Anglo African Oil & Gas plc is a company incorporated and domiciled in England and Wales. The address of the Company's registered office is 27/28 Eastcastle Street, London W1W 8DH. The consolidated financial statements of the Group as at and for the year ended 31 December 2017 comprise the financial statements of the Company and its subsidiary undertakings, Sonnberg Diamonds (Namibia) (Pty) Limited and Petro Kouilou SA. The Group will continue to be primarily involved in the extraction of and exploration for natural resources in Africa.

Petro Kouilou SA is a company registered in Republic of the Congo. The office address is Site de Tilapia, Route Nationale no. 5, BP-1753, Pointe-Noire, Republic of the Congo.

Sonnberg Diamonds (Namibia) (Pty) Limited is a company registered in Namibia. The registered office address is P O Box 199, Lüderitz, Namibia.

## 2. Going concern

On 5 June 2018, the Company issued 92,551,459 ordinary shares of five pence per share at a price of eight pence per share, raising a further £7,404,117 (US\$10 million) in addition to the proceeds of Admission in March 2017.

As a result of this placing and Admission, the directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. On this basis, the directors continue to adopt the going-concern basis of accounting in preparing the financial statements.

## 3. Basis of preparation

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board and as adopted by the European Union.

The Company's individual statement of comprehensive income has been omitted from the Group's annual financial statements having taken advantage of the exemption not to disclose under Section 408(3) of the Companies Act 2006. The Company's loss and total comprehensive expense for the year ended 31 December 2017 was £2,516,996 (Period ended 31 December 2016: £900,597).

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical-cost basis.

### *Functional and presentation currency*

These consolidated financial statements are presented in Pounds Sterling ('GBP'), which is considered by the directors to be the functional currency of the parent company and therefore the appropriate presentation currency for the group. The US dollar is the functional currency of the subsidiary entities.

### (c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the impairment of intangible exploration & evaluation ("E&E") and oil & gas assets.

The Group determines whether E&E assets are impaired in cost pools when facts and circumstances suggest that the carrying amount of a cost pool may exceed its recoverable amount. As recoverable amounts are determined based upon risked potential, or where relevant, discovered oil and gas reserves, this involves estimations and the selection of a suitable discount rate. The capitalisation and any write-off of E&E assets necessarily involve certain judgements with regard to whether the asset will ultimately prove to be recoverable.

# Notes to the Consolidated Financial Statements

(continued)

## 3. Basis of preparation (continued)

In determining the treatment of E&E assets and investments, the directors are required to make estimates and assumptions as to future events and circumstances. There are uncertainties inherent in making such assumptions, especially with regard to oil & gas reserves and the life of, and title to, an asset; recovery rates; production costs; commodity prices; and exchange rates. Assumptions that are valid at the time of estimation may change significantly as new information becomes available and changes in these assumptions may alter the economic status of an E&E asset and result in resources or reserves being restated. The estimation of recoverable amounts, based on risked potential and the application of value in use calculations, are dependent upon finance being available to fund the development of the E&E assets.

One of the key estimates is in relation to the licence period. The current licence expires in July 2020 and, whilst there is a right to extend the licence period, this has yet to be confirmed with the Congolese authorities. When assessing impairment and the timing of cash flows in respect of the decommissioning provision, it is assumed that this extension is granted. In the event that the extension is not received, the decommissioning liability would arise in 2020 and the carrying value of the oil & gas and exploration assets may not be fully recoverable.

Information about critical estimates and assumptions that have the most significant effect on the amounts recognised in the consolidated financial statements and/or have a significant risk of resulting in a material adjustment within the next financial year are as follows:

- |   |                     |
|---|---------------------|
| • Carrying value of intangible assets           | – Notes 4(e) and 13 |
| • Carrying value of investments                 | – Note 14           |
| • Carrying value of property, plant & equipment | – Notes 4(d) and 12 |
| • Recoverability of SNPC balances               | – Note 15           |
| • Reinstatement provision                       | – Note 21.          |

## 4. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements and have been applied consistently by Group entities.

### (a) Basis of consolidation

#### (i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase price is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

# Notes to the Consolidated Financial Statements

(continued)

## 4. Significant accounting policies (continued)

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured, and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

### (ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

### (iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

## (b) Foreign currency

### (i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income.

### (ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and the fair value adjustments arising on acquisition, are translated to GBP at exchange rates at the reporting date with any difference to other comprehensive income. The income and expenses of foreign operations are translated to GBP at the exchange rate at the date of each transaction.

## (c) Financial instruments

### (i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group's non-derivative financial assets comprise loans and receivables.

### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see note 4(f)(i)).

Loans and receivables comprise trade and other receivables.

# Notes to the Consolidated Financial Statements

(continued)

## 4. Significant accounting policies (continued)

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in their fair value. These are initially and subsequently recorded at fair value.

### **(ii) Non-derivative financial liabilities**

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the 'other financial liabilities' category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise trade and other payables.

### **(iii) Share capital**

#### **Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Costs attributable to the admission of the Company to trading on AIM are taken into account when arriving at the results for the year and are not treated as a deduction from equity (see note 8).

## **(d) Property, plant and equipment**

### **Oil & gas assets**

Oil & gas assets represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in the accounting policy above.

The cost of oil & gas assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning. Producing assets are currently expected to be in production up to 2040 and are depreciated on the unit of production method.

### **Impairment of oil & gas assets**

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of an oil & gas asset may exceed its recoverable amount.

The carrying value is compared with the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single income generating unit where the cash flows of each field are interdependent.

### **(i) Recognition and measurement**

Items of property, plant & equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant & equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

# Notes to the Consolidated Financial Statements

(continued)

## 4. Significant accounting policies (continued)

### (ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance cost is expensed as incurred.

### (iii) Depreciation

Items of fixtures and fittings are depreciated on a straight-line basis in the statement of comprehensive income within administrative expenses over the estimated useful lives below:

- Computer equipment 4 years
- Plant and equipment is depreciated on the unit of production method.
- Vehicles 4 years

Items of property, plant & equipment are depreciated from the date that they are installed and are ready for use or, in respect of internally constructed assets, from the date that the asset is completed and ready for use.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (e) Intangible assets

#### Exploration & evaluation assets

Under the successful efforts method of accounting, all licence acquisition, exploration and appraisal costs are initially capitalised in well, field or specific exploration cost centres as appropriate, pending determination.

Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed.

#### Exploration & evaluation costs

Costs are initially capitalised as E&E assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as E&E assets.

#### Treatment of exploration & evaluation expenditure at the end of appraisal activities

Intangible E&E assets relating to each exploration licence/prospect are carried forward, until the existence (or otherwise) of commercial reserves has been determined subject to certain limitations including review for indications of impairment. If, however, commercial reserves have been discovered and development has been approved, the carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as oil & gas assets. If, however, commercial reserves have not been found, the capitalised costs are charged to expense after conclusion of appraisal activities.

### (f) Impairment

#### (i) Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that event had an impact on the estimated future cash flows of that asset that can be estimated reliably.

#### Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

# Notes to the Consolidated Financial Statements

(continued)

## 4. Significant accounting policies (continued)

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

### (ii) Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Exploration & evaluation assets and indefinite-life intangible assets are tested annually for impairment or when there is an indication of impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognised in profit or loss.

An impairment loss in respect of exploration & evaluation assets is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (g) Revenue

Revenue from the sale of oil & gas products is recognised when all of the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

One hundred per cent of the Group's revenue is attributable to activities in the Republic of the Congo.

Interest is recognised, in profit and loss, using the effective-interest rate method.

### (h) Finance costs

Finance costs comprise interest expense on borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective-interest rate method.

### (i) Taxation

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.



# Notes to the Consolidated Financial Statements

(continued)

## 4. Significant accounting policies (continued)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill intangible assets.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## (j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

## 5. New standards and interpretations not yet adopted

### ***Standards, amendments to published standards and interpretations issued but not yet effective***

Certain standards, amendments to published standards and interpretations have been issued that are mandatory for accounting periods beginning on or after 1 January 2018 or later periods, but which the Group has not early adopted.

### ***IFRS 9 – Financial instruments***

The standard makes substantial changes to the measurement of financial assets and financial liabilities. There will only be three categories of financial assets, whereby financial assets are recognised at either fair value through profit and loss, fair value through other comprehensive income or measured at amortised cost. On adoption of the standard, the Group will have to re-determine the classification of its financial assets based on the business model for each category of financial asset. This is not considered likely to give rise to any significant adjustments other than reclassifications.

The standard is effective for periods beginning on or after 1 January 2018.

# Notes to the Consolidated Financial Statements

(continued)

## 5. New standards and interpretations not yet adopted (continued)

### **IFRS 15 – Revenue from contracts with customers**

The standard has been developed to provide a comprehensive set of principles in presenting the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is based around five steps in recognising revenue:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price; and
5. Recognise revenue when a performance obligation is satisfied.

On application of the standard, the disclosures are likely to increase. The standard includes principles on disclosing the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, by providing qualitative and quantitative information.

### **IFRS 16 – Leases**

The standard has been developed to provide information to the users of the financial statements on the lease transactions undertaken by the entity, in order for them to assess the amount, timing and uncertainty of cash flows arising from leases.

The standard is effective for periods beginning on or after 1 January 2019.

On application of the standard, the company will be required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The directors consider that the effect of standards, amendments to published standards and interpretations issued but not yet effective, on the presentation, recognition and measurement of the Group's financial statements will not be material.

## 6. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### **(i) Property, plant and equipment**

The fair value for consideration of impairment of items of property, plant and equipment is based on market prices for similar items.

### **(ii) Intangible assets**

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

### **(iii) Trade and other receivables**

The fair value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when such assets are acquired in a business combination.

### **(iv) Fixed asset investments**

The fair value of fixed asset investments is based on the fair value of the net assets of the group undertaking.

### **(v) Share-based payments**

Share-based payment charges are based on the fair value of the options granted. In arriving at the charge for the period, assumptions are made on the volatility of the market value of the shares.

# Notes to the Consolidated Financial Statements

(continued)

## 7. Operating segments

The Company manages a group involved in mineral resources exploration and exploitation in the Republic of the Congo and is, therefore, considered to operate in a single geographical and business segment. The subsidiary in Namibia is currently dormant and no assets are held in Namibia.

## 8. Administrative expenses

Administrative expenses include:

	Year ended 31 December 2017 £	Period ended 31 December 2016 £
Costs relating to AIM admission	363,869	613,657
Depreciation and amortisation	86,473	—
Impairment of plant, property & equipment	—	100,000
Auditor's remuneration		
– audit services: parent company	28,000	8,606
	<u>          </u>	<u>          </u>

## 8. Administrative expenses (continued)

During the year, the Company incurred costs of £1,500,624 relating to AIM admission and the issuance of new share capital. £1,136,755 related to the issue of new shares and has been offset against equity. £363,869 of the costs related to the AIM admission and are included within administrative expenses in the Statement of Comprehensive Income.

## 9. Staff costs

	Year ended 31 December 2017 £	Period ended 31 December 2016 £
Wages and salaries	689,815	—
Termination payment	120,000	—
Social security costs	82,241	—
	<u>          </u>	<u>          </u>
	892,056	—
	<u>          </u>	<u>          </u>

The average number of employees (including directors) during the year was:

	Year ended 31 December 2017 No.	Period ended 31 December 2016 No.
Directors – management	9	5
	<u>          </u>	<u>          </u>
	9	5
	<u>          </u>	<u>          </u>

The directors are considered to be key management personnel. See the directors' report for information regarding the remuneration paid to the directors during the year.

## 10. Taxation

	Year ended 31 December 2017 £	Period ended 31 December 2016 £
<b>Current tax expense</b>		
Current year	—	—
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	—	—
	<u>          </u>	<u>          </u>
<b>Total tax expense</b>	—	—
	<u>          </u>	<u>          </u>

# Notes to the Consolidated Financial Statements

(continued)

## 10. Taxation (continued)

### Reconciliation of effective tax rate

	Year ended 31 December 2017 £	Period ended 31 December 2016 £
Loss before tax	(2,925,555)	(937,313)
Tax using the Company's domestic tax rate of 19.25% (Year ended 31 December 2016: 20%)	563,169	187,463
Tax losses	(563,169)	(187,463)
<b>Total taxation charge</b>	<b>—</b>	<b>—</b>

### Factors that may affect future tax charges

No deferred tax asset has been recognised in respect of tax losses due to uncertainty as to their future availability.

## 11. Loss per share

The calculation of loss per share for the year ended 31 December 2017 is based on the loss for the year after tax attributable to ordinary shareholders of £2,925,555 (Period ended 31 December 2016: £937,313), and a weighted average number of ordinary shares in issue of 50,901,726 (Period ended 31 December 2016: 42,418,932).

## 12. Property, plant and equipment

### Group

	Oil & gas assets £	Plant & equipment £	Computer equipment £	Motor vehicles £	Total £
<b>Cost</b>					
Balance at 1 March 2016	—	1,148,236	2,003	—	1,150,239
Balance at 31 December 2016	—	1,148,236	2,003	—	1,150,239
Balance at 1 January 2017	—	1,148,236	2,003	—	1,150,239
Additions	2,626,545	480,300	4,254	1,717	3,112,816
<b>Balance at 31 December 2017</b>	<b>2,626,545</b>	<b>1,628,536</b>	<b>6,257</b>	<b>1,717</b>	<b>4,263,055</b>
<b>Depreciation</b>					
Balance at 1 March 2016	—	1,048,236	2,003	—	1,050,239
Depreciation	—	—	—	—	—
Impairment	—	100,000	—	—	100,000
Balance at 31 December 2016	—	1,148,236	2,003	—	1,150,239
Balance at 1 January 2017	—	1,148,236	2,003	—	1,150,239
Depreciation	63,125	—	873	—	63,998
Impairment	—	—	—	—	—
<b>Balance at 31 December 2017</b>	<b>63,125</b>	<b>1,148,236</b>	<b>2,876</b>	<b>—</b>	<b>1,214,237</b>
<b>Carrying amounts</b>					
<b>At 31 December 2017</b>	<b>2,563,420</b>	<b>480,300</b>	<b>3,381</b>	<b>1,717</b>	<b>3,048,818</b>
At 31 December 2016	—	—	—	—	—

# Notes to the Consolidated Financial Statements

(continued)

## 12. Property, plant and equipment (continued)

### Company

	Computer equipment £	Plant & machinery £	Total £
<b>Cost</b>			
Balance at 1 March 2016	—	257,888	257,888
Additions	—	—	—
Balance at 31 December 2016	—	257,888	257,888
Balance at 1 January 2017	—	257,888	257,888
Additions	4,254	—	4,254
<b>Balance at 31 December 2017</b>	<b>4,254</b>	<b>257,888</b>	<b>262,142</b>
<b>Depreciation</b>			
Balance at 1 March 2016	—	157,888	157,888
Depreciation	—	—	—
Impairment	—	100,000	100,000
Balance at 31 December 2016	—	257,888	257,888
Balance at 1 January 2017	—	257,888	257,888
Depreciation	873	—	873
Impairment	—	—	—
<b>Balance at 31 December 2017</b>	<b>873</b>	<b>257,888</b>	<b>258,761</b>
<b>Carrying amounts</b>			
<b>At 31 December 2017</b>	<b>3,381</b>	<b>—</b>	<b>3,381</b>
At 31 December 2016	—	—	—

# Notes to the Consolidated Financial Statements

(continued)

## 13. Intangible assets

### Group

	Exploration & evaluation assets £	Mining rights £	Total £
<b>Cost</b>			
Balance at 1 March 2016	—	1,153,852	1,153,852
Additions	—	—	—
Balance at 31 December 2016	—	1,153,852	1,153,852
Balance at 1 January 2017	—	1,153,852	1,153,852
Additions	7,614,483	—	7,614,483
<b>Balance at 31 December 2017</b>	<b>7,614,483</b>	<b>1,153,852</b>	<b>8,768,335</b>
<b>Amortisation</b>			
Balance at 1 March 2016	—	1,153,852	1,153,852
Charge for the period	—	—	—
Impairment	—	—	—
Balance at 31 December 2016	—	1,153,852	1,153,852
Balance at 1 January 2017	—	—	1,153,852
Charge for the year	22,475	—	22,475
Impairment	—	—	—
<b>Balance at 31 December 2017</b>	<b>22,475</b>	<b>1,153,852</b>	<b>1,176,327</b>
<b>Carrying amounts</b>			
<b>Balance at 31 December 2017</b>	<b>7,592,008</b>	<b>—</b>	<b>7,592,008</b>
Balance at 31 December 2016	—	—	—

### Mining rights

The mining rights owned by the Group have been fully written down as, at the date of the approval of the financial statements, it is the intention of the Group to dissolve the mining subsidiary.

### Exploration & evaluation assets

The directors assess for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. In making this assessment, the directors have given regard to the facts and circumstances noted in IFRS 6 paragraph 20 and do not believe that there is any indication of impairment. In performing their assessment of each of these factors at 31 December 2017, the directors have;

- reviewed the time period that the Group has the right to explore the area and the likelihood of extension as disclosed in note 3(c);
- determined that further E&E expenditure is either budgeted or planned for all licences (with the exception of the licence noted below);
- not decided (with the exception of the licence noted below), to discontinue exploration activity due to there being a lack of quantifiable mineral resource; and
- not identified any instances where sufficient data exists to indicate that there are licences where the E&E spend is unlikely to be recovered from successful development or sale.



# Notes to the Consolidated Financial Statements

(continued)

## 14. Fixed asset investment

	Group undertaking £	Loan to Group undertaking £	Total £
<b>Cost</b>			
Balance at 1 March 2016	2,828,211	2,817,173	5,645,384
Advances	—	—	—
Transfers	—	—	—
Balance at 31 December 2016	2,828,211	2,817,173	5,645,384
Balance at 1 January 2017	2,828,211	2,817,173	5,645,384
Additions	6,801,972	—	6,801,972
Transfers	—	—	—
<b>Balance at 31 December 2017</b>	<b>9,630,183</b>	<b>2,817,173</b>	<b>12,447,356</b>
<b>Provisions for diminution in value</b>			
Balance at 1 March 2016	2,828,211	2,817,173	5,645,384
Impairment in period	—	—	—
Balance at 31 December 2016	2,828,211	2,817,173	5,645,384
Balance at 1 January 2017	2,828,211	2,817,173	5,645,384
Impairment in year	—	—	—
<b>Balance at 31 December 2017</b>	<b>2,828,211</b>	<b>2,817,173</b>	<b>5,645,384</b>
<b>Carrying amounts</b>			
<b>At 31 December 2017</b>	<b>6,801,972</b>	<b>—</b>	<b>6,801,972</b>
At 31 December 2016	—	—	—

Investment in Group undertaking is in relation to a 100 per cent holding in Sonnberg, a company incorporated in Namibia and a 100 per cent holding in Petro Kouilou SA, a company incorporated in Republic of the Congo.

The loan to Group undertaking is denominated in GBP and is interest-free.

### Acquisition of Petro Kouilou SA

On 15 March 2017, the Group acquired 49 per cent of the issued share capital of Petro Kouilou SA for a cash consideration of £2,059,308 (US\$2,500,000). The Group acquired the remaining 51 per cent shareholding of PK on 3 August 2017 for £4,742,664, satisfied by the issuance of 16,354,015 Ordinary shares of five pence each, issued at 29 pence per share.

Control was acquired on 15 March 2017; details of the acquisition are set out below:

	£
Fair value of consideration – cash	2,059,308
Fair value of consideration – Company shares issued	4,742,664
	<u>6,801,972</u>

# Notes to the Consolidated Financial Statements

(continued)

## 14. Fixed asset investment (continued)

Fair value of net assets acquired was as follows:

	£
Exploration & evaluation assets	6,563,135
Oil & gas asset	2,626,545
Other property plant and equipment	730,691
Trade and other receivables	110,724
Cash and cash equivalents	252,495
Trade and other payables	(909,356)
Provisions	(2,572,262)
	<u>6,801,972</u>

On acquisition, two adjustments were made to reduce the book value to fair value. These were to provide against £271,000 of inventory and £634,000 of receivables from SNPC (see note 15). An exploration asset of £6,563,135 was also recognised.

## 15. Trade and other receivables

### Group

	31 December 2017 £	31 December 2016 £
Trade receivables	77,429	—
Other receivables	167,846	84,346
	<u>245,275</u>	<u>84,346</u>

### Company

	31 December 2017 £	28 February 2016 £
Other receivables	150,783	84,346
Amounts owed by group undertakings	1,626,309	—
	<u>1,777,092</u>	<u>84,346</u>

The Group and Company's exposure to credit and currency risk is disclosed in note 22.

There is no material difference between the fair value of trade and other receivables and their book value. No receivables are overdue at the year-end. A provision has been made for the receivable totalling £869,000 from SNPC, the Congolese state oil company, so any repayment of this debt will be for the credit of the Group.

## 16. Cash and cash equivalents

### Group

	31 December 2017 £	31 December 2016 £
Bank balances	2,696,911	2,078
Cash and cash equivalents	<u>2,696,911</u>	<u>2,078</u>

### Company

	31 December 2017 £	31 December 2016 £
Bank balances	2,131,865	2,078
Cash and cash equivalents	<u>2,131,865</u>	<u>2,078</u>

There is no material difference between the fair value of cash and cash equivalents and their book value.

# Notes to the Consolidated Financial Statements

(continued)

## 17. Trade and other payables

### Group

	31 December 2017 £	31 December 2016 £
Trade payables and accruals	1,027,091	945,095
Loans from current and former directors	—	83,996
	<u>1,027,091</u>	<u>1,029,091</u>

### Company

	31 December 2017 £	31 December 2016 £
Trade payables and accruals	232,977	939,720
Loans from current and former directors	—	83,996
	<u>232,977</u>	<u>1,023,716</u>

The Group's and Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

There is no material difference between the fair value of trade and other payables and their book value.

## 18. Loans and borrowings

### Group

	31 December 2017 £	31 December 2016 £
Other loans	<u>15,000</u>	<u>50,000</u>

### Company

	31 December 2017 £	31 December 2016 £
Other loans	<u>15,000</u>	<u>50,000</u>

## 19. Share capital

	Number of shares	
	31 December 2017 No.	31 December 2016 No.
<b><i>In issue at year end – fully paid:</i></b>		
Ordinary shares of 0.1p each	—	—
Ordinary shares of 5p each	69,504,565	—
Deferred shares of 9p each	39,922,460	39,922,460
B Deferred shares of 0.9p each	<u>86,998,615</u>	<u>86,998,615</u>

	Share capital	
	31 December 2017 £	31 December 2016 £
<b><i>In issue at year end – fully paid:</i></b>		
Ordinary shares of 5p each	3,475,229	86,999
Deferred shares of 9p each	3,593,021	3,593,021
B Deferred shares of 0.9p each	<u>782,988</u>	<u>782,988</u>
	<u>7,851,238</u>	<u>4,463,008</u>

# Notes to the Consolidated Financial Statements

(continued)

## 19. Share capital (continued)

The holders of deferred shares are not entitled to receive dividends or to vote at meetings of the Company and have no material interest in the Company's residual assets.

### Issues of ordinary shares

On 6 March 2017, the Company issued 51,410,578 ordinary shares of 5p each at a premium of 15p per share.

On 3 August 2017, the Company issued 16,354,015 ordinary shares of 5p each at a premium of 24p per share.

## 20. Share-based payment arrangements

As at 31 December 2017, the Group maintained a management incentive share-based payment scheme for certain employees, including directors. The scheme will be settled in equity. Options under this programme will vest if oil production milestones are achieved at the Tilapia oilfield in the Republic of the Congo as follows:

Earliest vesting date	Number of shares vesting	Required bopd production over a consecutive 30-day period
16 March 2017	3,025,493	1,000
16 March 2018	3,025,493	2,500
16 March 2019	3,025,492	5,000

Upon vesting, the option allows the holder to purchase one ordinary share at a price of 20 pence per share.

Share options and weighted-average exercise prices are as follows for the reporting periods presented:

	Number of shares	Weighted average exercise price per share (pence)
Outstanding at 1 January 2017	—	—
Granted	12,265,511	20
Forfeited	(3,189,033)	—
<b>At 31 December 2017</b>	<b>9,076,478</b>	<b>20</b>

The fair values of options granted were determined using the Black-Scholes option pricing model, adjusted for probability estimates for the bopd requirements being met. The following principal assumptions were used in the valuation:

Grant date	16 March 2017
Share price at date of grant	28.5 pence
Volatility	75%
Option life	3 years
Dividend yield	0.0
Risk free investment rate	0.5%
Fair value per option at date of grant	16.46 pence
Exercise price at date of grant	20 pence

The underlying volatility was determined by reference to historical data of comparator companies traded on AIM.

On 14 December 2017, the Company cancelled the original management share incentive scheme for senior management as detailed in the Company's admission document and replaced it with a new management share incentive scheme following the lapsing of the time for the registration of the original documents. All terms and conditions, including as to vesting conditions, amounts and exercise price of the options issued are identical to those that were to be issued under the original scheme.

This has been accounted for as a replacement scheme. As there is no change in the fair value of the new options compared with the original options as valued immediately before the modification, there is no change arising in the share-option charge as a result of the replacement.

In total, £138,332 of equity share-based payment transactions have been included in profit or loss and credited to retained earnings.

# Notes to the Consolidated Financial Statements

(continued)

## 21. Provisions

### Group

	31 December 2017 £	31 December 2016 £
Balance brought forward	123,524	123,524
Well site reinstatement cost (long-term liability)	2,488,522	—
	<u>2,612,046</u>	<u>123,524</u>

#### **Well site reinstatement costs**

During the year, the Company acquired PK, an oil and gas developer. An amount of £2,488,522 has been provided for rehabilitation costs, based on internal estimates of the available information on the cost and programme of works to be performed and the time value of money. The reinstatement costs are integrated to the value of the underlying asset and depreciated according to the 'unit of production' amortisation method.

Further costs will be incurred as the drilling programme gathers pace. The directors have assessed the end of field life to be no earlier than 2040, namely 22 years from now.

#### **Mining contract**

The mining contract undertaken by the Group requires the subsidiary, Sonnberg, to remove all equipment and installations and to rehabilitate all disturbed areas once mining activities have ceased. Sonnberg has historically paid one per cent of sales to a fund held by Namdeb to provide for the costs of environmental rehabilitation. An amount of £123,524 has been provided for rehabilitation costs in excess of the one per cent, based on internal estimates. This liability is solely with Sonnberg, and has not been guaranteed by the Company.

At the time of approval of the financial statements, it is the intention of the Group to dissolve the mining subsidiary. If, upon dissolution, the rehabilitation costs have not been expended, the provision will be written back, as it has not been guaranteed by the Company. Under these circumstances, the directors believe that the provision should be shown as a current liability of the Group.

## 22. Financial instruments and financial risk management

### Overview

The Group has exposure to the following risks arising from financial instruments.

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

#### **Risk-management framework**

The Company's directors have overall responsibility for the establishment and oversight of the Group's risk-management framework.

The Group's risk-management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk-management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

#### **Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

# Notes to the Consolidated Financial Statements

(continued)

## 22. Financial instruments and financial risk management (continued)

### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

#### Group

	Note	Carrying amount	
		31 December 2017 £	31 December 2016 £
Trade and other receivables	15	245,275	84,346
Cash and cash equivalents	16	2,696,911	2,078
		<u>3,187,461</u>	<u>86,424</u>

#### Company

	Note	Carrying amount	
		31 December 2017 £	31 December 2016 £
Trade and other receivables	15	1,777,092	84,346
Cash and cash equivalents	16	2,131,865	2,078
		<u>3,908,957</u>	<u>86,424</u>

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

#### Group

31 December 2017	Carrying amount £	2 months or less £	2 to 12 months £
<b>Non-derivative financial liabilities</b>			
Loans	15,000	15,000	—
Trade and other payables	1,027,091	—	1,027,091
	<u>1,042,091</u>	<u>15,000</u>	<u>1,027,091</u>

31 December 2016	Carrying amount £	2 months or less £	2 to 12 months £
<b>Non-derivative financial liabilities</b>			
Loans	133,996	133,996	—
Trade payables	945,095	—	945,095
	<u>1,079,091</u>	<u>133,996</u>	<u>945,095</u>



# Notes to the Consolidated Financial Statements

(continued)

## 22. Financial instruments and financial risk management (continued)

### Company

31 December 2017

	Carrying amount £	2 months or less £	2 to 12 months £
<b>Non-derivative financial liabilities</b>			
Loans	15,000	15,000	—
Trade and other payables	232,977	—	232,977
	<u>247,977</u>	<u>15,000</u>	<u>232,977</u>

31 December 2016

	Carrying amount £	2 months or less £	2 to 12 months £
<b>Non-derivative financial liabilities</b>			
Loans	133,996	133,996	—
Trade payables	939,720	—	939,720
	<u>1,073,716</u>	<u>133,996</u>	<u>939,720</u>

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's and Company's income or the value of its holdings of financial instruments. The objective of market-risk management is to manage and control market-risk exposures within acceptable parameters, while optimising the return.

### Currency risk

The Group is exposed to foreign currency risk on purchases that are denominated in currencies other than GBP. The currencies giving rise to this risk were primarily the US dollar, the euro and the Central African franc.

At the year-end, the Group held the following assets/(liabilities) in currencies other than GBP:

### Group

31 December 2017

	USD US\$	Euro €	XAF CFA
Cash and cash equivalents	1,931,955	149	417,358,049
Trade and other receivables	104,479	—	12,606,763
Trade and other payables	(176,127)	(368,202)	(265,872,117)
<b>Total</b>	<u>1,860,307</u>	<u>(368,053)</u>	<u>164,092,695</u>

31 December 2016

	USD US\$	Euro €
Cash and cash equivalents	—	—
Trade and other receivables	—	—
Trade and other payables	—	(51,000)
<b>Total</b>	<u>—</u>	<u>(51,000)</u>

# Notes to the Consolidated Financial Statements

(continued)

## 22. Financial instruments and financial risk management (continued)

### Company

31 December 2017

	USD US\$	Euro €
Cash and cash equivalents	1,931,955	—
Trade and other receivables	1,179,826	1,014,627
Trade and other payables	—	(32,182)
	<u>3,111,781</u>	<u>982,445</u>

31 December 2016

	USD US\$	Euro €
Trade and other payables	—	51,000
	<u>—</u>	<u>51,000</u>

### Other risks

The directors believe that the Republic of the Congo is currently a stable business environment, particularly in the natural resources sector. However, unforeseen changes in political, fiscal or legal systems may affect the ownership or operation of the Group's interests, including, *inter alia*, changes in government and the legislative and regulatory regimes.

### Capital management

The Group's and Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to support continued operations. The Company considers its capital to comprise equity capital less accumulated losses.

## 23. Related parties

At the balance sheet date, the Company owed £nil to Brian Moritz, director (Period ended 31 December 2016: £83,996). The loan, which was interest-free and had no repayment terms, was settled by the issue of ordinary shares on Admission in March 2017.

Included within accruals is an amount of £nil (Period ended 31 December 2016: £50,000) related to fees charged by two directors in exchange for them providing personal guarantees during the year.

As part of the placing in June 2018, two directors, Brian Moritz and Nick Butler, subscribed for 625,000 ordinary shares and 312,500 ordinary shares respectively in the Company.

## 24. Subsequent events

On 5 June 2018, the Company issued 92,551,459 ordinary shares of five pence per share at a price of eight pence per share, raising £7,404,117 (US\$10 million).



