Registered number: 07603259

# KAROO ENERGY PLC

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 APRIL 2017

# COMPANY INFORMATION

| | |
|---|---|
| Directors | Noel Lyons<br>James Negaard<br>Alan Golding<br>Allen Zimbler<br>Andrew Smith |
| Company secretary | Buckingham Corporate Services Limited |
| Registered number | 07603259 |
| Registered office | 2nd Floor<br>1 Bentinck Street<br>London<br>W1G 2EA |
| Independent auditors | UHY Hacker Young<br>Chartered Accountants & Registered Auditors<br>Quadrant House<br>4 Thomas More Square<br>London<br>E1W 1YW |

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## CHIEF EXECUTIVE OFFICER'S STATEMENT & STRATEGIC REPORT

## FOR THE YEAR ENDED 30 APRIL 2017

I am pleased to report that following the completion of a detailed Competent Persons Report (CPR) and independent analysis carried out by RPS Energy, we can confirm that the significant prospectivity potential within our licence acreage continues to give us every reason to continue with our exploration work and hope for a commercially successful outcome. The key highlights of the CPR report are noted below:

- The four natural gas / petroleum licenses in Botswana broadly correlate with strata in the Main Karoo Basin ("MKB") South Africa for which a shale gas risked recoverable resource of 370 Tscf has been identified in the lower Ecca Group (EIA 2013).

- On-block well data confirm the presence of organic-rich shales in the Lower Ecca which are gas-prone, correlate with well-established source rock data and improve in quality towards the southwest in the Gemsbok-basin where shales are predicted, which may be more analogous to major producing shale gas reservoirs in North America.

- Magnetic anomaly data interpreted in conjunction with existing well data indicate a potential basinal trough which could represent a relatively deep shale gas play area. Similarly, other Karoo shale gas play areas have been delineated based upon integrated interpretation. Karoo shale gas maturity is the key play risk.

- Early analysis of the potential thermal maturity of shale gases indicate oil maturity from mined High Volatility Bituminous coals and gas maturity from the Ecca Bori Formation. Further exploration and mapping is required to better understand these risks which will be confirmed by Karoo's proposed future work programmes over the forthcoming exploration periods and will significantly enhance our understanding in this area.

- Additional shale gas play potential has been identified directly underlying the Karoo Supergroup at depths of up to greater than 2km below surface and is demonstrably gas-mature but source rock presence remains a risk.

- A range of CBM Prospective Resources were estimated for licence PL160 with a best estimate of 244 Bscf. No CBM resource estimate was made for the second CBM licence PL159 at this time due to insufficient data.

Licence PL001-2012 expired in December 2015 and a licence renewal application has been submitted under conditions requiring the relinquishment of 50% of the original licence area. The proposed area to be relinquished was recently modified following the interpretation phase of the CPR study and an amendment submitted to the Botswana Department of Mines on the 28 June 2017.

We recently announced that we will be seeking a dual listing on the Botswana Stock Exchange ("BSE") by way of introduction from NEX Exchange. This will allow the company to establish itself among investors in Botswana including the pension funds and private investors who are looking for local opportunities.

We further announced that we will be making an application to have our shares admitted to AIM. The work required for this is well underway and we will be making further announcements in due course.

I am pleased to welcome Andrew Smith to the Board. Andrew brings with him a wealth of experience especially on the finance and accounting side of the oil and gas industry and has spent many years working on projects within Sub-Saharan Africa. This is part of the Company's strategy of strengthening the management team in preparation for the growth and expansion that is anticipated once full-scale exploration gets underway. To this end the company is also in discussions with potential technical partners who can bring extra skills and knowledge to the exploration process and help the company build its technical capabilities as it progresses.

## FINANCIALS

The financial results for the year-ended 30 April 2017 show a loss after taxation of £381,914 (2016: £357,691) and year-end cash of £nil (2016: £294,546). The Group raised £214,068 net of expenses during the year through the issue of 7.7 million shares for the advancement of its Botswanan licences and ongoing administrative expenses. It remains the focus of the Board to continue to progress the licence work programmes in Botswana in the most effective manner, utilising new technologies and the opportunities that the current low-cost exploration environment bring, whilst minimising the ongoing overhead and administrative cost burden to the extent that this does not impact adversely on operations.

## OUTLOOK

The challenges facing Karoo include the size and scope of the licence areas and the limited time available to complete the work programs coupled with the requirement to raise sufficient finance to undertake the work. Furthermore, we will be making announcements regarding the renewal process for shale gas licence PL001-2012 in due course. The licence expired in December 2015 and due to the length of time taken to renew the licence and the uncertainty over this, the Board decided to impair the associated exploration costs in full.

Ongoing funding of the work programmes continue to present a challenge that the Board are working on by both strengthening the management team and dual listing the Company on the Botswana Stock exchange alongside its application to trade its shares on AIM. Both of these moves will open up further sources of funding to the company and help the company complete its work programs on time and in full.

I am pleased with the development of the Group since my last report to shareholders and believe we are making steady progress with our exploration program on our portfolio of licenses in Botswana. We look forward to providing investors with detail on further progress over the coming weeks.

Noel Lyons

Chief Executive Officer,

29 September 2017

## DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 APRIL 2017

The directors present their report and the financial statements for the year ended 30 April 2017. The principal activity of the Group continues to be that of oil and gas exploration.

A review of the business is contained in the Strategic Report.

**Results**

The loss for the year, after taxation and non-controlling interests, amounted to £381,914 (2016 - loss £357,691). The directors do not recommend payment of a dividend (2016: £Nil).

**Directors**

The directors who served during the year were:

Noel Lyons

James Negaard

Alan Golding

Allen Zimbler

Andrew Smith (appointed 1 September 2017)

**Directors' interests**

At 30 April 2017, Noel Lyons had an interest in 8,194,212 ordinary shares of 0.25p each and 10,000,000 share options with an exercise price of 1p. There have been no changes in these interests up to 29 September 2017.

**Financial instruments**

The group's financial instruments comprise listed investments, bank balances, trade payables and other payables all arising in the normal course of business. The purpose of these financial instruments is to finance the group's operations.

The group manages liquidity risk and cash flow risk by monitoring its cash balances and ensuring that funds are available to meet liabilities as they fall due. The group's core funding comes from the proceeds of share issues.

The group's exposure to changes in interest rates relates primarily to cash at bank. Cash is held on either current or on short term deposits at floating rates of interest determined by the relevant bank's prevailing base rate. The group seeks to obtain a favourable interest rate on its cash balances through the use of bank treasury deposits.

The group holds investments quoted on public markets. In the opinion of the directors the main risk is due to market price fluctuations.

**Share capital**

The company has one class of ordinary shares in issue. Details of the shares in issue are set out in note 12 to the financial statements.

## DIRECTORS' REPORT (CONTINUED)

## FOR THE YEAR ENDED 30 APRIL 2017

### Major interests in ordinary shares

At 1 June 2017, the following shareholders each had an interest in more than 3% of the issued share capital of the company.

| **Name** | Number of shares | Shareholding % |
|---|---|---|
| M Taylor | 15,498,250 | 7.57 |
| Tamboran Resources Limited | 10,000,000 | 4.88 |
| C Windham | 8,178,009 | 3.99 |
| J Latka | 6,890,302 | 3.37 |
| N Lyons (director) | 8,194,212 | 4.00 |

### Subsequent events

The events since the balance sheet date are disclosed in note 24.

### Directors' responsibilities statement

The directors are responsible for preparing the strategic report, 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 group financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period and otherwise comply with the Companies Act 2006. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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 company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**DIRECTORS' REPORT (CONTINUED)**

**FOR THE YEAR ENDED 30 APRIL 2017**

**Auditors**

UHY Hacker Young will be proposed for reappointment in accordance with section 489 of the Companies Act 2006.

**Disclosure of information to auditors**

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company and the group's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company and the group's auditors are aware of that information.

This report was approved by the board on 29 September 2017 and signed on its behalf.

Andrew Smith

Director

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KAROO ENERGY PLC

We have audited the group financial statements of Karoo Energy PLC for the year ended 30 April 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Total Comprehensive Income, the Consolidated Balance sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Balance sheet, the Parent Company Statement of Changes In Equity and the related notes. The financial reporting framework that has been applied in the preparation of the consolidated financial statement is applicable law and International Financial Reporting Standards as adopted by the European Union (IFRSs). The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 auditors' 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.

**Respective responsibilities of directors and auditors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate

**Opinion on financial statements**

In our opinion:

- The financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 April 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statement have been properly prepared with Financial Reporting Standard 101 Reduced Disclosure Framework and as applied in accordance with the provisions of the Companies Act 2006; and
- the group financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Emphasis of matter – Going Concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in the principal accounting policies to the financial statements concerning the Group's ability to continue as a going concern. The Group incurred a loss of £381,914 during the year to 30 April 2017 and is still incurring losses. Along with similar sized exploration companies, the Company raises finance for its exploration and appraisal activities in discrete tranches.

## INDEPENDENT AUDITORS’ REPORT TO THE MEMBERS OF KAROO ENERGY PLC

As discussed in the going concern section of the principal accounting policies the Company will need to raise further funds in order to meet the financial obligations under the Group’s exploration licences and the general operating costs of the Group. Should these funds not materialise there is a risk that the licence obligations are not met and that the Group is unable to meet its liabilities as they fall due.

These conditions, along with other matters disclosed in the going concern section of the principal accounting policies indicate the existence of a material uncertainty which may cast doubt about the Group's and Company's ability to continue as a going concern.

The financial statements do not include the adjustments that would result (such as impairment of evaluation and exploration assets) if the Group and Company were unable to continue as a going concern or if licences obligations were unable to be met.

**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 Strategic Report and the Directors’ report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and 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.

Daniel Hutson (senior statutory auditor)

for and on behalf of
**UHY Hacker Young**

Chartered Accountants
Registered Auditors

Quadrant House
4 Thomas More Square
London
E1W 1YW
29 September 2017

**Consolidated Income Statement for the year ended 30 April**

| | Notes | 2017 £ | 2016 £ |
|---|---|---|---|
| **Revenue** | | - | - |
| Cost of sales | | - | - |
| **Gross profit** | | - | - |
| Administrative expenses | | (388,123) | (356,285) |
| **Operating loss** | 2 | (388,123) | (356,285) |
| Finance costs | 4 | (7,000) | (3,260) |
| **Loss before taxation** | | (395,123) | (359,545) |
| Taxation | 5 | - | - |
| **Loss for the year** | | (395,123) | (359,545) |
| **Loss after tax attributable to:** | | | |
| Equity owners of the parent company | | (381,914) | (357,691) |
| Non-controlling interest | | (13,209) | (1,854) |
| | | (395,123) | (359,545) |
| **Loss per share from operations** | | | |
| Basic and diluted loss per share (pence) | 6 | (0.2043) | (0.2341) |

**Consolidated Statement of Comprehensive Income for the year ended 30 April**

| | 2017 £ | 2016 £ |
|---|---|---|
| Loss for the financial year | (381,914) | (357,691) |
| **Total comprehensive income for the financial year attributable to the Company's equity shareholders** | (381,914) | (357,691) |

All amounts relate to continuing operations.

The notes on pages 15 to 38 form part of these financial statements.

**Consolidated Balance Sheet as at 30 April**

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | **£** | **£** |
| **Non-current assets** | | | |
| Intangible assets | 8 | 322,154 | 362,252 |
| | | 322,154 | 362,252 |
| **Current assets** | | | |
| Investments | 9 | - | - |
| Trade and other receivables | 10 | 95,260 | 19,011 |
| Cash and cash equivalents | 11 | - | 294,546 |
| | | 95,260 | 313,557 |
| **Total Assets** | | 417,414 | 675,809 |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 12 | 469,590 | 450,449 |
| Share premium | | 1,771,584 | 1,576,659 |
| Retained losses | | (2,078,648) | (1,696,734) |
| **Shareholders' funds** | | 162,528 | 330,374 |
| **Non-controlling Interests** | | (7,906) | 5,303 |
| | | 154,622 | 335,677 |
| **Current liabilities:** | | | |
| Trade and other payables | 14 | 262,792 | 340,132 |
| **Total equity and liabilities** | | 417,414 | 675,809 |

The financial statements were approved by the Board of Directors on 29 September 2017 and were signed on its behalf by:

Andrew Smith

Director

Registered number: 07603259

**Consolidated Statement of Changes in Equity**

| | Share capital £ | Share premium £ | Retained earnings £ | Non-controlling interests £ | Total £ |
|---|---|---|---|---|---|
| **For the year ended 30 April 2017** | | | | | |
| Balance at 1 May 2016 | 450,449 | 1,576,659 | (1,696,734) | 5,303 | 335,677 |
| Loss for the financial year | - | - | (381,914) | (13,209) | (395,123) |
| **Total comprehensive income** | - | - | (381,914) | (13,209) | (395,123) |
| Issue of ordinary share capital | 19,141 | 210,553 | - | - | 229,694 |
| Cost of share issue | - | (15,628) | - | - | (15,628) |
| **Balance at 30 April 2017** | 469,590 | 1,771,584 | (2,078,648) | (7,906) | 154,622 |
| **For the year ended 30 April 2016** | | | | | |
| Balance at 1 May 2015 | 362,264 | 431,572 | (638,635) | 6,922 | 162,123 |
| Loss for the financial year | - | - | (357,691) | (1,854) | (359,545) |
| **Total comprehensive income** | - | - | (357,691) | (1,854) | (359,545) |
| Issue of ordinary share capital | 88,185 | 1,145,087 | - | - | 1,233,272 |
| Acquisition of non-controlling interests | - | - | (700,408) | 235 | (700,173) |
| **Balance at 30 April 2016** | 450,449 | 1,576,659 | (1,696,734) | 5,303 | 335,677 |

**Consolidated Statement of Cash Flows for the year ended 30 April**

| | Notes | 2017 | 2016 |
|---|---|---|---|
| | | £ | £ |
| **Cash flow from operating activities** | | | |
| Loss for the financial year before tax | | (395,123) | (359,545) |
| Finance costs | | 7,000 | 3,260 |
| Revaluation loss on investments | | - | 226 |
| Impairment of intangible exploration assets | | 136,141 | - |
| | | (251,982) | (356,059) |
| **Changes in working capital** | | | |
| (Increase) / decrease in trade and other receivables | | (76,249) | 23,242 |
| (Decrease) / increase in trade and other payables | | (84,340) | 142,968 |
| **Cash outflow from operating activities** | | (412,571) | (189,849) |
| **Cash flow from investing activities** | | | |
| Cash spend on exploration activities | | (96,043) | (147,856) |
| **Net cash used in investing activities** | | (96,043) | (147,856) |
| **Cash flow from financing activities** | | | |
| Issue of ordinary share capital | | 229,694 | 533,099 |
| Costs of share issue | | (15,627) | - |
| Proceeds from related party loan | | - | 70,000 |
| **Net cash from financing activities** | | 214,069 | 603,099 |
| **Net (decrease)/ increase in cash and cash equivalents** | | (294,546) | 265,394 |
| Cash and cash equivalents at beginning of financial year | | 294,546 | 29,152 |
| **Cash and cash equivalents at end of financial year** | | - | 294,546 |

## Principal Accounting Policies

### Company information
Karoo Energy plc is a public limited company incorporated and domiciled in the United Kingdom.

### Basis of preparation
The consolidated financial statements of Karoo Energy plc and its subsidiaries (together, “the Group”) have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, IFRIC interpretations, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

IFRS is subject to amendment and interpretation by the IASB and the IFRS Interpretations Committee, and there is an on-going process of review and endorsement by the European Commission. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 30 April 2017.

The principal accounting policies set out below have been consistently applied to all periods presented.

### Going concern
During the year ended 30 April 2017 the Group made a loss of £381,914 (2016: a loss of £357,691). Whilst the Group had net assets of £154,622 (2016: net assets of £335,667) as at 30 April 2017 it had net current liabilities of £167,532 (2016: net current liabilities of £26,575) at that date. The operations of the Group are primarily financed from funds which the Parent Company raises from share placings.

The Group's capital management policy is to raise sufficient funding to finance the Group’s near-term exploration and development objectives.

The Company successfully raised £229,700 through share placings during the year and had raised a further £487,000 subsequent to the year end. The Group will need to raise additional cash funding to support both working capital requirements and its obligations under the exploration licences, as set out in note 22 regarding the Group financial commitments. Should such funding not be obtained, the Group would fail to meet the required annual spend on the exploration licences which in turn may lead to exploration assets being impaired and potentially even revoked by the Ministry of Mines in Botswana.

The Directors believe that the Group will be able to raise as required, sufficient cash to enable it to continue its operations, and continue to meet, as and when they fall due, its planned and committed exploration and development activities and liabilities for at least the next twelve months from the date of approval of these financial statements. For this reason, the Directors continue to adopt the going concern basis in preparing the accounts. However, there can be no guarantee that the required funds we be raised within the necessary timeframe.

Consequently, a material uncertainty exists that may cast doubt on the Group's ability to continue to operate as planned and to be able to meet its commitments and discharge its liabilities in the normal course of business for a period not less than twelve months from the date of this report. The financial statements do not include the adjustments that would result if the Group was unable to continue in operation.

**Basis of consolidation**
The consolidated financial statements incorporate the results of Karoo Energy plc (“the Company”) and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition and up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs of business combinations that have occurred after the date of transition are expensed as incurred.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Finance income and costs**
Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset or liability and allocates the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability.

**Exploration and Evaluation assets**
The Group accounts for oil and gas expenditure under the full cost method of accounting.

Costs (other than payments to acquire the legal right to explore) incurred prior to acquiring the rights to explore are charged directly to the income statement. All costs incurred after the rights to explore an area have been obtained, such as geological, geophysical, data costs and other direct costs of exploration and appraisal are accumulated and capitalised as intangible exploration and evaluation ("E&E") assets.

E&E costs are not amortised prior to the conclusion of appraisal activities. At the completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered, then following development sanction, the carrying value of the relevant E&E asset will be reclassified as a development and production asset within tangible fixed assets.

If after completion of appraisal activities in an area, it is not possible to determine technical feasibility or commercial viability, then the costs of such unsuccessful exploration and evaluation are written off to the income statement. The costs associated with any wells which are abandoned are fully amortised when the abandonment decision is taken.

Development and production assets, are accumulated generally on a field by-field basis and represent the costs of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves which have been transferred from intangible E&E assets.

The net book values of development and production assets are depreciated generally on a field-by-field basis using the unit of production method based on the commercial proven and probable reserves. Assets are not depreciated until production commences.

**Investments**
Investments held in listed equity instruments are classified as 'held for trading' and are initially recognised at fair value and are measured at subsequent reporting dates at fair value, the gains and losses arising from changes in fair value are included in profit or loss.

**Impairment of non-financial assets including goodwill**
For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. Each unit to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired.

At each balance sheet date the Directors review the carrying amounts of the Group's tangible and intangible assets, other than goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. If the recoverable amount of a cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

An impairment loss is recognised as an expense immediately.

An impairment loss recognised for goodwill is not reversed in subsequent periods.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior periods. A reversal of an impairment loss is recognised in the Income Statement immediately.

**Cash and cash equivalents**
Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

**Financial instruments**
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs. Financial assets and financial liabilities are measured subsequently as described below.

**Financial assets**
The Group classifies its financial assets as 'loans and receivables'. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the Balance Sheet.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulty, high probability of bankruptcy or a financial reorganisation and default are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at original effective interest rate. The loss is recognised in the Income Statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the Income Statement.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

**Financial liabilities**
The Group’s financial liabilities include trade and other payables and borrowings.

Trade payables and borrowings are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

**Current taxation**
Current taxation for each taxable entity in the Group is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods.

**Deferred taxation**
Deferred taxation is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are provided in full.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Income Statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**Leasing**
Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

**Foreign currency**
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the year end date. All differences are taken to the Income Statement.

Assets and liabilities of subsidiaries that have a functional currency different from the presentation currency (pound sterling), if any, are translated at the closing rate at the date of each balance sheet presented. Income and expenses are translated at average exchange rates. All resulting exchange differences are recognised in other comprehensive income (loss), if any.

**Share based payments**
Where share options have been granted to directors, IFRS 2 has been applied whereby the fair value of the options is measured at the grant date and spread over the period during which the employees become entitled to the options. An options valuation model is used to assess the fair value, taking into account the terms and conditions attached to the options. The fair value at grant date is determined

including the effect of market based vesting conditions, to the extent such vesting conditions have a material impact.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

The charge or credit for a period to the Income Statement represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Where an equity-settled award is forfeited, the cumulative charge expensed up to the date of forfeiture is credited to the Income Statement.

**Equity**
Equity comprises the following:

- "Share capital" represents amounts subscribed for shares at nominal value.
- "Share premium" represents amounts subscribed for share capital, net of issue costs, in excess of nominal value.
- "Retained earnings" represents the accumulated profits and losses attributable to equity shareholders.

**International Financial Reporting Standards in issue but not yet effective**

At the date of authorisation of these consolidated financial statements, the IASB and IFRS Interpretations Committee have issued standards, interpretations and amendments which are applicable to the Group.

Whilst these standards and interpretations are not effective for, and have not been applied in the preparation of, these consolidated financial statements, the following may have an impact going forward:

| New/Revised International Financial Reporting Standards | | Effective Date: Annual periods beginning on or after: | EU adopted |
|---|---|---|---|
| IFRS 9 | Financial Instruments: Classification and Measurement | 1 January 2018 | Yes |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018 | Yes |
| IFRS 16 | Leases | 1 January 2019 | No |

IFRS 9 "Financial instruments" addresses the classification and measurement of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. Management are currently assessing the standard's full impact but believes there may be some impact on the financial instruments held by the group.

IFRS 15 is intended to introduce a single framework for revenue recognition and clarify principles of revenue recognition. This standard modifies the determination of when to recognize revenue and how much revenue to recognize. The core principle is that an entity recognizes revenue to depict the transfer of promised goods and services to the customer of an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Due to the stage of the projects the group is engaged in Management do not believe this will have a material impact on the financial statements.

IFRS 16 introduces a single lease accounting model. This standard requires lessees to account for all leases under a single on-balance sheet model. Under the new standard, a lessee is required to recognize all lease assets and liabilities on the balance sheet; recognize amortisation of leased assets and interest on lease liabilities over the lease term; and separately present the principal amount of cash paid and interest in the cash flow statement. Due to the small value of leases entered into by the group, Management do not believe this will have a material impact on the financial statements.

**Critical accounting judgements and key sources of estimation uncertainty**

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards as adopted by the EU requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the significant judgements used in applying the accounting policies of the Group that have the most significant effect on the consolidated financial statements:

**Impairment of capitalised exploration and evaluation expenditure**

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether it successfully recovers the related exploration and evaluation asset through sale. Factors which could impact the future recoverability include the level of proved, probable and inferred resources, future technological changes which could impact the cost of drilling and extraction, future legal changes (including changes to environmental restoration obligations), changes to commodity prices and licence renewal dates and commitments.

To the extent that capitalised exploration and evaluation expenditure is determined to be irrecoverable in the future, this will reduce profits and net assets in the period in which this determination is made. In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

**Share-based payment transactions**

The Group measures the cost of equity-settled transactions with directors by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined either by using the Black Scholes model or by reference to the value of the fees or remuneration settled by way of granting of warrants.

## Notes to the Consolidated Financial Statements

### 1. Segmental reporting

***Operating segments***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources, assessing the performance of the operating segment and making strategic decision, has been identified as the Board of Directors. The Board of Directors consider that the Group has only one operating segment at corporate level, therefore no additional segmental information is presented.

### 2. Operating loss

| Operating loss is stated after charging/(crediting): | **2017**<br>**£** | **2016**<br>**£** |
|---|---|---|
| Fees payable to the Company's auditors for the audit of the annual financial statements | 10,500 | 8,400 |
| Fees payable to the Company's auditors and its associates for other services to the Group: | | |
| - Audit of the accounts of subsidiaries | 3,500 | 3,000 |
| - Tax compliance services | 3,360 | 2,800 |
| - Corporate finance | - | 30,000 |
| Operating lease rentals payable: | | |
| - Office and equipment | 23,303 | 31,394 |

### 3. Directors

The aggregate payroll costs of the Directors, were as follows:

| | **2017**<br>**£** | **2016**<br>**£** |
|---|---|---|
| Fees | 50,550 | 48,000 |
| | 50,550 | 48,000 |

| | **2017**<br>**£** | **2016**<br>**£** |
|---|---|---|
| **Remuneration of Directors** | | |
| Emoluments for qualifying services | 50,550 | 48,000 |
| | 50,550 | 48,000 |

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| **Highest paid Director** | | |
| Remuneration | 36,000 | 36,000 |
| Share based payments | - | - |
| | 36,000 | 36,000 |

Key management personnel are identified as the Executive Directors.

No share options have been exercised by any of the directors, nor any payments of pensions contributions made on behalf of directors in any of the periods presented.

## 4. Finance costs

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Interest on related party loan | 7,000 | 3,260 |

## 5. Taxation

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| **Loss before tax** | (395,122) | (359,545) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016:20%) | (79,025) | (71,909) |
| Tax effects of: | | |
| Deferred tax not provided | 79,025 | 71,909 |
| Changes in tax rates | - | - |
| **Corporation tax charge** | - | - |

## 6. Loss per share

Basic loss per share is calculated by dividing the earnings attributable to Ordinary Shareholders by the weighted average number of Ordinary Shares outstanding during the year.

The Group does not have any potentially dilutive shares in any of the periods presented due to the losses reported, therefore the basic and diluted earnings per share are the same.

**Basic loss per share**

| | **2017 pence** | **2016 pence** |
|---|---|---|
| Total basic loss per share | (0.2043) | (0.2341) |

The losses and weighted average number of Ordinary Shares used in the calculation of basic earnings per share are as follows:

| | **2017 £** | **2016 £** |
|---|---|---|
| Loss used in the calculation of total basic and diluted earnings per share | (381,914) | (357,691) |

| | **2017** | **2016** |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of Ordinary Shares for the purposes of basic earnings per share | 186,939,911 | 152,811,007 |

## 7. Subsidiaries

Details of the Group's subsidiaries are as follows:

| **Name of subsidiary** | **Principal activity** | **Class of shares** | **Place of incorporation and operation** | **% ownership held by the Group** | |
|---|---|---|---|---|---|
| | | | | **2017** | **2016** |
| Equatorial Oil and Gas PLC | Oil and gas exploration | Ordinary | England and Wales | 94 | 94 |
| Tamboran Botswana (Pty) Ltd* | Oil and gas exploration | Ordinary | Botswana | 94* | 94* |

*100% is held indirectly by Equatorial Oil and Gas PLC

## 8. Intangible assets

| | Exploration and Evaluation assets £ |
|---|---|
| **Cost** | |
| At 1 May 2015 | 214,396 |
| Additions | 147,856 |
| At 30 April 2016 | 362,252 |
| Additions | 96,043 |
| Impairment | (136,141) |
| At 30 April 2017 | 322,154 |
| **Net book value** | |
| At 30 April 2017 | 322,154 |
| At 30 April 2016 | 362,252 |
| At 30 April 2015 | 214,396 |

As at 30 April 2017 the Directors have reviewed the intangible exploration asset for indications of impairment in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources and consider it appropriate to impair the capitalised expenditure in relation to Licence 001/2012. The licence expired on 31 December 2015 and the renewal application was lodged with the Ministry of Mines in Botswana on 16 November 2015. The renewal process is still ongoing but due to the amount of time that has elapsed and the resulting uncertainty with regard to its renewal an impairment charge has been recognised of £136,141 to fully impair this licence area.

In respect of the remaining five licences the company has received confirmation from the Department of Mines in Botswana that all the reporting and the lease rentals are up to date. Whilst the work programmes and minimum expenditure commitments of the licences have not been met it is still the Directors intentions to undertake the programmes as set out in the licences. The Directors are therefore satisfied that this has been reported to the Department of Mines and therefore they are satisfied that the licences remain in good standing and do not consider the related assets to be impaired.

## 9. Investments

| | 2017 £ | 2016 £ |
|---|---|---|
| Cost brought forward | - | 226 |
| Revaluation | - | (226) |
| | - | - |

Investments represent held for trading listed equity investments.

## 10. Trade and other receivables

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| **Current assets:** | | |
| Amounts due from director | 80,821 | - |
| Other receivables | 10,850 | 13,427 |
| Prepayments and accrued income | 3,589 | 5,584 |
| | 95,260 | 19,011 |

The Directors consider the carrying value of trade and other receivables is approximate to its fair value.

Other receivables include a rental deposit of £10,250 that is due in more than one year.

All of the Group's trade and other receivables have been reviewed for indicators of impairment and none have been identified at any reporting date presented.

As at 30 April 2017 the Group had a director's loan balance of £80,821 due circumstances outlined in note 11.

## 11. Cash and cash equivalents

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Cash at bank (£) | - | 294,546 |

At April 2017 and 2016 all significant cash and cash equivalents were deposited with major clearing banks in the UK with at least an 'A' rating.

At 30 April 2017 both Karoo Energy plc and Equatorial Oil and Gas plc's bank accounts had been closed due to the bank reducing its exposure to companies considered to be operating in what they consider to be higher risk jurisdictions such as Botswana. The bank had previously attempted to contact the company to give notice of the closure, but this correspondence was not received therefore the funds were transferred to N Lyons, a director of the company until such as time as a new bank account could be opened. At the year end the balance amounted to £80,821. The above constitutes a breach of the Companies Act 2006, section 197 as the loan was not approved by the members.

## 12. Share capital

**Allotted, issued, and fully paid:**

| | 2017 No | 2017 £ | 2016 No | 2016 £ |
|---|---|---|---|---|
| **Ordinary shares of 0.0025 each** | | | | |
| Opening balance at 1 May | 180,179,829 | 450,449 | 144,905,504 | 362,264 |
| **Allotments:** | | | | |
| 10 July 2015 - shares issued at 3p each resulting premium of £27,500 | - | - | 1,000,000 | 2,500 |
| 30 July 2015 - shares issued at 3p each resulting premium of £27,500 | - | - | 1,000,000 | 2,500 |
| 30 September 2015 - shares issued at 3p each resulting premium of £31,350 | - | - | 1,140,000 | 2,850 |
| 7 October 2015 - shares issued at 3p each resulting premium of £7,700 | - | - | 280,000 | 700 |
| 1 December 2015 - shares issued at 3p each resulting premium of £9,625 | - | - | 350,000 | 875 |
| 15 December 2015 - shares issued at 3p each resulting premium of £55,000 | - | - | 2,000,000 | 5,000 |
| 18 January 2016 - shares issued at 4p each resulting premium of £375,000 | - | - | 10,000,000 | 25,000 |
| 23 February 2016 - shares issued at 4p each resulting premium of £281,412 | - | - | 7,504,325 | 18,760 |
| 29 February 2016 - shares issued at 3p each resulting premium of £27,500 | - | - | 1,000,000 | 2,500 |
| 14 March 2016 - shares issued at 3p each resulting premium of £27,500 | - | - | 1,000,000 | 2,500 |
| 28 April 2016 - shares issued at 3p each resulting premium of £275,000 | - | - | 10,000,000 | 25,000 |
| 31 May 2016 – shares issued at 2.5p each resulting premium of £182,143 | 7,142,857 | 17,856 | - | - |
| 10 November 2016 – shares issued at 2.5p each resulting premium of £10,411 | 378,622 | 947 | - | - |
| 20 February 2017 – shares issued at 2.5p each resulting premium of £3,713 | 135,000 | 338 | - | - |
| **At 30 April** | 187,836,308 | 469,590 | 180,179,829 | 450,449 |

As regards income and capital distributions, all categories of shares rank pari passu as if the same constituted one class of share.

## 13. Share based payments

The Group occasionally issues share options to Directors. The options are settled in equity once exercised. If the options remain unexercised after 31 December 2021, the options expire.

The Group had also issued share options in prior financial years which were exercisable immediately upon issue.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

| **2017** | **Number of options** | **WAEP £** |
|---|---|---|
| Outstanding at the beginning of the year | 11,250,000 | 0.0144 |
| Outstanding at the year end | 11,250,000 | 0.0144 |
| Number vested and exercisable at 30 April 2017 | 11,250,000 | 0.0144 |

| **2016** | **Number of Options** | **WAEP £** |
|---|---|---|
| Outstanding at the beginning of the year | 21,250,000 | 0.0118 |
| Lapsed | (10,000,000) | 0.0100 |
| Outstanding at the year end | 11,250,000 | 0.0144 |
| Number vested and exercisable at 30 April 2016 | 11,250,000 | 0.0144 |

The Group recognised total expenses of £nil (2016: £nil) related to share options accounted for as equity-settled share-based payment transactions during the year.

## 14. Trade and other payables

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Trade payables | 13,431 | 123,380 |
| Other payables | 10,547 | - |
| Accruals | 158,554 | 143,492 |
| Loan from related party | 80,260 | 73,260 |
| | 262,792 | 340,132 |

During the year ended 30 April 2016, the company received a loan from Noel Lyons of £70,000. Interest has been accrued at 10% per annum in both 2017 and 2016. The capital and interest remain outstanding.

## 15. Financial instruments

### Categories of financial instruments

The tables below set out the Group's accounting classification of each class of its financial assets and liabilities.

| **Financial assets** | **2017** | **2016** |
|---|---|---|
| | **£** | **£** |
| **Held for trading:** | | |
| Listed equity investments (note 9) | - | - |
| **Loans and receivables:** | | |
| Amounts due from director (note 10) | 80,821 | - |
| Other receivables (note 10) | 10,850 | 13,427 |
| Cash and cash equivalents (note 11) | - | 294,546 |
| | 91,671 | 307,973 |
| | 91,671 | 307,973 |

All of the above financial assets' carrying values are approximate to their fair values, as at 30 April 2017 and 2016.

| **Financial liabilities** | **Measured at amortised cost** | |
|---|---|---|
| | **2017** | **2016** |
| | **£** | **£** |
| Trade payables (note 14) | 13,431 | 123,380 |
| Other payables (note 14) | 10,547 | - |
| Loan from related party (note 17) | 80,260 | 73,260 |
| Accruals (note 14) | 158,554 | 143,492 |
| | 262,792 | 340,132 |

In the view of management, all of the above financial liabilities' carrying values approximate to their fair values as at 30 April 2017 and 2016.

**Fair value measurements**

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

***Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis:***

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

| **Financial assets / financial liabilities** | **Fair value as at** | | **Fair value hierarchy** | **Valuation technique(s) and key input(s)** | **Significant unobservable input(s)** | **Relationship of unobservable inputs to fair value** |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | | | | |
| | **£** | **£** | | | | |
| Listed equity investments | - | - | Level 1 | Observed market value | N/A | N/A |

***Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis***

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values (due to their nature and short times to maturity).

## 16. Financial instrument risk exposure and management

The Group's operations expose it to degrees of financial risk that include liquidity risk, credit risk, interest rate risk.

This note describes the Group's objectives, policies and process for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented in notes 9, 10, 11, 14, 15, and 17.

**Liquidity risk**

Liquidity risk is dealt with in note 17 of these consolidated financial statements.

**Credit risk**

The Group's credit risk is primarily attributable to its cash balances and trade receivables. The Group does not have a significant concentration of risk, with exposure spread over a number of third parties.

The credit risk on liquid funds is limited because the third parties are large international banks with a credit rating of at least A.

The Group's total credit risk amounts to the total of the sum of the receivables and cash and cash equivalents, as described in note 15.

**Interest rate risk**

The Group's only exposure to interest rate risk is the interest received on the cash held on deposit, which is immaterial. The Groups only borrowing relates to a loan from Noel Lyons of £70,000 lent in the year to 30 April 2016. The terms of which have been given in note 20.

**17. Liquidity risk**

Prudent liquidity risk management includes maintaining sufficient cash balances to ensure the Group can meet liabilities as they fall due.

In managing liquidity risk, the main objective of the Group is therefore to ensure that it has the ability to pay all of its liabilities as they fall due. The Group monitors the level of working capital it requires. The table below shows the undiscounted cash flows on the Group's financial liabilities as at 30 April 2017 and 2016, on the basis of their earliest possible contractual maturity.

| | Total | On Demand | Within 2 -6 months | 6 – 12 months |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **At 30 April 2017** | | | | |
| Trade payables | 13,431 | 13,431 | - | - |
| Other payables | 10,547 | - | 10,547 | - |
| Loan from related party | 80,260 | 80,260 | - | - |
| Accruals | 158,554 | - | 158,554 | - |
| | 262,792 | 93,691 | 169,101 | - |

| | Total | On Demand | Within 2 -6 months | 6 – 12 months |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **At 30 April 2016** | | | | |
| Trade payables | 123,380 | 123,380 | - | - |
| Loan from related party | 73,260 | 73,260 | - | - |
| Accruals | 143,492 | - | 143,492 | - |
| | 340,132 | 196,640 | 143,492 | - |

## 18. Capital management

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and
- To provide long-term returns to shareholders

The Group defines and monitors capital on the basis of the carrying amount of equity, less cash and cash equivalents as presented on the face of the Balance Sheet and further disclosed in note 11.

The Board of Directors monitors the level of capital as compared to the Group's commitments and adjusts the level of capital as is determined to be necessary by issuing new shares. The Group is not subject to any externally imposed capital requirements.

These policies have not changed in the year. The Directors believe that they have been able to meet their objectives in managing the capital of the Group.

## 19. Operating lease arrangements

The Group does not have an option to purchase any of the operating leased assets at the expiry of the lease periods.

| **Payments recognised as an expense** | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Minimum lease payments | 23,303 | 31,394 |

| **Non-cancellable operating lease commitments** | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Not later than 1 year | 1,708 | 20,500 |
| Later than 1 year and not later than 5 years | - | - |
| | 1,708 | 20,500 |

On 20 May 2017, the lease agreement was renewed. The annual rent from this date will be £26,400 per annum.

## 20. Related party transactions

Key management personnel are identified as the Executive Directors, and their remuneration is disclosed in note 3.

During the prior year, the company received a loan from Noel Lyons of £70,000. Interest has been accrued at 10% per annum in both 2017 and 2016. The capital and interest remain outstanding.

## 21. Acquisitions of non-controlling interests in subsidiaries

During the year ended 30 April 2016 the Group acquired the remaining 15% interest in Tamboran Botswana (Pty) Ltd, a company incorporated in Botswana, for £400,000 which consideration was settled by the issue of 10,000,000 shares at 4p per share.

Alongside this transaction, a deed of termination was signed which extinguishes the contingent liability to Tamboran Resources Limited in relation to the Group's acquisition of Tamboran Botswana (Pty) Limited.

During the prior year, the Group also acquired a further 6.25% interest in Equatorial Oil and Gas PLC from Conrad Windham for £300,173 which consideration was settled by the issue of 7,504,325 shares at 4p per share.

These transactions do not meet the criteria of business combinations under IFRS 3 Business Combinations, as they are transactions with non-controlling interests. Accordingly, they have been accounted for in accordance with IFRS 10 Consolidated Financial Statements whereby the difference between the consideration paid and the non-controlling interest acquired is recognised directly in equity. This has resulted in a charge of £700,408 to retained earnings.

## 22. Financial commitments

**License commitments**

As at date of this report, the Group has five active licences, being PL159-2015, PL160-2015 and PL171-2015 held by Equatorial Oil and Gas PLC and PL161-2015 and PL162-2015 held by Tamboran Botswana (Pty) Limited.

Under the terms of the licence, the Group is required to meet minimum levels of exploration activity each year.

The committed spend for the remaining periods of each licence have been set out below as at 30 April 2017:

| **Exploration license** | **Year ending 30 April 2018** | **Year ending 30 April 2019** | **Year ending 30 April 2020** |
|---|---|---|---|
| | £ | £ | £ |
| PL159/2015 | 89,651 | 126,120 | - |
| PL160/2015 | 89,651 | 126,120 | - |
| PL171/2015 | 372,281 | 730,886 | 347,969 |
| PL162/2015 | 372,281 | 730,886 | 347,969 |
| PL161/2015 | 372,281 | 730,886 | 347,969 |
| | 1,296,146 | 2,444,898 | 1,043,906 |

In July 2017 the work programme for year 3 in respect of licences PL171/2015, PL162/2015 and PL161/2015 was revised having recently obtained gravity survey data from the Botswana Geosciences Institute which has significantly reduced the required seismic survey and data processing. The overall impact reduces the overall commitment in the year ended 30 April 2019 to £1,909,270. This revision was submitted to the Department of Mines on 4 July 2017.

Licence 001/2012 expired on 31 December 2015 and the renewal application was lodged with the Ministry of Mines in Botswana on 16 November 2015 as set out in note 8 and whilst management hope the licence will be renewed there was no financial commitment as at 30 April 2017.

## 23. Ultimate controlling party

The directors do not consider there to be an ultimate controlling party.

## 24. Events after the balance sheet date

On 18 May 2017 the company raised £481,010 gross of expenses through the issue of 15,500,000 ordinary shares. Placees also received one warrant for every one placing share subscribed. The warrants have an exercise price of 6 pence each, and are exercisable at any time for 36 months 18 May 2017. Furthermore, on the same day the company raised £16,010 gross of expenses, through the issue of 533,667 new ordinary shares at a price of 3 pence per share.

On 6 July the company issued and allotted 1,000,000 ordinary shares in the Company at an implied price of 3 pence per share in lieu of fees for services rendered to the company by Align Research Ltd.

**Company Balance Sheet as at 30 April**

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | **£** | **£** |
| **Non-current assets** | | | |
| Investments | 2 | 312,674 | 712,674 |
| | | | |
| **Current assets** | | | |
| Trade and other receivables | 3 | 778,370 | 327,486 |
| Cash and cash equivalents | | - | 294,460 |
| | | 778,370 | 621,946 |
| | | | |
| **Total Assets** | | 1,091,044 | 1,334,620 |
| | | | |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 5 | 469,590 | 450,449 |
| Share premium | | 1,771,584 | 1,576,659 |
| Opening retained deficit | | (943,191) | (597,864) |
| (Loss) / profit for the year | | (376,725) | (345,327) |
| Total retained deficit | | (1,319,916) | (943,191) |
| | | | |
| **Shareholders' funds** | | 921,258 | 1,083,917 |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 4 | 169,786 | 250,703 |
| | | | |
| **Total equity and liabilities** | | 1,091,044 | 1,334,620 |

The financial statements were approved by the Board of Directors on 29 September 2017 and were signed on its behalf by:

Andrew Smith

Director

Registered number: 07603259

**Company Statement of Changes in Equity**

| | Share capital £ | Share premium £ | Retained earnings £ | Total £ |
|---|---|---|---|---|
| **For the year ended 30 April 2017** | | | | |
| Balance at 1 May 2016 | 450,449 | 1,576,659 | (943,191) | 1,083,917 |
| Loss for the financial year | - | - | (376,725) | (376,725) |
| **Total comprehensive income** | - | - | (376,725) | (376,725) |
| Issue of ordinary share capital | 19,141 | 194,925 | - | 214,066 |
| **Balance at 30 April 2017** | 469,590 | 1,771,584 | (1,319,916) | 921,258 |
| | | | | |
| **For the year ended 30 April 2016** | | | | |
| Balance at 1 May 2015 | 362,264 | 431,572 | (597,864) | 195,972 |
| Loss for the financial year | - | - | (345,327) | (345,327) |
| **Total comprehensive income** | - | - | (345,327) | (345,327) |
| Issue of ordinary share capital | 88,185 | 1,145,087 | - | 1,233,272 |
| **Balance at 30 April 2016** | 450,449 | 1,576,659 | (943,191) | 1,083,917 |

# Notes to the Parent Company Financial Statements

**for the year ended 30 April 2017**

## 1. Accounting Policies

### Basis of Preparation

The annual financial statements of Karoo Energy plc (the Parent Company financial statements) have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

*Disclosure exemptions adopted*

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with the Company's wholly owned subsidiaries.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the Company's Consolidated Financial Statements. These financial statements do not include certain disclosures in respect of:

- Financial instruments (other than certain disclosures required as a result of recording financial instruments at fair value)
- Fair value measurement other than certain disclosures required as a result of recording financial instruments at fair value)
- Related party transactions
- Share based payments

As permitted by section 408 of Companies Act 2006, a separate Income Statement for the Company has not been included in these financial statements.

**Investments**

Investments held in listed equity instruments are classified as 'held for trading' and are initially recognised at fair value and are measured at subsequent reporting dates at fair value, the gains and losses arising from changes in fair value are included in profit or loss.

**Impairment of non-financial assets**

At each balance sheet date the Directors review the carrying amounts of the Company's tangible and intangible assets, other than goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. If the recoverable amount of a cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

An impairment loss is recognised as an expense immediately.

An impairment loss recognised for goodwill is not reversed in subsequent periods.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior periods. A reversal of an impairment loss is recognised in the Income Statement immediately.

**Cash and cash equivalents**
Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

**Financial instruments**
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs. Financial assets and financial liabilities are measured subsequently as described below.

**Financial assets**
The Company classifies its financial assets as 'loans and receivables'. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the Balance Sheet.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulty, high probability of bankruptcy or a financial reorganisation and default are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at original effective interest rate. The loss is recognised in the Income Statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the Income Statement.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

**Financial liabilities**
The Company's financial liabilities include trade and other payables and borrowings.

Trade payables and borrowings are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

**Current taxation**
Current taxation for each taxable entity in the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods.

**Deferred taxation**
Deferred taxation is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are provided in full.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Income Statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**Leasing**
Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

**Foreign currency**
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the year end date. All differences are taken to the Income Statement.

**Share based payments**
Where share options have been granted to directors, IFRS 2 has been applied whereby the fair value of the options is measured at the grant date and spread over the period during which the employees become entitled to the options. An options valuation model is used to assess the fair value, taking into account the terms and conditions attached to the options. The fair value at grant date is determined including the effect of market based vesting conditions, to the extent such vesting conditions have a material impact.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The charge or credit for a period to the income statement represents the movement in cumulative expense recognised as at the beginning and end of that period.
No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Where an equity-settled award is forfeited, the cumulative charge expensed up to the date of forfeiture is credited to the income statement.

**Equity**
Equity comprises the following:

- "Share capital" represents amounts subscribed for shares at nominal value.
- "Share premium" represents amounts subscribed for share capital, net of issue costs, in excess of nominal value.
- "Retained earnings" represents the accumulated profits and losses attributable to equity shareholders.

## 2. Investments

| | Investments in Subsidiaries £ |
|---|---|
| **Cost** | |
| As at 1 May 2016 | 712,674 |
| Transferred to Equatorial Oil and Gas PLC | (400,000) |
| As at 30 April 2017 | 312,674 |

In the previously published Financial Statements for the year-ended 30 April 2016, £400,000 relating to the shares issued as consideration for the remaining 15% holding in Tamboran Botswana Limited was included within investment in subsidiaries.

Subsequent to the year-ended 30 April 2016, it was clarified that those shares were in fact held on behalf of the title holder, Equatorial Oil and Gas PLC, and the balance has been moved to the intercompany receivable in the Company during the year ended 30 April 2017.

The Company holds the issued share capital of the following subsidiary undertakings:

| Name of subsidiary | Principal activity | Class of shares | Place of incorporation and operation | % ownership held directly | |
|---|---|---|---|---|---|
| | | | | **2017** | **2016** |
| Equatorial Oil and Gas PLC | Oil and gas exploration | Ordinary | England and Wales | 94 | 94 |
| Tamboran Botswana (Pty) Ltd* | Oil and gas exploration | Ordinary | Botswana | - | - |

*100% of the interest in Tamboran Botswana (Pty) Ltd is held indirectly by Equatorial Oil and Gas PLC.

**3. Receivables**

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Other receivables | 10,250 | 10,250 |
| Amounts due from group undertakings | 683,710 | 311,652 |
| Amounts due from director | 80,821 | - |
| Prepayments | 3,589 | 5,584 |
| | 778,370 | 327,486 |

As at 30 April 2017, the Group conducted an impairment review in accordance with the provisions of IAS 36. This is inherently an extremely judgmental exercise because it requires the Directors to place a value on exploration projects that by definition are in almost all cases still at very early stages of the cycle. This makes prescribing accurate and meaningful discounted economic values to them extremely difficult. As reported in the Group financial statements note 8, an impairment has been recognised in relation to exploration assets held.

The Directors' in undertaking their review have decided that whilst the potential prospectivity of the acreage and interest shown by third parties is high, it would be unwarranted at this stage to carry such levels of capitalization, thus the currently recoverable intercompany balances have been provided for to reflect this revision to the extent they exceed the Group's intangible exploration assets.

The impairment of the receivable recognised during the year £136,141 (2016: £nil).

**4. Trade and other payables**

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Trade payables | 12,231 | 91,330 |
| Accruals | 66,748 | 86,114 |
| Other payables | 10,547 | - |
| Related party loan | 80,260 | 73,260 |
| | 169,786 | 250,704 |

## 5. Share Capital

| | 2017 No | 2017 £ | 2016 No | 2016 £ |
|---|---|---|---|---|
| **Ordinary shares of 0.0025 each** | | | | |
| Opening balance at 1 May | 180,179,829 | 450,449 | 144,905,504 | 362,264 |
| **Allotments:** | | | | |
| 10 July 2015 - shares issued at 3p each resulting premium of £27,500 | - | - | 1,000,000 | 2,500 |
| 30 July 2015 - shares issued at 3p each resulting premium of £27,500 | - | - | 1,000,000 | 2,500 |
| 30 September 2015 - shares issued at 3p each resulting premium of £31,350 | - | - | 1,140,000 | 2,850 |
| 7 October 2015 - shares issued at 3p each resulting premium of £7,700 | - | - | 280,000 | 700 |
| 1 December 2015 - shares issued at 3p each resulting premium of £9,625 | - | - | 350,000 | 875 |
| 15 December 2015 - shares issued at 3p each resulting premium of £55,000 | - | - | 2,000,000 | 5,000 |
| 18 January 2016 - shares issued at 4p each resulting premium of £375,000 | - | - | 10,000,000 | 25,000 |
| 23 February 2016 - shares issued at 4p each resulting premium of £281,412 | - | - | 7,504,325 | 18,760 |
| 29 February 2016 - shares issued at 3p each resulting premium of £27,500 | - | - | 1,000,000 | 2,500 |
| 14 March 2016 - shares issued at 3p each resulting premium of £27,500 | - | - | 1,000,000 | 2,500 |
| 28 April 2016 - shares issued at 3p each resulting premium of £275,000 | - | - | 10,000,000 | 25,000 |
| 31 May 2016 – shares issued at 2.5p each resulting premium of £182,143 | 7,142,857 | 17,856 | - | - |
| 10 November 2016 – shares issued at 2.5p each resulting premium of £10,411 | 378,622 | 947 | - | - |
| 20 February 2017 – shares issued at 2.5p each resulting premium of £3,713 | 135,000 | 338 | - | - |
| **At 30 April** | 187,836,308 | 469,590 | 180,179,829 | 450,449 |

As regards income and capital distributions, all categories of shares rank pari passu as if the same constituted one class of share.

## 6. Events After the Balance Sheet Date

See Note 24 of the Notes to the Consolidated Financial Statements.