

PETROSEYCHELLES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2016

PETROSEYCHELLES LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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The Directors have pleasure in submitting the audited financial statements of PetroSeychelles Limited - 'The Company' for the year ended December 31, 2016.

INCORPORATION

The Company was incorporated in Seychelles under the Companies Act 1972, in July 2012. The Company's principal place of business is in the Seychelles. The Company's registered place of business is New Port, Victoria, Mahe, Seychelles.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year has been to promote, conduct and supervise any activity undertaken for the purpose of exploring for petroleum in Seychelles' Exclusive Economic Zone (EEZ). The Company's activity has also been to generate, acquire, interpret and classify data or any other information necessary to sustain or further commercial interest in the exploration of petroleum in Seychelles' EEZ.

DEVELOPMENT IN THE OIL SECTOR

Hydrocarbons exploration in Seychelles started in the early 1970's following the discovery of thick sedimentary sequences offshore the granitic islands during the International Indian Ocean Expedition in the 1960's. Since then, several oil companies have conducted geophysical surveys and four wells have been drilled with the aim of finding commercial accumulations of hydrocarbons. Although no commercial discovery has been made to date, the results from three wells and data from the geophysical surveys are very encouraging.

During 2016, PetroSeychelles no longer had an agreement with WHL Energy Ltd and East African Exploration company. During the year 2015, the parent company of East African Exploration Company went into administration and WHL Energy and partner Ophir could not agree on a way forward in their work programme. Both companies left the Seychelles as a result of these incidents. A third company, Japanese Oil Gas and Minerals Exploration Company, (JOGMEC) has an exploration license with the Government and they completed a 2D seismic survey and a geochemical survey in May 2014. This, however, does not yield any revenue for PetroSeychelles, the only revenue is the exploration license application fee which is received by the Seychelles' Ministry of Finance, Trade and Economic Planning. Due to the fall in oil and gas prices, there has been no other clients actively engaged in exploration in the Seychelles area although some companies still show interest. Details can be found in the going concern Note 23.

RESULTS

| | <u>2016</u> | <u>2015</u> |
|---|-------------------------|-------------------------|
| | SCR | SCR |
| Loss for the year | (3,064,836) | (1,820,294) |
| Retained earning brought forward | 5,453,183 | 7,273,477 |
| Retained earning carried forward | <u>2,388,346</u> | <u>5,453,183</u> |

EQUIPMENT

Additions to property and equipment amounted to SCR 18,440 for the year ended December 31, 2016 (2015: SCR 420,359). Equipment is stated at cost less accumulated depreciation. The Management is of the opinion that there is no adjustment required for the impairment of equipments.

DIRECTORS AND THEIR INTERESTS IN THE COMPANY

The directors of the Company during the year ended December 31, 2016 and since incorporation were as follows:

| NAMES | NATIONALITY | CATEGORY | DATE OF APPOINTMENT |
|----------------------------------|-------------|------------------------|---------------------|
| Barry Jude Jean Faure (Chairman) | Seychellois | Non-Executive Director | 12 July 2012 |
| Eddy Roch Belle (CEO) | Seychellois | Executive Director | 12 July 2012 |
| Allain Patrick Payet | Seychellois | Non-Executive Director | 12 July 2012 |
| Eddy Dennis Matatiken | Seychellois | Non-Executive Director | 12 July 2012 |
| Raymond F. ChangTave | Seychellois | Non-Executive Director | 12 July 2012 |
| Rony James Govinden | Seychellois | Non-Executive Director | 12 July 2012 |
| Caroline Abel | Seychellois | Non-Executive Director | 12 July 2012 |

None of the directors has any direct or indirect interest in the shares of the Company. As at 31st December 2016, the CEO of PetroSeychelles Limited, Mr Eddy BELLE has retired from the Company. Mr Patrick Joseph is currently the acting CEO until he is confirmed in the post.

DIRECTORS' RESPONSIBILITIES

The directors of the Company are responsible for the preparation and fair presentation of these financial statements, comprising the Company's statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements which includes a summary of significant accounting policies and other explanatory notes and, in accordance with International Financial Reporting Standards (IFRS) the manner and the requirements of the Companies Act 1972.

This directors' responsibility include designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors are of the opinion that they have met their responsibilities as set out in the Companies Act 1972.

GOING CONCERN & FUTURE OUTLOOK

The Company's management has made an assessment of its ability to continue as a going concern and has disclosed material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern in Note 23. Following the assessment, the management is satisfied that it has the resources to continue in business for the foreseeable future. The management has also divulged that PetroSeychelles is currently in talks with interested parties and that it is confident that a new Petroleum Agreement will be signed shortly with a new company.

PetroSeychelles entered into an agreement with the Government of Seychelles through Seychelles Petroleum for future capital outlay which was expected to be received from the beginning of 2015. The outlay equates to SCR 50 million and payable annually in 10 instalments of SCR 5 million. SCR 5 million for 2016 was not received and the first instalment of the capital outlay has been delayed to 2017.

AUDITORS

The auditors, Ernst & Young (Seychelles) have indicated their willingness to continue in office and their re-appointment will be proposed in the next Annual General Meeting in accordance with and subject to the provision to section 155(2) of the Companies Act 1972.

BOARD APPROVAL

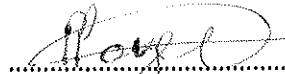
Approved by the Board of Directors in Victoria, Seychelles on
and signed on its behalf by:



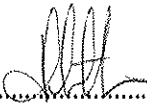
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Barry Jude Jean Faure



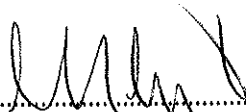
.....
Eddy Roch Belle
(Previous CEO)



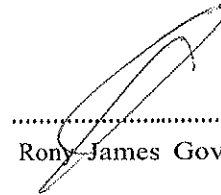
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Allain Patrick Payet



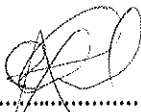
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Eddy Dennis Matatiken



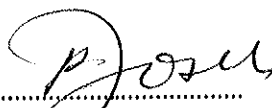
.....
Raymond F. ChangTave



.....
Rony James Govinden



.....
Caroline Abel



.....
Patrick Joseph
(Current CEO)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF PETROSEYCHELLES LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of PetroSeychelles Limited set out on pages 6 to 34, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Petro Seychelles Limited as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Seychelles Companies Act of 1972.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of PetroSeychelles. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of PetroSeychelles Limited. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 23 in the financial statements, which indicates that the Company incurred a net loss of SCR 3,064,836 during the year ended December 31, 2016 and, as of that date, the company no longer had customers from which it earns revenue. As stated in Note 23, these events or conditions, along with other matters as set forth in Note 23, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Seychelles Companies Act 1972. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or 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, 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.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF PETROSEYCHELLES LIMITED (CONTINUED)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Seychelles Companies Act of 1972, 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 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 company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting processes.

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 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.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF PETROSEYCHELLES LIMITED (CONTINUED)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Seychelles Companies Act 1972

We have no relationship with or interests in the Company other than in our capacity as auditors, and dealings in the ordinary course of business. We have obtained all the information and explanations required.

In our opinion, proper accounting records have been kept by the Company as far as it appears from our examination of those records.

Public Enterprise Monitoring Act, 2013

The financial statements have been prepared in the manner and meet the requirements specified by the Public Enterprise Monitoring Act, 2013.

ERNST & YOUNG
Mahe, Seychelles

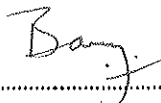
Date.....

PETROSEYCHELLES LIMITED
STATEMENTS OF FINANCIAL POSITION AS AT DECEMBER 31, 2016

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| | Notes | 2016 | 2015 |
|-------------------------------------|-------|-------------------------|--------------------------|
| | | SCR | SCR |
| ASSETS | | | |
| Non-Current Assets | | | |
| Property and equipment | 4 | 746,274 | 984,839 |
| Intangible Asset | 5 | 134,447 | 212,514 |
| Unpaid Share Capital | 10 | - | 1,000,000 |
| Other Non-current Financial Asset | 6 | 175,750 | 278,037 |
| | | <u>1,056,472</u> | <u>2,475,390</u> |
| Current Assets | | | |
| Trade and other receivables | 8 | 234,500 | 167,767 |
| Unpaid Share Capital | 10 | 1,000,000 | - |
| Cash and cash equivalents | 7 | 6,989,001 | 6,126,234 |
| Other Current Financial Assets | 9 | 53,747 | 5,463,833 |
| | | <u>8,277,248</u> | <u>11,757,834</u> |
| Total Assets | | <u><u>9,333,720</u></u> | <u><u>14,233,224</u></u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share Capital | 10 | 1,000,000 | 1,000,000 |
| Retained Earnings | | 2,388,346 | 5,453,183 |
| Total funds available | | <u>3,388,346</u> | <u>6,453,183</u> |
| Non-Current Liabilities | | | |
| Retirement Benefit Obligation | 13 | 409,278 | 296,964 |
| Deferred Income | 12 | 4,510,279 | 4,698,438 |
| | | <u>4,919,557</u> | <u>4,995,402</u> |
| Current Liabilities | | | |
| Trade and other payables | 11 | 181,886 | 232,409 |
| Deferred Income | 12 | 843,931 | 2,552,231 |
| Total Liabilities | | <u>5,945,374</u> | <u>7,780,042</u> |
| Total Equity and Liabilities | | <u><u>9,333,720</u></u> | <u><u>14,233,224</u></u> |

These financial statements have been approved for issue by the Board of Directors on:



 Barry Jude Jean Faure



 Eddy Roch Belle
(Previous CEO)



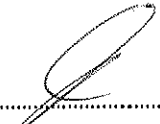
 Allain Patrick Payet



 Eddy Dennis Matatiken



 Raymond F. ChangTave



 Rony James Govinden



 Caroline Abel



 Patrick Joseph
(Current CEO)

The notes on pages 11 to 34 form an integral part of these financial statements.
 Auditors' report on pages 4 to 6.

PETROSEYCHELLES LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED DECEMBER 31, 2016

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| | Notes | 2016 | 2015 |
|--|-------|--------------------|--------------------|
| | | SCR | SCR |
| Revenue | 14 | 2,781,672 | 2,914,437 |
| Operating costs | 15 | (2,207,297) | (2,129,124) |
| Gross profit | | 574,376 | 785,313 |
| Administrative expenses | 15 | (2,906,966) | (3,261,893) |
| Allowance for credit impairment | 8 (b) | (1,087,238) | 217,121 |
| Operating profit | | (3,419,828) | (2,259,459) |
| Finance income | 8 (f) | 354,992 | 439,166 |
| Total comprehensive loss for the year | | (3,064,836) | (1,820,294) |

The notes on pages 11 to 34 form an integral part of these financial statements.
Auditors' report on pages 4 to 6.

| | | Issued capital | Retained | Total |
|-------------------------------|------|------------------|--------------------|--------------------|
| | Note | SCR | Earnings SCR | SCR |
| As at 1 January 2016 | 10 | 1,000,000 | 5,453,183 | 6,453,183 |
| Loss for the year | | - | (3,064,836) | (3,064,836) |
| As at 31 December 2016 | | 1,000,000 | 2,388,346 | 3,388,346 |
| | | | | |
| As at 1 January 2015 | 10 | 1,000,000 | 7,273,477 | 8,273,477 |
| Loss for the year | | - | (1,820,294) | (1,820,294) |
| As at 31 December 2015 | | 1,000,000 | 5,453,183 | 6,453,183 |

The notes on pages 11 to 34 form an integral part of these financial statements.
Auditors' report on pages 4 to 6.

| | Note | 2016 | 2015 |
|---|-------|--------------------|--------------------|
| | | SCR | SCR |
| Operating Activities | | | |
| Profit/(Loss) for the year | | (3,064,836) | (1,820,294) |
| Adjustments for: | | | |
| Foreign exchange movement on trade and other receivable | 15 | (201,361) | 250,711 |
| Amounts released for deferred income | 12 | (1,896,459) | (2,914,437) |
| Interest earned | | (354,992) | (439,166) |
| Depreciation | 4 | 257,005 | 235,580 |
| Amortisation | 5 | 78,067 | 76,103 |
| Change in provision for credit impairment | 8 (b) | 1,087,238 | (217,121) |
| Change in provision for retirement benefit obligation | 13 | 112,313 | 84,884 |
| Retirement benefits paid | 13 | - | (12,084) |
| Income received from contracts | 12 | - | 4,970,885 |
| | | (3,983,026) | 215,061 |
| <i>Change in working capital:</i> | | | |
| Change in trade and other receivables | 8 | (850,323) | 1,996,078 |
| Change in trade and other payables | 11 | (50,523) | 131,662 |
| Net cash generated from operating activities | | (4,883,871) | 2,342,801 |
| Investing Activities | | | |
| Purchase of equipment | 4 | (18,440) | (420,359) |
| Purchase of intangible assets | 5 | - | (254,055) |
| Purchase of Financial Assets | 9 | (4,883,244) | (5,050,218) |
| Proceeds from redemption of Treasury Bill | | 10,626,744 | |
| Interest received on staff loans | | 21,578 | 25,550 |
| Net cash generated from/(used in) investing activities | | 5,746,638 | (5,699,082) |
| Net (decrease)/increase in cash and cash equivalents | | 862,766 | (3,356,281) |
| Movement in cash and cash equivalents | | | |
| At January 1, | 7 | 6,126,234 | 9,482,515 |
| Net (decrease)/increase in cash and cash equivalents | | 862,766 | (3,356,281) |
| At December 31, | 7 | 6,989,001 | 6,126,234 |

The notes on pages 11 to 34 form an integral part of these financial statements.
Auditors' report on pages 4 to 6.

1 CORPORATE INFORMATION AND ACTIVITIES

The Company was incorporated in Seychelles under the Companies Act 1972, in July 2012. The Company's principal place of business is in the Seychelles. The Company's registered place of business is New Port, Victoria, Mahe, Seychelles.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.1 Basis of preparation**

The financial statements have been prepared under the historical cost basis.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and comply with the Companies Act 1972.

2.2 Changes in accounting policy and disclosures**New and amended standards and interpretations**

On 1 January 2016, the following new standards, new interpretations and amendments to standards were made and adopted by the Company where applicable.

| | Effective for accounting period beginning on or after |
|---|--|
| IAS 16 and IAS 41 <i>Agriculture: Bearer Plants</i> | 01 January 2016 |
| IFRS 10, IFRS 12 and IAS 28 <i>Investment Entities: Applying the Consolidation Exception</i> | 01 January 2016 |
| IFRS 11 <i>Joint Arrangements: Accounting for Acquisitions of Interests</i> | 01 January 2016 |
| IFRS 14 <i>Regulatory Deferral Accounts</i> | 01 January 2016 |
| IAS 1 <i>Disclosure Initiative</i> | 01 January 2016 |
| IAS 16 and IAS 38: <i>Clarification of Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016)</i> | 01 January 2016 |
| IAS 27: <i>Equity Method in Separate Financial Statements</i> Annual Improvements Cycle - 2012-2014 | 01 January 2016 |
| IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> | 01 January 2016 |
| IFRS 7 <i>Financial Instruments: Disclosure - Servicing Contracts</i> | 01 January 2016 |
| IFRS 7 <i>Financial Instruments: Disclosure - Applicability of the offsetting disclosures to condensed interim financial statements</i> | 01 January 2016 |
| IAS 19 <i>Employee Benefits - Discount rate: regional market issues</i> | 01 January 2016 |
| IAS 34 <i>Interim financial reporting - Disclosures of Information "elsewhere in the interim financial report"</i> | 01 January 2016 |

All the amendments and annual improvements did not have an impact on the company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Standards issued but not yet effective

| | Effective for accounting period beginning on or after |
|--|---|
| New or revised standards | |
| - IAS 7 <i>Disclosure Initiative - Amendments to IAS 7</i> | 01 January 2017 |
| - IFRS 15 <i>Revenue from contracts with Customers</i> | 01 January 2018 |
| - IFRS 16 <i>Leases</i> | 01 January 2019 |
| - Amendments to IFRS 10 and IAS 28: <i>Sale or contribution of Assets between an investor and its Associate or indefinitely Joint Venture</i> | Effective date deferred indefinitely |
| - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 | 01 January 2018 |
| - IAS 12 <i>Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12</i> | 01 January 2017 |
| - IFRS 2 <i>Classification and Measurement of Share-based Payments Transactions - Amendments to IFRS 2</i> | 01 January 2018 |
| | |
| - Transfers of Investment Property (Amendments to IAS 40) | 01 January 2018 |
| - IFRS 12 <i>Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12</i> | 01 January 2017 |
| - IFRIC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i> | 01 January 2018 |
| - IFRS 1 <i>First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters</i> | 01 January 2018 |
| - IAS 28 <i>Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment by investment choice</i> | 01 January 2018 |

The above new standards and amendments to existing standards issued but not yet effective will be adopted on effective date. They are not expected to have an impact on the entity except for IFRS 9 and 15 as listed below.

IFRS 9 Financial Instruments

The final version of the IFRS 9 issued by IASB reflects all phases of the Financial Instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classifications and measurement, impairment and hedge accounting.

Classification and measurement of financial assets

Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Standards issued but not yet effective (Cont'd)

Classification and measurement of financial Liabilities

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

All other IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment

The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 Revenue from Contracts with Customers and lease receivables under IAS 17 Leases or IFRS 16 Leases.

Adoption of the standard is expected to have a financial impact and impairment charges will tend to be more volatile. The impairments will also be recognised earlier and the provision for impairment is expected to be higher as the entity will be moving from incurring losses to expected credit losses.

IFRS 15 Revenue from Contracts with Customers

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition. The amendments:

- Clarify when a promised good or service is distinct within the context of the contract
- Clarify how to apply the principal versus agent application guidance, including the unit of account for the assessment, how to apply the control principle in service transactions and reframe the indicators
- Clarify when an entity's activities significantly affect the intellectual property (IP) to which the customer has rights, which is a factor in determining whether the entity recognises revenue for licences over time or at a point in time
- Clarify the scope of the exception for sales-based and usage-based royalties related to licences of IP (the royalty constraint) when there are other promised goods or services in the contract

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**2.3 Standards issued but not yet effective (Cont'd)***IFRS 15 Revenue from Contracts with Customers (cont'd)*

- Clarify to add two practical expedients to the transition requirements of IFRS 15 for: (a) completed contracts under the full retrospective transition approach; and (b) contract modifications at transition.

Management is still assessing the impact of the new standard.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of these financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

(i) Recoverable amount on trade and other receivables

In preparing the financial statements, the directors have made estimates of the recoverable amounts of trade and other receivables and impaired those receivables where the carrying amounts exceeded recoverable amounts. The estimation of recoverable amounts involve an assessment of the financial condition of the counterparties concerned and estimate of the timing and the extent of cash flows likely to be received by the Company.

(ii) Retirement Benefit Obligations

With reference to Note 2.5 (e) below, the management makes assumptions on the probability that the employees of the Company will work for at least five years with the Company in order to determine an estimation of the provision.

(iii) Training fee deferred income and related income statement movement

With reference to Note 2.5 (h) (ii) below, the management makes estimates relating to the expense associated with training income in order to amortise the income over the financial years. Estimate is also used to determine the discount factor used to calculate the fair value of the deferred income.

2.5 Significant accounting policies**(a) Property & equipment**

Equipment is initially recognised at cost and subsequently stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any attributable costs of bringing the asset to working condition for its intended use. Subsequent expenditure for additions, improvements and renewals are capitalised only when they increase the current economic benefits and meet the recognition criteria. Subsequent expenditure that do not meet the recognition criteria are expensed.

2.4 Significant accounting judgements, estimates and assumptions (Cont'd)**2.5 Significant accounting policies (cont'd)****(a) Property & equipment (cont'd)**

Depreciation is calculated using the straight line method and charged to profit and loss to write down the cost of the property and equipment to their residual values over their estimated useful lives. Depreciation commences from the date when the item of property and equipment is available for use as intended by management. Depreciation ceases when the asset is derecognised or classified as held for sale. The estimated useful lives and residual values are as follows:

| | <i>Years</i> | <i>Residual Value (% of Cost)</i> |
|------------------------|--------------|-----------------------------------|
| Motor vehicles | 5 | 40% |
| Furniture and fittings | 1 - 10 | 1% |
| Office equipment | 5 | 5% |

These residual values and expected useful lives are re-assessed at each financial year and adjusted prospectively if applicable, at the end of each reporting period. Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is deemed as impaired and it is written down immediately to its recoverable amount.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' or 'Other operating expenses' in the Statement of Comprehensive Income in the year the asset is derecognised.

(b) Operating lease

The Company occupies a floor within the building of a related party for their operation. The floor is leased out to the Company at nil cost with a defined period terminating when the Company has established itself in its own building. This is characterised as an operating lease with no future cash outflow, hence no asset or cost recognised in the financial statements.

(c) Intangible assets*Computer Software*

Intangible assets include computer software. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets with finite lives are carried at cost less any accumulated amortisation (calculated on a straight-line basis over their useful lives) and accumulated impairment losses, if any.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss and other comprehensive income when the asset is derecognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**2.5 Significant accounting policies****(c) Intangible assets***Development Costs*

Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate the following:

- The technical feasibility to complete the intangible asset so that it will be available for use;
- Its intention to complete and its ability and intention to use the asset ;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and,
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in administrative expense. During the period of development, the asset is tested for impairment annually.

Development relates to a system for processing of application of exploration companies' agreements and licenses. It is called Exploration and Processing Information Central (EPIC). The software is still in development and amortisation of the asset will commence when development is complete and available for use. The Company capitalises development costs for a project in accordance with the accounting policy. Management applies judgement when assessing the technological and economic feasibility of when a product development project has reached a defined milestone in order to capitalise it. Management has therefore determined that the project has not yet met all the criterion in order to capitalise it.

Data rights

Data acquisition in the Seychelles for petroleum exploration purposes can occur under either an Exploration License or a Petroleum Agreement as specified in the Petroleum Mining Act. In both cases ownership of all data acquired is vested in the Government and a copy of the raw and processed data has to be made available to Government. The Company has been mandated to perform Governments roles with regards to petroleum data and is thus the receiver, manager and repository for such data.

Under a multi-client business model, seismic contractors acquire seismic data for sale to multiple oil and gas companies. In the Seychelles this type of activity can be performed under an Exploration License. In such cases, an agreement between the seismic contractor, the Company and Government gives the seismic contractor certain exclusive rights to market and sell the data for a specified length of time and through revenue sharing terms and conditions, the Company can benefit from the data sales. At the end of the exclusivity period, all rights to the data are returned to Government and the Company can market and sell the data to third parties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Significant accounting policies (Cont'd)

Data rights (cont'd)

Data acquired under a Petroleum Agreement as part of a work program remains proprietary and confidential for a length of time specified in the Petroleum Agreement. Following the end of the confidentiality period, the Company can market and sell the data to interested third parties.

PetroSeychelles has available for sale data in storage and has potential to sell packages of data on external hard drives to any interested parties. The data rights have indefinite useful lives and are measured on initial recognition at cost. The Company does not incur any costs in acquiring the data, they only incur the cost of the external hard drives to bring the data packages to condition at point of available for sale. Following initial recognition, assets with indefinite useful lives are not amortised, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The Company utilises the discounted future cash flow model to determine any impairment. Future cash flow is estimated using past trends, expected number of interested parties, selling price and appropriate discount factor. Based on the uncertainty around reliably estimating the future cash inflow, the Company has not recognised any data rights as at 31 December 2016.

Licenses

The Company made upfront payments to licences for the use of softwares granted for a period of one year. The Company expenses the license as they are incurred.

A summary of the policies applied to the Group's intangible assets is, as follows:

| | Useful lives (years) | Amortisation method | Internally generated or acquired |
|-------------------|-------------------------|------------------------|--|
| Computer Software | 3 | Over useful lives | Acquired |
| Development Costs | 3 | Over useful lives | Internally generated |
| Data rights | Indefinite | None, Impairment | Acquired |
| Licenses | 1 | Over useful lives | Acquired |

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**2.5 Significant accounting policies (Cont'd)****(c) Intangible assets (Cont'd)***Data rights Cont'd*

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(d) Foreign currency translation

Items included in the financial statements of the Company are measured in Seychelles rupees, the currency of the primary economic environment in which the entities operate ("functional currency").

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date when recognised. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

(e) Retirement Benefit Obligations

The Company commenced operations in July 2012. As per the Employment Act of Seychelles, retirement benefit obligation is only paid to employees retiring after five years of continued service.

This type of employee benefit has characteristics of a jubilee benefit. The entitlement to jubilee benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. In Seychelles, this is conditional on the employee remaining in employment for at least five years.

The obligation is calculated and initially recognised by using a projected unit credit method, adjusted for a probability that the employee will remain in service up to five years. The management computed the obligation and did not utilise any external, independent actuaries. Management incorporated an assumption of whether its employees will remain in service for at least five years, this changes annually depending on staff turnover during the financial year and therefore provision changes depending on assumptions.

The obligation is calculated annually, and all gains and losses which are recognised in Statement of Comprehensive Income when incurred. Obligations are derecognised upon settlement or curtailment of the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**2.5 Significant accounting policies (Cont'd)****(f) Financial instruments - initial recognition and subsequent measurement***(i) Loans and other receivables*

Loans and receivables and cash and cash equivalents are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Loans and receivables also include treasury bill and fixed term deposit that represent non-derivative financial assets with determinable payments that are not quoted in an active market. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in profit or loss. 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. The amount of the provision is recognised in the profit or loss.

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(ii) Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows, comprise of cash on hand and in bank, denominated in Seychelles Rupees only.

(iii) Other payables

Other payables are initially stated at fair value and subsequently measured at amortised cost using the effective interest rate method.

(g) Derecognition of financial instruments*(i) Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**2.5 Significant accounting policies (Cont'd)****(g) Derecognition of financial instruments (cont'd)***(i) Financial assets (cont'd)*

-The Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

(ii) Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(h) Impairment of non-financial assets (tangible and intangible assets)

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets 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 it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

(i) Taxes*Current income tax*

The Company is exempt from the provisions of the Business Tax Act, 2009 under Schedule II(20).

Deferred income tax

Exemption from Business Tax Act implies that deferred income tax is not applicable to the Company.

(j) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognised. Revenue from the different sources are recognised when the significant risks and rewards have passed to the applicant, usually on signing of the agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**2.5 Significant accounting policies (Cont'd)****(j) Revenue recognition (Cont'd)***(i) Application fee income*

Application fee relates to a non-refundable income paid at inception of application for exploration. The income is recognised in the year in which the application is made with the Company whether or not application for agreement is successful. The agreements are tripartite, between the Government of Seychelles, the Company and the exploration company.

(ii) Income from petroleum agreements

This is an exclusive agreement which grants exploration and exploitation rights to companies for 34 years, [first 9 years being the exploration phase]. The exploration phase consists of three periods of three years each and the exploration companies can opt to progress to other periods or drop out at the end of each period. Income derived from the exploration phase of the petroleum agreements to date by the Company are as follows:

*(ii) Income from petroleum agreements (Cont'd)**-Concessionary fees of sea acreage*

The fee to be paid by the exploration company in respect of each contract year is specified in the agreement is a factor of the square kilometres leased out. Revenue in each contract year are time-apportioned for the amount which relates to the financial year.

-Training fee income

This is an amount paid annually at the commencement of each contract year along with settlement of the rental of acreage. It is fixed at different amounts for each of the stages of exploration, it is however subject to change in the event of commercial discovery. As per the agreements training income is used for the following purpose:

*sending Seychelles' nationals on petroleum and energy-related courses at universities, colleges and other training institutions;

*expenses in attending petroleum and energy-related conferences and workshops; and/or

*purchases for the Company and Government technical books, professional publications, scientific instruments or other equipment required by the Company and the Government.

The company recognises training income in line with the terms and conditions of the agreement giving rise to the income. This occurs as and when the Company incurs any of the training costs specified above, regardless of when the payment is being made. Revenue in respect to a financial year is therefore recognised as a deferred income and released to the Statement of Comprehensive Income to the extent that the Company has incurred training expenses during the same financial year.

(iii) Profit commission on sale of data by exploration companies

Once Multi-client data have been acquired, the service company is given a fixed period within which it can commercially sell the data which it has gathered during the survey. The service company must remit specific commission on future sales of these data. The factors considered to arrive at the profit commission are detailed per individual contracts. Once the fixed period is over the service company can no longer market the data and it is considered to be the property of the Government of Seychelles, but managed by PetroSeychelles.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Significant accounting policies (Cont'd)

(j) Revenue recognition (Cont'd)

(iv) Sale of data packages

As specified in Note 2.5 (c) Intangibles - Data Rights, PetroSeychelles has available for sale data in storage and has potential to sell packages of data on external hard drives to any interested parties. Revenue with respect to data sales are recognised on accruals basis.

(v) Other revenues

Other revenues are recognised on the accrual basis in accordance with the substance of the relevant agreements.

(k) Related party and intercompany transaction

Transactions between the Company and the government are made at nominal market price. The balances represents income and expenses incurred in transactions to and from the related parties, including outstanding monies for unpaid share capital. The outstanding balance at year-end is unsecured, interest free and settlement normally occurs in cash. There has been no guarantees provided for any related party payable.

3 MANAGEMENT OF FINANCIAL RISKS

The Company's activities expose it to a variety of financial risks. A description of the significant risk factors is given below together with the risk management policies applicable.

3.1 Financial Risks

The Company is exposed to financial risks through its financial assets and financial liabilities. The main risks to which the Company is exposed include:

- Market risk (which include foreign exchange risk);
- Credit risk; and
- Liquidity risk.

3.1.1 Market risk

This is the risk of adverse financial impact due to changes in fair value or future cash flows of financial instruments from fluctuations in foreign currency exchange and interest rates.

(i) Foreign exchange risk

Currency risks that the fair value or future cashflows will fluctuate because of changes in foreign exchange rates. Daily exposure to foreign currency risk is not hedged but closely monitored by management.

As of 31 December, the Company had the following significant net foreign currency exposures in the form of trade receivable balances.

| | 2016 - Foreign currency USD | 2016 - SCR equivalent SCR | 2015 - Foreign USD | 2015 - SCR equivalent SCR |
|-----------------------|--|--|-----------------------------------|--------------------------------------|
| United States Dollars | 312,378 | 4,201,198 | 244,077 | 3,096,509 |

3 MANAGEMENT OF FINANCIAL RISKS (CONT'D)

3.1.1 Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

The impact on the Company's profits and equity of a reasonable change in exchange rates is demonstrated in the table below:

| | | 2016 | 2016 | 2015 | 2015 |
|----------|-----|------------------|------------------|------------------|------------------|
| | | Impact on profit | Impact on equity | Impact on profit | Impact on equity |
| Currency | | SCR | SCR | SCR | SCR |
| USD | 5% | 210,060 | 210,060 | 154,825 | 154,825 |
| USD | -5% | (210,060) | (210,060) | (154,825) | (154,825) |

3.1.2 Credit risk

Credit risk is the risk that a counter party will be unable to pay amounts owing in full when due. The Company's credit risk is primarily attributable to its trade and other receivables and cash and cash equivalents. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by management based on prior experience and the current economic environment. The Company assesses the creditworthiness of parties to exploration agreements based on details of recent payment history, past experience and by taking into account their financial position.

The Company is also exposed to the possibility of default by its employees on car and general purpose loan provided. In order to mitigate this risk, management binds its employees to loans with a term equal to the minimum employment period with the Company in order to ensure that they meet the loan repayments. Additionally, there is an obligation to refund the balances due if the clause of minimum employment is breached. To further mitigate the default risk, management also issue only two car loans at one time over a period of three years to minimise their credit risks.

The following table shows the maximum exposure to credit risk for the components of the financial position:

| | 2016 | 2015 |
|--------------------------------|------------------|-------------------|
| | SCR | SCR |
| Non-current financial assets | 175,750 | 278,037 |
| Trade and other receivable | 234,500 | 167,767 |
| Cash and cash equivalents | 6,989,001 | 6,126,234 |
| Other current financial assets | 53,747 | 5,463,833 |
| | 7,452,998 | 12,035,871 |

There is a concentration of risk with respect to the trade receivable and cash balance. The former is not widely spread over a number of customers and the latter is held with a single financial institution, the Mauritius Commercial Bank in Seychelles.

The company manages this risk by imposing a tight credit period and charging interest on default payments. The company also invested its fund into fixed deposit in order to generate additional revenue than maintain in the single financial institution.

3 MANAGEMENT OF FINANCIAL RISKS (CONT'D)

3.1.2 Credit risk (Cont'd)

Age analysis of financial assets past due but not impaired:

| | Neither past | | Past due but not impaired | | |
|-------------|--------------|-----------------|---------------------------|---------------|------------|
| | Total | due or impaired | < 90 days | 90 - 365 days | > 365 days |
| | SCR | SCR | SCR | SCR | SCR |
| 2016 | 8,452,998 | 8,452,998 | - | - | - |
| 2015 | 12,035,871 | 12,033,758 | - | 1,923 | 190 |

At 31 December 2016 there are impaired trade receivables of SR 4,181,634 (2015: SR 3,094,396).

3.1.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. Liquidity risk is considered to be low since the Company maintains an adequate level of cash resources or assets that are readily available on demand.

The table below summarises the maturity profile of the Company's financial assets and liabilities at December 31, 2016 based on an undiscounted payment method:

| Financial asset | < 3 months | 3 - 12 months | 1 - 5 years | Total |
|--------------------------------|------------------|----------------|----------------|------------------|
| | SCR | SCR | SCR | SCR |
| Non-current financial assets | - | - | 175,750 | 175,750 |
| Cash and bank | 6,989,001 | - | - | 6,989,001 |
| Trade and other receivables | 1,062,740 | 171,760 | - | 1,234,500 |
| Other current financial assets | 53,747 | - | - | 53,747 |
| | 8,105,489 | 171,760 | 175,750 | 8,452,999 |
| Financial liabilities | | | | |
| Trade and other payables | 140,351 | 41,535 | - | 181,886 |
| Retirement Benefit Obligation | - | - | 409,278 | 409,278 |
| | 140,351 | 41,535 | 409,278 | 591,164 |

The table below summarises the maturity profile of the Company's financial assets and liabilities at December 31, 2015 based on a undiscounted payment method:

| | < 3 months | 3 - 12 months | 1 - 5 years | Total |
|--------------------------------|------------------|------------------|----------------|-------------------|
| | SCR | SCR | SCR | SCR |
| Non-current financial assets | - | - | 278,037 | 278,037 |
| Cash and bank | 6,126,234 | - | - | 6,126,234 |
| Trade and other receivables | 40,129 | 127,638 | - | 167,767 |
| Other current financial assets | 51,731 | 5,412,102 | - | 5,463,833 |
| | 6,218,094 | 5,539,740 | 278,037 | 12,035,871 |
| Financial liabilities | | | | |
| Trade and other payables | 149,667 | 10,263 | - | 159,930 |
| Retirement Benefit Obligation | - | - | 296,964 | 296,964 |
| | 149,667 | 10,263 | 296,964 | 456,894 |

3 MANAGEMENT OF FINANCIAL RISKS (CONT'D)**3.2 Fair Value**

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Cash and short-term deposits, trade receivables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long-term fixed-rate staff loans are evaluated by the Company based on interest rates and individual creditworthiness of the employees. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2016, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

| <i>Fair Value Hierarchy</i> | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|----------------|----------------|----------------|--------------|
| | SCR | SCR | SCR | SCR |
| 2016 | | | | |
| Staff loan receivable (Note 8f) | - | 275,221 | - | 275,221 |
| 2015 | | | | |
| Staff loan receivable (Note 8f) | - | 300,779 | - | 300,779 |
| Unpaid share capital (Note 10) | | | 883,096 | 883,096 |

Fair value of loans receivable are significantly derived from observable inputs. The fair value of loans receivable is computed using a discounted future expected cash flow model, using market effective interest rate as the discount factor.

Fair value of unpaid share capital is evaluated based on discounted cash flow model, using market effective interest rate as the discount factor. It also uses individual shareholder's credit risk which is an unobservable input. As at 31 December 2016, unpaid share capital was considered to be of short term nature as it is due in 2017.

3.3 Capital Management

Capital includes equity and retained earnings.

The company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, by ensuring that the policies and processes in place are revised/updated, in terms of pricing of the agreements, at least every 5 years to reflect and meet its obligations.

No changes were made in the objectives, policies, or process during the years end 31 December 2016 and 31 December 2015.

4 PROPERTY AND EQUIPMENT

| | Motor vehicles | Furniture & Fixtures | Office Equipment | Total |
|------------------------------------|-------------------|-------------------------|---------------------|------------------|
| | SCR | SCR | SCR | SCR |
| Cost: | | | | |
| At 1 January 2015 | 428,519 | 9,800 | 646,359 | 1,084,678 |
| Additions | - | 8,267 | 412,092 | 420,359 |
| At 31 December 2015 | 428,519 | 18,067 | 1,058,451 | 1,505,037 |
| Additions | - | - | 18,440 | 18,440 |
| At 31 December 2016 | 428,519 | 18,067 | 1,076,891 | 1,523,477 |
| Depreciation: | | | | |
| At January 1, 2015 | (111,415) | (1,374) | (171,828) | (284,617) |
| Depreciation charge for the period | (51,422) | (2,081) | (182,077) | (235,580) |
| At December 31, 2015 | (162,837) | (3,455) | (353,905) | (520,197) |
| Depreciation charge for the year | (51,422) | (3,022) | (202,561) | (257,005) |
| At December 31, 2016 | (214,260) | (6,477) | (556,466) | (777,202) |
| Net Carrying Amount: | | | | |
| At 31 December 2015 | 265,682 | 14,612 | 704,546 | 984,839 |
| At 31 December 2016 | 214,260 | 11,590 | 520,425 | 746,274 |

Cash outflow for the purchase of office equipment was SCR18,440 (2015: SCR420,359).

There is no pledge held against any assets of the Company as at December 31, 2016 (2015: nil).

The Company occupies a floor within the SEYPEC building for their operations. The floor is leased out to the Company by Seypec at nil cost with a defined period terminating when the Company has established itself in its own building. This is characterised as an operating lease with no future cash outflow, hence no asset or cost recognised in the financial statements.

5 INTANGIBLE ASSET

| | Licenses | Computer Software | Total |
|------------------------------------|---------------|----------------------|----------------|
| Cost: | SCR | SCR | SCR |
| At 1 January 2015 | - | 80,425 | 80,425 |
| Additions | 74,513 | 179,542 | 254,055 |
| At 31 December 2015 | 74,513 | 259,967 | 334,480 |
| Additions | - | - | - |
| At 31 December 2016 | 74,513 | 259,967 | 334,480 |
| Amortisation: | | | |
| At January 1, 2015 | - | (45,863) | (45,863) |
| Amortisation charge for the period | - | (76,103) | (76,103) |
| At December 31, 2015 | - | (121,966) | (121,966) |
| Amortisation charge for the period | 24,873 | (102,940) | (78,067) |
| At December 31, 2016 | 24,873 | (224,906) | (200,033) |
| Net Carrying Amount: | | | |
| At 31 December 2015 | 74,513 | 138,001 | 212,514 |
| At 31 December 2016 | 99,386 | 35,061 | 134,447 |

Cash outflow for the purchase of intangible assets was Nil (2015: SCR254,055).

6 NON CURRENT FINANCIAL ASSETS

| | 2016 | 2015 |
|--|---------|---------|
| | SCR | SCR |
| Non-current portion of staff loans (Note 8f) | 175,750 | 278,037 |

7 CASH AND CASH EQUIVALENTS

| | 2016 | 2015 |
|--------------|------------------|------------------|
| | SCR | SCR |
| Cash in hand | 299 | 1,000 |
| Cash at bank | 6,988,703 | 6,125,234 |
| | 6,989,001 | 6,126,234 |

The carrying amount of the bank balance approximates its fair value, given its short term nature. It represents bank balance with Mauritius Commercial Bank (MCB) Seychelles, and does not earn any interest.

8 TRADE AND OTHER RECEIVABLES

| | <u>2016</u> | <u>2015</u> |
|---|--------------------|--------------------|
| | SCR | SCR |
| Trade receivables | 4,245,695 | 3,096,509 |
| Less: Allowances for credit impairment (see note (b) below) | <u>(4,181,633)</u> | <u>(3,094,396)</u> |
| | 64,061 | 2,113 |
| Unpaid Share capital (Note 10) | 1,000,000 | - |
| Current portion of staff loans (Note 8f) | 157,717 | 135,278 |
| Other receivables | 1,535 | 30,376 |
| Prepayment | 11,187 | - |
| | <u>1,234,500</u> | <u>167,767</u> |

(a) The ageing of the above debtors are as follows:

| | <u>2016</u> | <u>2015</u> |
|-----------------|------------------|----------------|
| | SCR | SCR |
| Up to 3 months | 1,062,740 | 19,550 |
| Up to 12 months | 171,760 | 27,905 |
| > 12 months | - | 120,312 |
| | <u>1,234,500</u> | <u>167,767</u> |

(b) Movement in allowances for credit impairment is given below:

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|------------------|------------------|
| | SCR | SCR |
| At January 1, | 3,094,396 | 3,311,516 |
| Charged to profit and loss | 885,214 | 3,081,030 |
| Recovered during the year | - | (3,297,212) |
| Effect of foreign exchange difference | 202,024 | (939) |
| At December 31, | <u>4,181,633</u> | <u>3,094,396</u> |

(c) Trade and other receivables are denominated in United States dollars and Seychelles rupees.

(d) The carrying amounts of trade receivable and other receivable approximate their fair values except for staff loans receivable.

(e) Trade receivable balances are due within 1 month of inception, unless specified otherwise in the agreement. All debtors above one month are considered past due, analysis of age analysis of financial assets past due but not impaired is disclosed in Note 3.1.2 Credit risk.

(f) The staff loan balance relates to staff car loans expected to be repaid in the subsequent financial period and general purpose loans issued by the Company which are receivable in instalments over the period of the loan agreement. The non-current portion of the staff car loan is classified as non-current assets in Note 6. Car loans have a maturity of 5 years and general purpose loans have a maturity of 1 year. The balances are neither past due nor impaired. With respect to the car loans, the vehicles are pledged to PetroSeychelles and a lien clause to insurance policy, wherein the event of any claims, proceeds will be paid directly to PetroSeychelles. The Company does not hold any collateral as security in respect of general purpose loans receivables.

The Company earns interest on the staff loans, classified as finance income on the face of the Statement of Comprehensive Income. The rates are heavily discounted compared to market rate implying a difference in fair value compared to carrying amount.

8 TRADE AND OTHER RECEIVABLES (CONT'D)

- (f) Refer to Note 3.2 where assumptions used to determine fair value are described. The following illustrates the carrying amount and fair value of the staff loans:

| | 2016 | 2015 |
|----------------|----------------|---------|
| | SCR | SCR |
| Amortised cost | 333,467 | 413,315 |
| Fair Value | 275,221 | 300,779 |

- (g) In 2016, the Shareholder indicated that the Company can manage itself with the current funds for a period of more than one year and took the decision to delay the payment to the end of its term specified in Note 10 below.

9 LOANS AND RECEIVABLE

| | 2016 | 2015 |
|-----------------------|---------------|-----------|
| | SCR | SCR |
| Fixed term investment | 53,747 | 51,731 |
| Treasury Bill | - | 5,412,102 |
| | 53,747 | 5,463,833 |

The fixed term deposit is held with the company's banker, Mauritius Commercial Bank (Seychelles). Treasury Bill investments matured during the year and no additional investment was made as at year end. The instrument have a one year term to maturity, where interest is due upon maturity. Its carrying amount approximate its fair value given its short term nature.

10 SHARE CAPITAL

| | 2016 | 2015 |
|--|------------------|-----------|
| <i>Authorised, issued and unpaid ordinary shares</i> | SCR | SCR |
| 100 ordinary shares of SCR10,000 each | 1,000,000 | 1,000,000 |

The share capital remains unpaid as at year end, it has a five year term and will be due in 2017.

11 TRADE AND OTHER PAYABLES

| | 2016 | 2015 |
|-----------------------------|----------------|---------|
| | SCR | SCR |
| Trade payables and accruals | 181,886 | 232,409 |

All trade and other payable balances are due within a year and relate to bills and audit fees.

12 DEFERRED INCOME

| | 2016 | 2015 |
|---------------------------------------|--------------------|-------------|
| | SCR | SCR |
| At January 1, | 7,250,670 | 5,194,221 |
| Received during the year | - | 4,970,885 |
| Released to profit and loss (Note 14) | (1,896,459) | (2,914,437) |
| At December 31, | 5,354,211 | 7,250,670 |

Represented by:

Current Deferred Income

| | | |
|---|----------------|-----------|
| Unutilised portion of training income | 843,931 | 843,931 |
| Unutilisation concessionary fees of sea acreage | - | 1,708,300 |
| | 843,931 | 2,552,230 |

Non-Current Deferred Income

| | | |
|---------------------------------------|------------------|-----------|
| Unutilised portion of training income | 4,510,279 | 4,698,438 |
| | 5,354,211 | 7,250,669 |

The company recognises training income in line with the conditions of agreements, occurring when training expenses are recognised. The concessionary fees of sea acreage is time-apportioned for the amount which relates to the financial year, and recognised as such. Accordingly, any unused portion of the training income and concessionary fees of sea acreage which relates to the subsequent period is deferred until incurred. Refer to Note 2.5(j)(ii) for the accounting policy.

13 RETIREMENT BENEFIT OBLIGATION

(i) Amount recognised in the statement of financial position:

| | 2016 | 2015 |
|--------------------------------------|----------------|-------------|
| | SCR | SCR |
| Present value of unfunded obligation | 409,278 | 296,965 |

(ii) Amount recognised in the statement of comprehensive income:

| | 2016 | 2015 |
|-----------------------|----------------|-------------|
| | SCR | SCR |
| Current service cost | 93,832 | 89,615 |
| Interest cost | 20,278 | 13,135 |
| Settlement loss | - | 1,495 |
| Experience adjustment | (1,797) | (19,361) |
| | 112,313 | 84,884 |

(iii) Movement in liability recognised in statement of financial position:

| | 2016 | 2015 |
|-------------------------|----------------|-------------|
| | SCR | SCR |
| At January 01, | 296,965 | 224,165 |
| Total expenses as above | 112,313 | 84,884 |
| Settlement Cost | - | (12,084) |
| At December 31, | 409,278 | 296,965 |

(iv) The principal assumptions used were as follows:

| | 2016 | 2015 |
|--|-------------|-------------|
| | %/year old | %/year old |
| Discount rate | 6.87% | 6.41% |
| Future salary increases | 0% | 0% |
| Years liability fall due | 5 | 5 |
| % of liability to fall due after 5 years | 90% | 100% |

The figure of 0% used to calculate future salary increases in no way commits the Company to such increase in salary and has been used for calculation purposes only.

14 REVENUE

| | 2016 | 2015 |
|---|------------------|-------------|
| | SCR | SCR |
| Concessionary fees of sea acreage (Note 12) | 1,708,300 | 2,512,072 |
| Release of training income (Note 12) | 188,159 | 402,364 |
| Profit commission on data sales | 885,214 | - |
| Total | 2,781,672 | 2,914,437 |

15 OPERATING COSTS AND ADMINISTRATIVE EXPENSES

The Company classified costs which relate directly to its operation as operational costs and the remaining expenses as administrative costs. This is summarised as shown below:

| | <u>2016</u> | <u>2015</u> |
|-------------------------|------------------|------------------|
| | SCR | SCR |
| Operating expenses | 2,207,297 | 2,129,124 |
| Administrative expenses | 2,906,966 | 3,261,893 |
| | <u>5,114,263</u> | <u>5,391,016</u> |

The operating costs and administrative expenses are detailed as per the nature of the expense:

| | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|
| | SCR | SCR |
| Depreciation | 257,005 | 235,580 |
| Amortisation | 78,067 | 76,103 |
| Employee benefit expenses (Note 17) | 3,891,445 | 3,467,882 |
| Director's emoluments | 222,000 | 240,500 |
| Training expenses (Note 12) | 227,174 | 445,306 |
| Repairs and maintenance | 26,242 | 26,700 |
| Transportation expenses | 25,120 | 44,660 |
| Other office and administrative expenses | 588,571 | 603,574 |
| Foreign exchange (gains) losses | (201,361) | 250,711 |
| Total | <u>5,114,263</u> | <u>5,391,016</u> |

- a) In the petroleum agreements, the petroleum company shall, annually, pay an amount relating to training expense of PetroSeychelles. The agreement stipulates that the Company shall use these amounts for the following expenses: educational courses and related expense, expenses relating to attendance of petroleum and energy related conferences and workshops and, or, purchases of technical books, publications, scientific instruments and other equipments required.
- b) Lease arrangements

Operating lease commitments - Company as lessee

The Company has entered into a rental lease agreement for a floor within a related party's building. The lessor has placed restrictions on the lessee with respect to the lease periods, whereby PetroSeychelles establishes itself in its own building. During these periods, the building shall remain the property of the lessor and the lease payments set out at nil cost.

16 LOSS FOR THE YEAR

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| | SCR | SCR |
| The loss for the year has been arrived at after charging: | | |
| Auditors' remuneration | 54,800 | 53,284 |
| Employee benefit expenses (Note 17) | 3,891,445 | 3,467,882 |
| Directors' remuneration (Note 18) | 222,000 | 240,500 |
| Depreciation on property and equipment (Note 4) | 257,005 | 235,580 |
| Amortisation on intangible assets (Note 5) | 78,067 | 76,103 |

17 EMPLOYEE BENEFIT EXPENSES

| | 2016 | 2015 |
|---|------------------|------------------|
| | SCR | SCR |
| Wages and salaries | 3,560,687 | 3,177,744 |
| Retirement benefit obligation charges (Note 13) | 112,313 | 84,884 |
| Pension costs | 144,621 | 128,985 |
| Other employee benefits (17 (a)) | 73,824 | 76,269 |
| Total | 3,891,445 | 3,467,882 |

- (a) Other employee benefits includes gratuity expenses, staff uniforms, and other small miscellaneous expenses relating to staff.

18 DIRECTORS' REMUNERATION

| | Fee | Other emoluments | Total | Total |
|-----------------------|----------------|------------------|------------------|------------------|
| Eddy Roch Belle | - | 996,321 | 996,321 | 925,155 |
| Barry Jude Jean Faure | 72,000 | - | 72,000 | 78,000 |
| Allain Patrick Payet | 30,000 | - | 30,000 | 32,500 |
| Eddy Dennis Matatiken | 30,000 | - | 30,000 | 32,500 |
| Raymond F. ChangTave | 30,000 | - | 30,000 | 32,500 |
| Rony James Govinden | 30,000 | - | 30,000 | 32,500 |
| Caroline Abel | 30,000 | - | 30,000 | 32,500 |
| | 222,000 | 996,321 | 1,218,321 | 1,165,655 |

19 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operating decisions. For presentation in the note below, Seychelles Petroleum Company Limited is referred to as Seypec. The following are transactions between the Company and their related parties :

| | 2016 | 2015 |
|--|-----------|-----------|
| | SCR | SCR |
| (a) Authorised, issued share capital | | |
| Government of Seychelles | 1,000,000 | 1,000,000 |
| (b) Expense transactions with related party | | |
| Seypec | - | - |
| Government of Seychelles | - | - |
| Attorney General's Office | 72,000 | 72,000 |
| (c) Outstanding balances receivable | | |
| Government of Seychelles | 1,000,000 | 1,000,000 |
| (d) Transactions with no financial exposure-Operating lease commitments (Note 15 (b)) | | |
| Seypec | - | - |

19 RELATED PARTY TRANSACTIONS (CONT'D)

| | <u>2016</u> | <u>2015</u> |
|--|----------------|----------------|
| | SCR | SCR |
| (e) Remuneration of key management personnel: | | |
| Salaries and other short-term benefits | <u>996,321</u> | <u>925,155</u> |
| (f) Remuneration of directors: | | |
| Salaries and other short-term benefits | <u>222,000</u> | <u>240,500</u> |

Key management personnel consist of the CEO of the Company and the Board of Directors.

Terms and conditions of transactions with related party

Transactions between the Company and the government are made at nominal market price. The balances represents income and expenses incurred in transactions to and from the related parties, as well as share capital outstanding. The outstanding balance at year-end is unsecured, interest free and settlement normally occurs in cash. Refer to Directors' report for guarantee provided by the related parties.

21 CAPITAL COMMITMENTS

The Company had no capital commitments as at December 31, 2016 (2015: Nil)

22 EVENTS AFTER THE REPORTING DATE

After the reporting date, the entity received funds from its Shareholder, Government of Seychelles, as per the agreement for future capital outlay which was expected to be received from beginning of 2015. The outlay equates to SCR 50 million and payable annually in installments of SCR 5 million. This has been treated as a non-adjusting event in the Financial Statement as at 31st December 2016.

23 MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

As of January 2016, PetroSeychelles Limited was no longer in contract with two of the oil companies that was engaged in exploration activities, WHL Energy Limited (which operated a farm-in agreement with Ophir Seychelles) and Eastern African Exploration Company. Additionally, attracting new exploration companies remains a challenge in the current low oil price environment globally.

PetroSeychelles has a relatively strong cash position standing at SCR6,989,001 as at December 31, 2016. Cash flow forecast suggest that the Company will be able to meet its obligations within 12 months post reporting period.

The Government has interest in PetroSeychelles Limited through its shareholder Societe Seychellois D'investissement Limitée (SSIL), and will support PetroSeychelles financially in the event that it is required.