Rose Petroleum plc

Annual Report and Financial Statements

For the year ended 31 December 2016

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Rose Petroleum plc

Directors, Advisers and Officers

Directors

PE Jeffcock	*Non-Executive Chairman*
KB Scott	*Non-Executive Director*
MC Idiens	*Chief Executive Officer*
KK Hefton	*Chief Operating Officer Mining*
CJ Eadie	*Chief Financial Officer*

Secretary
IH McNeill

Registered Office
20-22 Wenlock Road
London
N1 7GU

Auditor
KPMG LLP
15 Canada Square
London
E14 5GL

Solicitors
Memery Crystal LLP
44 Southampton Buildings
London
WC2A 1AP

Registrars
Capita Asset Services
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Nominated Adviser and Broker
Allenby Capital Limited
3 St Helen's Place
London
EC3A 6AB

Bankers
Barclays Bank Plc
Level 27
1 Churchill Place
London
E14 5HP

Joint Broker
Turner Pope Investments Ltd
Becket House
36 Old Jewry
London
EC2R 8DD

Chairman's Statement

In the Company's Interim Results statement for 2016, published in September 2016, it was outlined that the recent period has been one of restructuring, consolidation and transformation for the Group. This has been a continuing theme in the period since, and the Board has continued to adopt a strategy to ensure that the Group is positioned to create value from its existing assets while being flexible and agile to take advantage of opportunities that arise both before and after a recovery in the natural resources sector. Conserving existing cash resources has also been a key priority during the period.

There is no doubt that the prevailing market conditions of the last few years have provided the Board with an extremely challenging backdrop against which to operate, but the decisive action of the Board has sought to de-risk and safeguard the existing asset portfolio, reduced liabilities and operational overheads and enabled us to identify and chase some very convincing potential opportunities.

Despite the withdrawal from the Mancos acreage, and disposal of the Cisco Dome field, associated wells and associated infrastructure during the period, the Board fundamentally believes that the Group's Oil and Gas ("O&G") portfolio is of a scale and quality to deliver significant shareholder value. The Paradox assets were acquired due to their prospectivity, size, location and low breakeven price, and despite the downturn in the oil sector, the Board believes that they remain a highly desirable asset. In addition, by reducing the size of the Company's acreage through the disposal of the Mancos acreage, the Board achieved the twin objective of both retaining the core part of the Group's O&G portfolio and also significantly reducing costs and liabilities. We have kept the market regularly updated on our progress to secure the permit for the 3D seismic survey in the Paradox Basin and we remain on track to shoot the survey by the end of this year. This will be a major step in the process of unlocking value from the Paradox acreage and will hopefully be the precursor for the drilling of our first well in the Paradox Basin during 2018.

The Board has reviewed numerous potential opportunities in the natural resources sector since the downturn in the oil price, looking to create shareholder value ahead of the recovery in the sector, and I was delighted that we were able to secure an investment in the Company during the period to pursue some exciting prospects in Cuba. The overall economic and political changes taking place in Cuba present a striking opportunity, with direct foreign investment now being a priority, to realise the country's anticipated growth. While there is no certainty that any transaction will complete, we have had, and continue to be in direct discussions with the relevant Government owned corporations in Cuba about potential transactions in both the Oil and Gas and building materials sectors.

Post period end the Company announced that it had entered into negotiations to dispose of its SDA Mill in Mexico. While there is no guarantee that the transaction will complete, should it do so, the Group will allocate the funds towards the total funds required for the 3D seismic shoot in the Paradox Basin. While the SDA Mill remains a viable standalone business for Rose, albeit with a low level of profitability, the Board believes that the current outlook for US energy is extremely encouraging, and therefore a strategic focus on the Paradox acreage is currently the optimal way to deliver short-term value to shareholders.

While the cost cutting across the Group to date has been radical and far-reaching, the Board has ensured that it has retained an operational capability sufficient to meet its commitments for the foreseeable future. As well as protecting the existing asset base and positioning the Group for short-term growth, the Board is also confident that the Company has the capacity to take advantage of potential acquisition opportunities, such as those that we are currently looking at in Cuba, which we believe will inevitably arise.

I am looking forward to the period ahead, and I would like to take this opportunity to thank our investors, advisers and employees for their continuing support during this transformational period. The Board is looking forward to updating you on progress throughout 2017, which promises to be an exciting period in the Company's ongoing evolution.

PE Jeffcock
5 June 2017

Rose Petroleum plc

Strategic Report

The Directors present their strategic report on the Group for the year ended 31 December 2016.

Principal Objectives and Strategies

Rose Petroleum plc is a diversified Oil & Gas ("O&G") and Mining Company with exploration assets and an operational crushing and flotation mill. The key strategic objective is to deliver shareholder returns through the enhancement of these assets.

This key objective will be achieved by various strategies:

- continuing development of a Board consisting of highly experienced professionals covering O&G, mineral exploration, mine development, financing and financial control of public companies;
- strong and experienced management teams to maximise returns from the Company's underlying O&G and Mining assets;
- the potential acquisition of further interests through acquisition, farm-in agreements and joint arrangements to deliver near-term value to stakeholders;
- consideration of the capital and financing required to achieve our objectives and market perception; and
- tight financial control and cash conservation.

Review Of Operations

Oil & Gas Division

U.S.A.

During the strong oil price environment of 2014 and early 2015, the Group entered into agreements under which it was able to commence earning into a 75% working interest in approximately 263,000 gross acres in Utah. The area of focus of the acreage was on two unconventional oil and gas basins: the Uinta Basin, which targets the Mancos Shale at a maximum depth of approximately 3,200ft, and the Paradox Basin that targets the Paradox Clastics at a maximum depth of approximately 10,500ft.

Under the terms of the original agreement, the Group was to carry the seller of the acreage, Rockies Standard Oil Company LLC ("RSOC"), which was to retain a 25% working interest in the leasehold, for the first US$17 million expenditure on the projects: US$9.5 million in the Uinta Basin and US$7.5 million in the Paradox Basin. Under the terms of the agreement, the obligation is not contractually committed and therefore, no liability or contingent liability has been recognized in these financial statements.

During 2014, and subsequent to the acquisition of the Cisco Dome field, Ryder Scott Company LP ("Ryder Scott") completed a reserve report on the Utah leasehold. Based on that reserve report, the Group's Mean Un-Risked Recoverable Prospective Resources across its total acreage were estimated to be 1.8 billion barrels of oil ("BO") and 6.45 trillion cubic feet of gas ("TCFG"). Of these total resources, it was estimated by Ryder Scott that the Paradox acreage contained over 1.1 billion BO (61% of the total BO resources estimated) and circa 2.2 TCFG (34% of the total gas resources estimated), whilst the Mancos acreage contained circa 710 million BO (39% of the total BO resources estimated) and circa 4,260 TCFG (66% of the total gas resources estimated).

In the report, Ryder Scott also gave an opinion on the chance of success in the Paradox and Mancos acreage and concluded that the chance of success within the Paradox leases was up to 56%, compared with 30% in the Mancos leases.

During the latter part of 2014 and during 2015, the Group concentrated its efforts on the Mancos due to the relative ease of drilling with its shallow depth, low drilling costs, and good infrastructure. The Board was hopeful that a demonstration of the prospectivity of the Mancos could be achieved in quick time and that a successful drilling campaign would provide the catalyst of cashflow that would enable the commencement of the Paradox activity. However, following the initial work programme at the Mancos, the Board concluded that the Paradox Basin presented a lower risk opportunity, with greater scale and a higher chance of success.

Revised agreement with RSOC

Having considered all of the above, the Board announced in April 2016 that it had entered into an agreement with RSOC to cease earning into the Mancos acreage and dispose of the Cisco Dome field, wells, pipelines, gas tap, gas plant, and all the associated equipment and liabilities to RSOC, with the intention of focusing solely on the Group's Paradox acreage.

As part of the revised agreement with RSOC, the Group agreed to cover the cost of the existing plug and abandonment ("P&A") liability of the four wells already scheduled for P&A with the authorities, which was calculated to be US$0.3 million and which was settled in the year. The Group also agreed to leave the existing operator bonds in place with the State of Utah and Bureau of Land Management ("BLM"), which are now refundable to RSOC rather than the Group.

RSOC, in turn, agreed to reduce the Group's obligation to earn the 75% working interest in the Paradox acreage by US$2 million to US$5.5 million. Under the terms of the agreement, the obligation is not contractually committed and therefore no liability or contingent liability has been recognized in these financial statements.

The revised agreement with RSOC has significantly reduced operational costs including lease rental/minimum royalty payments associated to the Mancos leasehold. Further, and potentially more importantly, the Group will no longer be liable for the P&A liability of the fifty plus wells in the Cisco Dome field. This reduction of acreage has also enabled a reduction of headcount and a material reduction in operating costs in the O&G Denver office.

Paradox Basin acreage

By way of background, the Paradox Basin has been actively exploited by Fidelity Exploration and Production ("Fidelity"), mainly in the Cane Creek Formation, south southeast of the Group's main group Paradox lease blocks. Fidelity has been the most active operator in the Paradox Basin over the past two years with average Q1 2015 production of 2,100 barrels of oil equivalent per day ("boepd"). In addition to Fidelity's success, multiple wells in the area of the Group's leases have produced oil and gas to surface from various formations, and it is a combination of all these factors that led the Board to the conclusion that it should focus on the Group's Paradox Basin acreage.

Throughout the period under review, and since, the Group has been undertaking the process of securing the permit to enable it to shoot a 3D seismic survey over the Paradox acreage. Consistent with Fidelity, the strategy is to shoot the seismic lines that will assist in identifying drilling targets for the Group's first wells in the Paradox.

Significant progress has been made in the process in recent months and on 7 March 2017, the Group announced that the 15-day public consultation period for its 3D seismic shoot permit had formally begun. Following the completion of this period, and based on comments received, the Group was informed by the Bureau of Land Management ("BLM") that certain questions raised in the comments received should have been addressed by the BLM in the original Environmental Assessment Study ("EA") that supports the permit application. As a result, the Group has now amended the shoot design to accommodate the points raised and resubmitted the documents to the BLM for review. Once this review is complete, the revised and updated EA will be published and made available for a further 15-day public consultation period. The BLM has assured Rose that the revised timing for granting of the permits will not impact the commencement of the proposed physical shoot in H2 2017.

The Company has also now begun the process of assembling its technical team for the seismic shoot and has engaged the services of two key individuals, Dave List and Todd Fockler. Dave and Todd are geophysicists and both previously worked for Fidelity Exploration and Production Company on their Paradox seismic shoots and subsequent drilling programmes. Dave and Todd bring with them substantial relevant expertise and will help the Group to ensure that the technical and operational aspects of the shoot are managed in the optimal way. Their extensive operational experience in the Basin will be of significant benefit to our programme going forward.

Mining Division

Gold and Silver Mining Operations, Mexico

Throughout most of 2016, the Group continued its milling operations through its wholly owned subsidiary, Minerales VANE S.A. de C.V., which owns the SDA Mill. All milling consisted of processing third-party ore ("toll milling") while joint-venture production opportunities were evaluated. A total of approximately 20,300 tonnes of ore were processed during the year which covered the unit's operating costs. A number of joint venture production opportunities were evaluated which resulted in two strong project candidates being pursued, however, factors outside the Company's control meant that no transaction was completed.

In early 2017, Magellan Gold Corporation (OTCBB: MAGE) approached the Company with a view to acquiring the SDA Mill and, in March 2017, the two companies entered into a Memorandum of Understanding ("MOU") in respect of a transaction. The transaction is presently in the due diligence phase.

Under the terms of the MOU, the Company has granted Magellan a 90-day option period, for a non-refundable US$0.05 million deposit, to purchase the SDA Mill subject to the satisfaction of a number of conditions. The MOU also provides Magellan with the option of extending this option period by a further 60 days in consideration of an additional US$0.1 million which would be credited against the final purchase price should the sale proceed. The total purchase price for the SDA Mill is US$1.5 million, payable as US$1.0 million in cash and US$0.5 million in restricted common stock (shares) in Magellan. On 1 June 2017, the Company announced that Magellan had exercised its option to extend the 90-day option period for a further 60 days and the non-refundable payment of US$0.1 million has been received.

Completion of the disposal of the SDA Mill is subject to a number of conditions, including, but not limited to, the Group and Magellan entering into a separate asset purchase agreement, the completion of satisfactory due diligence by Magellan and Rose, Magellan completing a financing to acquire the SDA Mill, and an audit by Magellan of the SDA Mill's financial statements at Magellan's cost. In addition, as the SDA Mill has contributed the majority of Rose's revenue in the past 12 months, any sale would be subject to the approval of the shareholders of Rose at a general meeting of the Company. There can therefore be no assurance at this stage that the sale of the SDA Mill will be completed.

Base and precious metals exploration, Mexico

The Group's single exploration project is the Tango copper/molybdenum porphyry and associated precious metals veins property located 70 kilometres east of Mazatlán in southern Sinaloa. Efforts to fund and organise the permitted drilling programme for 2017 are currently being re-evaluated due to the pending SDA Mill sale to Magellan Gold Corporation.

IVA recovery, Mexico

Throughout the period, the Group has been in the process of recovering approximately MX$17.9 million (c.US$1.0 million) of IVA (Mexican value added tax) and associated inflation adjustment payments owed to it from the Mexican tax authority, Servicio de Administración Tributaria ("SAT"). Post-period, SAT commenced refunding the Group's IVA claim and approximately MX$9.2 million (c.US$0.5 million) has been received at the date of this report. The Company continues to seek the recovery of the remaining MX$8.8 million (c.US$0.5 million) owed to it by SAT.

Copper exploration, southwest U.S.A.

In April 2016, the Group announced that it had entered into an agreement with privately held Burdett Gold LLC, to conduct exploration drilling on the Ardmore copper project which consists of 18 unpatented mining claims located north of Tucson, Arizona. Burdett assumed control of the claims and is the operator of the project and has commenced exploration work.

Uranium exploration, U.S.A.

The bulk of the Group's uranium assets are held in a joint venture with Anfield Resources Inc. (TSXV: ARY) covering property holdings in the breccia pipe district of northern Arizona. The Group also owns 100% of the North Wash project in Utah. The land holdings in Arizona consist of a number of drill-proven breccia pipes, some containing mineralization, and breccia pipe targets. The North Wash project in Utah contains a resource of uranium and vanadium. These holdings are being held on care and maintenance while management reviews its options to develop the projects further.

With respect to the political situation behind the land withdrawal in northern Arizona which negatively impacts all breccia-pipe holdings on federal lands, the election of President Trump provides optimism for a possible change in the status of those lands during his tenure.

In respect of the disposal of the Company's 50% interest in the Wate breccia pipe deposit to Energy Fuels Resources Inc. (TSE:EFR) in 2015, the Company and EFR further revised the terms of the Purchase and Sale Agreement during the period under review. Under the revised agreement, EFR paid the Company US$50,000 in 2016 and a further US$450,000 is payable on the date on which the first Commercial Production from the Wate Project occurs.

Cuban Opportunities

In May 2016, the Group announced that it had raised gross proceeds of US$1.2 million (£0.8 million) from Earth Source Investment Inc, primarily to further develop opportunities that had arisen in Cuba and specifically around the processing and manufacturing of gypsum and associated building materials.

As announced on 4 July 2016 and in the period since, Rose, with the assistance of its technical team supported by Grenzebach BSH (GmbH) ("Grenzebach"), has been negotiating with Empressa Materiales de Construccion ("EMC"), the local state company, to construct the proposed gypsum processing and manufacturing facilities to supply the domestic and Caribbean market with various gypsum products including, but not limited to, gypsum wall and ceiling panels. Multiple models and plant facilities have been discussed involving various end products and production rates and Rose put forward its proposal on the agreed capacity and products at the end of the year, although the process is no longer exclusive to Rose. Having been through multiple versions of both capacity and end product requirements, which was an extremely challenging process, the Board of Rose would like to take this opportunity to thank Grenzebach for its continuing support. We are presently engaged in further discussions regarding the transaction and we will update the market when we have further clarity around the ongoing process.

As a result of the Group developing good relationships in Cuba, we have now also engaged with the Cuban national oil company, CUPET, and are in early stage discussions regarding oil & gas licences. We feel that the oil and energy sectors in Cuba offer excellent potential and hope to be able to progress our discussions.

Financial Review

Income Statement

The Income Statement reports total revenue for the year ended 31 December 2016 of US$0.9 million (2015: US$4.3 million), arising from the Group's precious mining and milling operations in Mexico. The decrease in revenues was primarily the result of having a near full year of production from the Mina Charay gold and silver project in 2015, which ceased in December 2015.

The Group reports a net loss after tax of US$0.2 million or 0.01 cents per share for the year ended 31 December 2016 (2015: net loss after tax US$9.1million or 0.45 cents per share). Due to the radical cost cutting programme, administrative costs for the year fell to US$2.3 million (2015: US$5.1m). The Group has made a share-based payment charge of US$0.3 million (2015: US$1.5 million).

The Group has made a provision for impairment of intangible exploration and evaluation assets of US$0.36 million (2015: US$3.7 million) during the year. The charge relates primarily to the Group's uranium and copper assets in the U.S.A. and Mexico respectively.

Foreign exchange gains on the restatement of the Company's loans to its subsidiaries were US$2.5 million (2015: US$0.4 million). This has had a significant impact on the results for the year and can be primarily attributed to the weakening of sterling since Brexit.

The income statement for the year includes a non-cash deferred tax credit of US$1.1m (2015: US$0.8 million).

Balance Sheet

Total investment in the Group's intangible exploration and evaluation assets at 31 December 2016 was US$10.1 million (2015: US$10.2 million) primarily reflecting investment in the Utah O&G assets.

The carrying value of property, plant and equipment at 31 December 2016 was US$0.3million (2015: US$0.6 million) reflecting the continued depreciation of the ore processing mill.

Trade and other receivables of US$1.2 million (2015: US$1.5 million) includes US$0.8 million in respect of VAT and tax recoverable in Mexico.

Cash and cash equivalents at 31 December 2016 were US$1.3 million (2015: US$2.4 million). During the period, the Company raised gross proceeds of US$2.4 million through the placing of the Company's Ordinary Shares.

Going Concern

The Directors have set out in note 3 to the financial statements their consideration of the future financing requirements of the Group and acknowledge that the circumstances represent a material uncertainty that may cast significant doubt upon the Group and Company's ability to continue as a going concern which has resulted in the auditor including an emphasis of matter in their report. Nevertheless, having given consideration to the uncertainties, the Directors have a reasonable expectation that a sale of the SDA mill will be completed in due course, and the 3D seismic permit will be granted, which will allow the Group to raise sufficient funding to continue in operational existence for the foreseeable future. Despite challenging capital markets, the Company and Group have been successful historically in raising equity finance and consider that they have reasonable grounds for believing these past successes will continue. For these reasons, they continue to adopt the going concern basis in preparing the consolidated financial statements.

This assessment has been carried out in the light of the guidance issued to the Directors by the Financial Reporting Council.

Key Performance Indicators

The Group measures its progress against a number of key performance indicators ("KPIs") which are reviewed regularly by the Board. These are set out below:

- tight cost control and monitoring of actual expenditure versus budget;
- operational efficiencies at the Group's milling operation including monitoring gold recoveries from ore;
- CAPEX controls including the monitoring of overall costs of drilling wells in the Paradox Basin; and
- monitoring of G&A expenditure versus budget and peer group.

Risks and Uncertainties and Risk Management

There are a number of potential risks and uncertainties which could have a material impact on the Group's long term performance and could cause actual results to differ from expected and historical results. The principal risks and uncertainties that we face are:

Non-Financial Risks

- Overseas territories experience varying degrees of political and civil instability. There can be no assurance that political and civil stability will continue in those countries where the Group currently has, or in the future will have, operations. Political instability or changes in government law or policies could materially affect the rights and title to the interests held by the Group, and the operations and financial condition of the Group could be adversely affected.

- The U.S.A. Department of Interior has issued a 20-year withdrawal from mineral entry on approximately 1 million acres in the northern Arizona's uranium breccia pipe district. This order prevents work on our claims located on federal lands. State of Arizona lands, on which the Group is now focusing its efforts, are unaffected by this withdrawal.

- The geographic locations of the Group's operations can present logistical difficulties in the installation, operation and maintenance of equipment related to the activities of the business. The Group currently generates its income from mining activities operated by contractors and is at risk of any disruption to mining or milling activities for reasons beyond the Group's control. The Group has excellent relationships with mining contractors operating at the mine and has access to alternative contractors if required.

- The Group's operations are such that minor and major injuries as well as fatalities could occur which could result in the temporary closure of the Group's operations.

- In certain overseas territories, the Group might be unable to obtain the comprehensive level of insurance cover that would be available in the United Kingdom.

Financial Risks

- There is a risk that the carrying value of the Group's assets will not be recovered through future revenues, leading to significant impairment losses. The Group manages the recoverability of its assets and assesses the economic viability throughout the exploration, development and production phases.

- The activities of the Group are subject to fluctuations in prices and demand for commodities, which are volatile and cannot be controlled.

- Changes in U.S. legislation may affect future operations in that royalties on minerals extracted from federal lands may be imposed.

- Funds are maintained by the Group in GBP, MXN and USD. There is a risk that purchasing power in Mexico and the U.S.A. is lost through foreign exchange translation. The Group considers its foreign exchange risk to be a normal and acceptable business exposure and does not hedge against the risk.

- There is a risk that there will be insufficient funds to meet all corporate, development and production obligations and activities and continue as a going concern into the foreseeable future. The Group manages liquidity risk by maintaining adequate cash reserves and monitoring forecast and actual cash flows. Management regularly reviews the Group's cash flow projections and forecasts.

On 23 June 2016, the UK electorate voted to discontinue its membership of the EU. Until further details are known regarding the terms on which the UK will exit, the Directors are not able to assess the impact on the Company and the Group, or what impact the wider regulatory and legal consequences of the UK leaving the EU would be on the Company and the Group.

Corporate Social Responsibility

Employee Recruitment and Retention

Although the Group had no quantitative target for the number of employees it needs or retains, this metric is closely monitored. The Group has an excellent record of retaining key staff.

Health and Safety

It is the objective of the Group to ensure the health and safety of its employees and of any other persons who could be affected by its operations. It is the Group's policy to provide working environments which are safe and without risk to health and provide information, instruction, training and supervision to ensure the health and safety of its employees.

Significant Relationships

The Group enjoys good relationships with all of its suppliers, professional advisers and operational partners.

Future Developments

Your Board, management and dedicated teams continue to operate the Group's existing O&G and mining assets and will continue to look to enhance the value from these. In addition, the Group continues to investigate and evaluate new opportunities to increase shareholder value.

We would like to thank all shareholders for their continued support.

By order of the board

MC Idiens
Chief Executive Officer
5 June 2017

Directors' Report

The Directors present the Annual Report and financial statements of the Group for the year ended 31 December 2016.

Review of the Business

A review of the business, future developments and the principal risks and uncertainties facing the Group is given in the Strategic Report. The key performance indicators, which the Directors consider to be effective in managing the business, are included in the Strategic Report.

Dividends

The Directors do not recommend the payment of a dividend for the year ended 31 December 2016 (2015: US$nil).

Directors

The following were Directors during the year and held office throughout the year, unless otherwise indicated:

MC Idiens
KK Hefton
PE Jeffcock
KB Scott
CJ Eadie

Directors' interests in shares and share options

The Directors who held office at 31 December 2016 had the following interests, including family interests, in the Ordinary Shares of the Company as follows:

	Number of Ordinary Shares	
	31 December 2016	1 January 2016
MC Idiens	22,025,744	20,139,213
KK Hefton	416,000	416,000
PE Jeffcock	20,833,333[1]	20,833,333[1]
KB Scott	–	–
CJ Eadie	94,402	94,402

[1] Beneficial interest held through the Glenville Discretionary Trust.

There have been no changes in these shareholdings since 31 December 2016.

Directors' interests in share options of the Company, including family interests, as at 31 December 2016 were as follows:

	Date of replacement/ grant	No. of shares	Exercise price	Option exercise period
MC Idiens	28 Sep 2011	5,200,000	1.125p	28/09/11 to 30/09/21
KK Hefton	28 Sep 2011	4,400,000	1.125p	28/09/11 to 30/09/21
KK Hefton	30 Sep 2011	1,600,000	1.125p	01/09/12 to 29/09/21
MC Idiens	30 Sep 2011	800,000	1.125p	01/09/12 to 29/09/21
MC Idiens	3 Sep 2013	15,800,000	1.125p	03/09/14 to 01/09/23
KB Scott	3 Sep 2013	10,933,333	0.475p	03/09/14 to 01/09/23
MC Idiens	10 Oct 2014	20,000,000	3.425p	10/10/15 to 09/10/24
KK Hefton	10 Oct 2014	10,000,000	3.425p	10/10/15 to 09/10/24
CJ Eadie	13 Feb 2015	10,000,000	1.825p	13/03/16 to 12/03/25

The market price of the shares at 31 December 2016 and 31 December 2015 was 0.11p and 0.11p respectively and the average during the year was 0.14p.

Third party indemnity provision for Directors

The Company currently has in place, and had for the year ended 31 December 2016, Directors and officers liability insurance for the benefit of all Directors of the Company.

Substantial shareholdings

Other than the Directors' interests shown above, the Company has been notified of the following substantial interests as at 1 June 2017:

	Number of shares	Percentage of issued share capital
RG Williams	221,162,668	5.9%

Post Balance Sheet Events

Events after the balance sheet date have been disclosed in the Strategic Report and in note 33 to the financial statements.

Financial Instruments

During the year the Company and its subsidiary undertakings applied financial risk management policies as disclosed in note 31 to the financial statements.

Directors' Report

continued

Disclosure of Information to the Auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

The Strategic Report, Corporate Governance Statement and Report and the Directors' Report were approved by the Board on 5 June 2017.

For and on behalf of the Board

MC Idiens
Chief Executive Officer

5 June 2017

Corporate Governance Statement

The policy of the Board is to manage the affairs of the Group using the principles of the QCA Guidance as best practice. This statement describes how the principles of corporate governance are applied to the Group to the extent that the Board considers is appropriate for a group of its size, nature and stage of development.

The Board and its Committees

Board meetings are scheduled every month with contact between meetings as required. The meetings are held to set and monitor strategy, review exploration and trading performance, examine acquisition possibilities and cash forecasts and approve reports to shareholders. The matters reserved for the Board include, amongst others, approval of the Group's long term objectives, policies and budgets, changes relating to the Group's management structure, approval of the Group's financial statements and ensuring maintenance of good systems of internal control. Procedures are established to ensure that appropriate information is communicated to the Board in a timely manner to enable it to fulfil its duties.

Details of Directors who served during the year are set out in the Directors' Report. The Board is currently comprised of three executive Directors and two non-executive Directors, one of whom acts as Chairman. There are separate roles for the Chairman and the Chief Executive Officer.

The Board has established an Audit Committee, which comprises of a non-executive Director, PE Jeffcock. The structure of the Audit Committee is currently being reviewed. The Audit Committee meets twice a year and the external auditor is invited to meetings where appropriate. The main responsibilities of the Audit Committee are to review and report to the Board on matters relating to:

- the integrity of the financial statements of the Group, including its annual and interim accounts;
- the effectiveness of the Group's internal controls and risk management systems;
- the accounting policies and practices of the Group;
- audit plans and auditor's report, including any significant concerns the external auditor may have arising from their audit work; and
- the terms of appointment, remuneration and independence of the auditor.

The Board has established a Remuneration Committee, which comprises a non-executive Director, PE Jeffcock. The structure of the Remuneration Committee is currently being reviewed. The Remuneration Committee meets twice a year and reviews the performance of the executive Directors and the scale and structure of their remuneration having due regard to the interests of the shareholders. The Committee is also responsible for awards under the share option plan. No Director is involved in any decision relating to his own remuneration.

Communication with Shareholders

The Board encourages regular dialogue with shareholders. All shareholders are invited to the AGM at which Directors are available for questioning. The notice of AGM is sent to all shareholders at least 21 clear days before the meeting. The number of proxy votes received for and against each resolution is disclosed at the AGM and a separate resolution is proposed on each item. Financial and other information about the Company is available on the Company's website www.rosepetroleum.com.

Internal Controls

The Board is responsible for establishing the Group's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide the Board with reasonable and not absolute assurance against material misstatement or loss. The key procedures that have been established, and which are designed to provide effective internal control are as follows:

- each of the Group's subsidiaries is managed by an executive Director and there is a management reporting process in place to enable the Board to monitor the performance of the Group on a regular basis;
- an annual forecast is prepared and formally adopted by the Board. This is reviewed on a regular basis and actual performance against forecast is closely monitored;
- the Board reviews the major business risks faced by the Group and determines the appropriate course of actions required to manage those risks;
- the Board approves proposals for the acquisition of new businesses and sets guidelines for the development of new properties. Capital expenditure is regulated and written proposals must be submitted to the Board for any expenditure above specified levels; and
- consolidated management information is prepared on a regular basis.

The Board reviews the effectiveness of the system of internal controls and the control environment. No significant control deficiencies were reported during the year and no weaknesses in internal controls have resulted in any material losses, contingencies or uncertainty which would require disclosure as recommended by the guidance for Directors on reporting on internal controls. The Board has reviewed the need for an independent internal audit function and has concluded that the Group is not large enough to warrant this at the present time.

Statement of Directors' Responsibilities

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 group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Independent Auditor's Report to the members of Rose Petroleum plc

We have audited the financial statements of Rose Petroleum plc for the year ended 31 December 2016 set out on pages 19 to 59. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 16, 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 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 Financial Reporting Council's website at http://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 of the parent company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of Matter: Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures in note 3 to the financial statements concerning the Group and Company's ability to continue as a going concern; in particular, the timing and amount of proceeds from the planned sale of the SDA Mill and the successful raising of sufficient additional equity funding. These conditions, together with the other matters described in note 3 indicate the existence of a material uncertainty that may cast significant doubt upon the Group's and Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Group and Company were unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors’ report:

- we have not identified material misstatements in those reports; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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.

Ashley Rees (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
15 Canada Square
London
E14 5GL

5 June 2017

Consolidated Income Statement

For the year ended 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Continuing operations			
Revenue	5	898	4,320
Cost of sales		(820)	(3,806)
Gross profit		78	514
Operating and development expenses	7	(600)	(1,522)
Administrative expenses		(2,313)	(5,123)
Project development expenses	8	(580)	–
Impairment of intangible exploration and evaluation assets	9	(360)	(3,694)
Foreign exchange gains		2,496	438
Loss on disposal of assets held for sale	24	–	(485)
Operating loss		(1,279)	(9,872)
Finance income	10	9	13
Finance costs	11	–	(5)
Loss before taxation	12	(1,270)	(9,864)
Taxation	15	1,120	797
Loss for the year attributable to owners of the parent company		(150)	(9,067)
Loss per Ordinary Share			
Basic and diluted, cents per share	16	(0.01)	(0.45)

The notes on pages 27 to 59 form part of the financial statements.

Rose Petroleum plc

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 US$'000	2015 US$'000
Loss for the year attributable to owners of the parent company	(150)	(9,067)
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss, net of tax		
Foreign currency translation differences on foreign operations	6,498	904
	6,498	904
Total comprehensive income for the year attributable to owners of the parent company	6,348	(8,163)

The notes on pages 27 to 59 form part of the financial statements.

Consolidated Balance Sheet

At 31 December 2016 | Company No 04573663

	Notes	2016 US$'000	2015 US$'000
Non-current assets			
Intangible assets	17	10,117	10,221
Property, plant and equipment	18	337	620
		10,454	10,841
Current assets			
Inventories	21	–	19
Trade and other receivables	22	1,236	1,484
Cash and cash equivalents	23	1,273	2,399
		2,509	3,902
Total assets		12,963	14,743
Current liabilities			
Trade and other payables	25	(524)	(684)
Provisions	27	(110)	–
Taxation payable		(1)	(3)
		(635)	(687)
Non-current liabilities			
Provisions	27	–	(192)
		–	(192)
Total liabilities		(635)	(879)
Net assets		12,328	13,864
Equity			
Share capital	28	40,362	38,765
Share premium account		32,183	31,471
Share-based payment reserve		3,028	2,899
Cumulative translation reserves		(8,376)	(4,384)
Retained deficit		(54,869)	(54,887)
Equity attributable to owners of the parent company		12,328	13,864

The financial statements on pages 19 to 59 were approved by the Directors and authorised for issue on 5 June 2017 and are signed on its behalf by:

CJ Eadie, Chief Financial Officer

The notes on pages 27 to 59 form part of the financial statements.

Rose Petroleum plc

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital US$'000	Share premium account US$'000	Share-based payment reserve US$'000	Cumulative translation reserves US$'000	Retained deficit US$'000	Total US$'000
As at 1 January 2015	37,130	28,471	1,540	(2,258)	(45,937)	18,946
Transactions with owners in their capacity as owners:						
Issue of equity shares	1,635	3,271	–	–	–	4,906
Expenses of issue of equity shares	–	(271)	–	–	–	(271)
Share-based payments	–	–	1,523	–	–	1,523
Transfer to retained earnings in respect of forfeit options	–	–	(117)	–	117	–
Effect of foreign exchange rates	–	–	(47)	–	–	(47)
Total transactions with owners in their capacity as owner	1,635	3,000	1,359	–	117	6,111
Loss for the year	–	–	–	–	(9,067)	(9,067)
Other comprehensive income:						
Currency translation differences	–	–	–	904	–	904
Total other comprehensive income for the year	–	–	–	904	–	904
Total comprehensive income for the year	–	–	–	904	(9,067)	(8,163)
Currency translation differences on equity at historical rates	–	–	–	(3,030)	–	(3,030)
As at 1 January 2016	38,765	31,471	2,899	(4,384)	(54,887)	13,864
Transactions with owners in their capacity as owners:						
Issue of equity shares	1,597	783	–	–	–	2,380
Expenses of issue of equity shares	–	(71)	–	–	–	(71)
Share-based payments	–	–	326	–	–	326
Transfer to retained earnings in respect of forfeit options	–	–	(168)	–	168	–
Effect of foreign exchange rates	–	–	(29)	–	–	(29)
Total transactions with owners in their capacity as owner	1,597	712	129	–	168	2,606
Loss for the year	–	–	–	–	(150)	(150)
Other comprehensive income:						
Currency translation differences	–	–	–	6,498	–	6,498
Total other comprehensive income for the year	–	–	–	6,498	–	6,498
Total comprehensive income for the year	–	–	–	6,498	(150)	6,348
Currency translation differences on equity at historical rates	–	–	–	(10,490)	–	(10,490)
As at 31 December 2016	40,362	32,183	3,028	(8,376)	(54,869)	12,328

The notes on pages 27 to 59 form part of the financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016

	2016 US$'000	2015 US$'000
Operating activities		
Loss before taxation	(1,270)	(9,864)
Finance income	(9)	(13)
Finance costs	–	5
Adjustments for:		
Depreciation of property, plant and equipment	201	234
Loss on disposal of property, plant and equipment	17	–
Impairment of Intangible exploration and evaluation assets	360	3,694
Loss on disposal of assets held for sale	–	485
Share-based payments	326	1,523
Unrealised foreign exchange	(2,626)	(725)
Operating outflow before movements in working capital	(3,001)	(4,661)
Decrease in inventories	19	38
Decrease/(increase) in trade and other receivables	100	(514)
Decrease in trade and other payables	(163)	(171)
Cash used in operations	(3,045)	(5,308)
Income tax paid	–	(10)
Net cash used in operating activities	(3,045)	(5,318)
Investing activities		
Interest received	4	13
Purchase of property, plant and equipment	–	(67)
Purchase of intangible exploration and evaluation assets	(272)	(5,433)
Proceeds on disposal of property, plant and equipment	9	–
Proceeds on disposal of intangible assets	5	–
Proceeds from disposal of assets held for sale	50	250
Net cash used in investing activities	(204)	(5,237)
Financing activities		
Proceeds from issue of shares	2,380	4,906
Expenses of issue of shares	(71)	(302)
Net cash from financing activities	2,309	4,604
Net decrease in cash and cash equivalents	(940)	(5,951)
Cash and cash equivalents at beginning of year	2,399	8,408
Effect of foreign exchange rate changes	(186)	(58)
Cash and cash equivalents at end of year	1,273	2,399

The notes on pages 27 to 59 form part of the financial statements.

Company Balance Sheet

As at 31 December 2016 Company No 04573663

	Notes	2016 US$'000	2015 US$'000
Non-current assets			
Investments	19	15,063	17,393
Current assets			
Trade and other receivables	22	69	322
Cash and cash equivalents	23	1,185	1,582
		1,254	1,904
Total assets		16,317	19,297
Current liabilities			
Trade and other payables	25	(164)	(204)
Total liabilities		(164)	(204)
Net assets		16,153	19,093
Equity			
Share capital	28	40,362	38,765
Share premium account		32,183	31,471
Share option reserve		3,028	2,899
Cumulative translation reserves		(9,368)	(6,232)
Retained deficit		(50,052)	(47,810)
Total equity		16,153	19,093

The financial statements on pages 19 to 59 were approved by the Directors and authorised for issue on 5 June 2017 and are signed on its behalf by:

CJ Eadie, Chief Financial Officer

The notes on pages 27 to 59 form part of the financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital US$'000	Share premium account US$'000	Share option reserve US$'000	Cumulative translation reserves US$'000	Retained deficit US$'000	Total US$'000
As at 1 January 2015	37,130	28,471	1,540	(5,161)	(39,029)	22,951
Transactions with owners in their capacity as owners:						
Issue of equity shares	1,635	3,271	–	–	–	4,906
Expenses of issue of equity shares	–	(271)	–	–	–	(271)
Share-based payments	–	–	1,523	–	–	1,523
Transfer to retained earnings in respect of forfeit options	–	–	(117)	–	117	–
Effect of foreign exchange rates	–	–	(47)	–	–	(47)
Total transactions with owners in their capacity as owner	1,635	3,000	1,359	–	117	6,111
Loss for the year	–	–	–	–	(8,898)	(8,898)
Other comprehensive income:						
Currency translation differences	–	–	–	1,959	–	1,959
Total other comprehensive income for the year	–	–	–	1,959	–	1,959
Total comprehensive income for the year	–	–	–	1,959	(8,898)	(6,939)
Currency translation differences on equity at historical rates	–	–	–	(3,030)	–	(3,030)
As at 1 January 2016	38,765	31,471	2,899	(6,232)	(47,810)	19,093
Transactions with owners in their capacity as owners:						
Issue of equity shares	1,597	783	–	–	–	2,380
Expenses of issue of equity shares	–	(71)	–	–	–	(71)
Share-based payments	–	–	327	–	–	327
Transfer to retained earnings/capital contribution in respect of forfeit options	–	–	(168)	–	(13)	(181)
Effect of foreign exchange rates	–	–	(30)	–	–	(30)
Total transactions with owners in their capacity as owner	1,597	712	129	–	(13)	2,425
Loss for the year	–	–	–	–	(2,229)	(2,229)
Other comprehensive income:						
Currency translation differences	–	–	–	7,354	–	7,354
Total other comprehensive income for the year	–	–	–	7,354	–	7,354
Total comprehensive income for the year	–	–	–	7,354	(2,229)	5,125
Currency translation differences on equity at historical rates	–	–	–	(10,490)	–	(10,490)
As at 31 December 2016	40,362	32,183	3,028	(9,368)	(50,052)	16,153

The notes on pages 27 to 59 form part of the financial statements.

Rose Petroleum plc

Company Cash Flow Statement

For the year ended 31 December 2016

	2016 US$'000	2015 US$'000
Operating activities		
Loss before taxation	(2,229)	(8,898)
Finance income	(542)	(589)
Adjustments for:		
Impairment of investments in subsidiary undertakings	1,522	8,186
Share-based payments	342	701
Unrealised foreign exchange	(182)	(504)
Operating cash outflow before movements in working capital	(1,089)	(1,104)
Decrease in trade and other receivables	254	120
(Decrease)/increase in trade and other payables	(40)	7
Net cash used in operating activities	(875)	(977)
Investing activities		
Interest received	3	10
Loans to subsidiary undertakings	(1,654)	(8,232)
Net cash used in investing activities	(1,651)	(8,222)
Financing activities		
Proceeds from the issue of shares	2,380	4,906
Expenses of issue of shares	(71)	(302)
Net cash from financing activities	2,309	4,604
Net decrease in cash and cash equivalents	(217)	(4,595)
Cash and cash equivalents at beginning of year	1,582	6,229
Effect of foreign exchange rate changes	(180)	(52)
Cash and cash equivalents at end of year	1,185	1,582

The notes on pages 27 to 59 form part of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2016

1. Corporate Information

Rose Petroleum plc (the "Company" and, together with its subsidiaries, the "Group") is domiciled and incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 20-22 Wenlock Road, London, N1 7GU.

The nature of the Group's operations and its principal activities are the exploration and development of O&G resources together with the evaluation and acquisition of other mineral exploration targets, principally gold, silver, uranium and copper, and the development and operation of mines in Mexico.

As permitted by section 408 of the Companies Act 2006, the parent company's income statement and statement of other comprehensive income have not been included in these financial statements.

The loss for the Company for the year ended 31 December 2016 is US$2.2 million (2015: US$8.9 million).

2. Adoption of New and Revised Standards

Standards affecting presentation and disclosure

In the current year, the following new and revised Standards have been adopted but have not had any material impact on the amounts reported in these financial statements:

Amendments to IFRS 10 and IAS 28	*Sale of contribution of assets between an investor and its associates or joint venture*
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment entities: applying the consolidation exception*
Amendments to IFRS 11	*Accounting for acquisitions of interests in joint operations*
Amendments of IAS 1	*Presentation of financial statements – disclosure initiative*
Amendments to IAS 16 and IAS 38	*Clarification of acceptable methods of depreciation and amortisation*
Amendments to IAS 27	*Equity method of separate financial statements*
IFRS 1	*Annual improvements 2012-14 cycle*

At the date of authorisation of the financial statements, the following Standards and Interpretations which have not been applied in the financial statements were in issue but not yet effective (and in some cases, had not yet been adopted by the EU):

Amendments to IFRS 2	*Share-based payments*
IFRS 9	*Financial instruments*
Amendments to IFRS 15	*Revenue from contracts with customers*
IFRS 16	*Leases*
Amendments of IAS 7	*Statement of cash flows – disclosure initiative*
Amendments of IAS 12	*Recognition of deferred tax assets for unrealised losses*
IFRIC 22	*Foreign currency transactions and advance transactions*
IFRS 1	*Annual improvements to IFRSs 2012-2014 cycle*

The Directors do not expect that the adoption of these Standards or Interpretations in future periods will have a material impact on the financial statements of the Company or the Group.

Notes to the Financial Statements

continued

3. Significant Accounting Policies

Basis of Accounting

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

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Directors continue to adopt the going concern basis in preparing the consolidated financial statements. The financial statements do not include any adjustment that would result from the basis of preparation being inappropriate.

The principal accounting policies adopted are set out below.

Going Concern

In the period under review, the Group generated its revenue from third-party toll milling operations from the Group owned mill ("SDA mill" or "mill") in Mexico. Toll milling ceased in March 2017 and since then the Group has been generating revenue from the processing of historic tailings produced at the mill site. Also in March 2017, the Group announced that it had entered into a memorandum of understanding ("MOU") with Magellan Gold Corporation ("Magellan") for the potential disposal of the mill and its associated assets, licences and agreements for a total consideration of US$1.5 million (US$1.0 million cash and US$0.5 million in restricted common stock in Magellan). Under the terms of the MOU, the Group granted Magellan a 90-day option period, for a non-refundable US$0.05 million deposit, already paid by Magellan, to purchase the mill subject to the satisfaction of a number of conditions. The MOU also provided Magellan with the option of extending the period by a further 60 days in consideration of an additional US$0.1 million, which will be credited against the final purchase price should the sale proceed. At the date of signing of the accounts, Magellan has exercised its option to extend the MOU period by 60 days which expires on 31 July 2017.

During the year, the Group has been undertaking the process of securing the permit to enable it to complete a 3D seismic shoot over the Paradox acreage, which will enable the Group to identify future drilling targets. The application for the 3D shoot permit is currently under consideration by the Bureau of Land Management ("BLM") following the application being resubmitted to address points raised by the BLM in the first submission.

As primarily an exploration Group, the Directors are mindful that there is an ongoing need to monitor overheads and costs associated with delivering the exploration programme, and raise additional working capital on an ad hoc basis to support the Group's activities. The Group has no bank facilities and has been meeting its working capital requirements from cash resources. At the year end, the Group had cash and cash equivalents amounting to US$1.3 million (2015: US$2.4 million).

The Directors have prepared cash flow forecasts for the Group for the period to June 2018 based on their assessment of the prospects of the Group's operations. These cash flow forecasts include its normal operating costs for all operations, discretionary and non-discretionary exploration and development expenditure (including the 3D seismic shoot under the assumption that the permit will be issued by the BLM), and the sale of the SDA mill. These forecasts indicate that the Group will be required to raise additional equity funding in the forecasted period. In the event that the sale of the SDA mill does not proceed, or is completed at reduced consideration, and the Group ceases all discretionary expenditure (including the 3D seismic shoot), the forecasts still indicate that the Group will require additional equity funding in the foreseeable future. The ability of the Company to raise sufficient additional equity funding in the foreseeable future may be affected by market conditions and may be subject to shareholder approval.

3. Significant Accounting Policies continued

The Directors acknowledge that the circumstances detailed above represent a material uncertainty that may cast significant doubt upon the Group and Company's ability to continue as a going concern and that therefore the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business. Nevertheless, having given consideration to the uncertainties described above, the Directors have a reasonable expectation that a sale of the SDA mill will be completed in due course, and the 3D seismic permit will be granted, which will allow the Group to raise sufficient funding to continue in operational existence for the foreseeable future. Despite challenging capital markets, the Company and Group have been successful historically in raising equity finance and consider that they have reasonable grounds for believing these past successes will continue. For these reasons, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements. The financial statements do not include any adjustment that would result from the basis of preparation being inappropriate.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings (together, 'the Group') made up to 31 December each year.

Subsidiary undertakings are those entities controlled directly or indirectly by the Company. Control is achieved when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date on which control is transferred to the Group or, up to the date that control ceases, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used by the Group.

The Group applies the acquisition method to account for business combinations. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Acquisition-related costs are recognised in profit or loss as incurred.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of the acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are re-measured at fair value at the acquisition date and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Notes to the Financial Statements

continued

3. Significant Accounting Policies continued

Joint Arrangements

The Group identifies joint arrangements as those arrangements in which two or more parties have joint control, where joint control is evidenced by the contractually agreed sharing of control of an arrangement, which exists where the decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

Joint operations are identified as those agreements whereby the parties have rights to the assets and obligations for liabilities relating to the arrangement. Joint operations are accounted for by recognising the operator's relevant share of assets, liabilities, revenues and expenses.

Joint ventures are identified as those agreements whereby the parties have rights to the net assets of the arrangement and are accounted for using equity accounting in accordance with IAS 28. Interest in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

The Group has assessed the nature of its joint arrangements and determined them to be joint operations. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Non-Current Assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Investments

Long term investments representing interests in subsidiary undertakings are stated at cost less any provision for impairment in the value of the non-current investment.

Intangible Exploration and Evaluation Assets

The Group applies the full cost method of accounting for Exploration and Evaluation ("E&E") costs, having regard to the requirements of *IFRS 6 Exploration for and Evaluation of Mineral Resources*. Under the full cost method of accounting, costs of exploring for and evaluating mineral resources are accumulated by reference to appropriate cost centres being the appropriate licence area, but are tested for impairment on a cost pool basis as described below.

3. Significant Accounting Policies continued

E&E assets comprise costs of (i) E&E activities that are on-going at the balance sheet date, pending determination of whether or not commercial reserves exist and (ii) costs of E&E that, whilst representing part of the E&E activities associated with adding to the commercial reserves of an established cost pool, did not result in the discovery of commercial reserves.

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the income statement as they are incurred.

Exploration and evaluation costs

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

Intangible costs include directly attributable overheads together with the cost of other materials consumed during the exploration and evaluation phases.

Treatment of E&E assets at conclusion of appraisal activities

Intangible E&E assets related to each exploration licence/project are carried forward until the existence (or otherwise) of commercial reserves has been determined. If commercial reserves have been discovered, the related E&E asset are assessed for impairment on a cost pool basis as set out below and any impairment is recognised in the income statement. The carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as development and production assets.

Intangible E&E assets that related to E&E activities that are determined not to have resulted in the discovery of commercial reserves remain capitalised as intangible E&E assets at cost less accumulated amortisation, subject to meeting a pool-wide impairment test in accordance with the accounting policy for impairment of E&E assets set out below. Such E&E assets are amortised on a unit-of-production basis over the life of the commercial reserves of the pool to which they relate.

Impairment of Intangible Exploration and Evaluation Assets

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include, but are not limited to, those situations outlined in paragraph 20 of IFRS 6 *Exploration for and Evaluation of Mineral Resources* and include the point at which a determination is made as to whether or not commercial reserves exist.

Where there are indications of impairment, the E&E assets concerned are tested for impairment. Where the E&E assets concerned fall within the scope of an established full cost pool, the E&E assets are tested for impairment together with all development and production assets associated with that cost pool, as a single cash generating unit.

The aggregate carrying value is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cash flow expected to be derived from production of commercial reserves. Where the E&E assets to be tested fall outside the scope of any established cost pool, there will generally be no commercial reserves and the E&E assets concerned will generally be written off in full.

If the recoverable amount of a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

3. Significant Accounting Policies continued

When an impairment loss subsequently reverses, the carrying amount of the 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 cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

The Group considers each area of exploration, gold and silver, uranium, copper and oil & gas on a geographical basis to be a separate cost pool and therefore aggregates all specific assets for the purposes of determining whether impairment of E&E assets has occurred.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset into use.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives at the following rates:

Ore processing mill	over the life of the mill
Plant and machinery	over 5 to 10 years

The estimated useful lives, residual value and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

Impairment of Property, Plant and Equipment

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment with finite lives 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 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 (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

3. Significant Accounting Policies continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Revenue Recognition

Revenue from the sale of minerals and oil and gas products is recognised when persuasive evidence of an arrangement exists, usually in the form of an executed sales agreement, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required by the Group, the quantity and quality of the goods has been determined with reasonable accuracy and the goods have been delivered. This is when title is determined to pass. Revenue is measured at the fair value of the consideration received or receivable.

Royalty payments are recognised as a cost of sale when the related production revenue is recognised.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Operating Expenses

Costs incurred prior to obtaining the legal rights to explore an area together with any costs which cannot be allocated to a specific exploration project are expensed directly to the income statement and included as operating expenses.

Operating expenses in respect of oil and gas activities include lease operating expenses, production taxes, general and administrative expenses and oil and gas depreciation, depletion and amortisation.

Lease operating expenses

Costs incurred in respect of maintaining and operating property and equipment on a producing oil and gas lease are included as lease operating expenses.

Development Expenses

Costs incurred in respect of mining activities, prior to the commencement of production, are expensed directly to the income statement and included as development expenses.

Project Development Expenses

Costs incurred by the Group in respect of the assessment and pursuit of potential new projects are expensed directly to the income statement and, where material are disclosed on a separate line in the income statement.

Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Foreign Currencies

For the purpose of the consolidated financial statements, the results and financial position are expressed in United States dollar, which is the presentation currency for both company and consolidated financial statements.

3. Significant Accounting Policies continued

In preparing the financial statements of the individual companies, transactions in currencies other than the functional currency of each group company ("foreign currencies") are translated into the functional currency at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated into the functional currency at the rates prevailing on the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange differences are recognised in the profit or loss in the period in which they arise, except for foreign exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur and which, therefore, form part of the net investment in the foreign operation. Foreign exchange differences arising on the translation of the Group's net investment in foreign operations are recognised as a separate component of shareholders' equity via the statement of other comprehensive income. On disposal of foreign operations and foreign entities, the cumulative translation differences are recognised in the income statement as part of the gain or loss on disposal.

For the purpose of presenting company and consolidated financial statements, the assets and liabilities of the Company, and the Group's operations which have a functional currency other than United States dollar, are translated using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Foreign exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity. Equity items are translated at the exchange rates at the date of transactions and foreign exchange differences arising, if any, are accumulated directly in equity.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation or loss of joint control over a jointly controlled entity that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Where there is no change in the proportionate percentage interest in an entity then there has been no disposal or partial disposal and accumulated exchange differences attributable to the Group are not reclassified to profit and loss.

Fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

Retirement Benefits

The Group makes contributions to the personal pension schemes for some of its employees and Directors. Payments to these schemes are charged as an expense in the income statement in respect of pension costs payable in the year. There were no unpaid contributions at the period end.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

3. Significant Accounting Policies continued

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted at the reporting date.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Financial Instruments

Recognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset only when the contractual rights to cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for the amount it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or expired.

3. Significant Accounting Policies continued

Financial Assets

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost less any provision for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash-in-hand and on-demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash with three months or less remaining to maturity and are subject to an insignificant risk of changes in value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

The costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that would otherwise have been avoided.

Trade and other payables

Trade and other payables are initially measured at their fair value, and are subsequently measured at amortised cost using the effective interest rate method.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic resources will result and that outflow can be reliably measured.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receipt can be measured reliably.

Decommissioning

Provision for decommissioning is recognised in full when the related facilities are installed. The decommissioning provision is calculated as the net present value of the Group’s share of the expenditure expected to be incurred at the end of the producing life of the facility in the removal and decommissioning of the production, storage and transportation facilities currently in place. The cost of recognising the decommissioning provision is included as part of the cost of the relevant asset and is thus charged to the income statement in accordance with the Group’s policy for depreciation of property, plant and equipment. Period charges for changes in the net present value of the decommissioning provision arising from discounting are included in finance costs.

3. Significant Accounting Policies continued

Share-Based Payments

The Group has applied the requirements of IFRS 2 Share-based Payment for all grants of equity instruments.

The Group operates an equity-settled share option plan and a share-based compensation plan in respect of certain Directors, employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value of the service received in exchange for the grant of options and equity is recognised as an expense. The fair value determined at the grant date of equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value of option grants is measured by use of the Black Scholes model for non-performance based options. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

The grant by the Company of options and share-based compensation plans over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

Segmental Reporting

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 and assessing performance of the operating segments and making strategic decisions, has been identified as the Board of Directors.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of the assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty continued

The following are the critical judgements and estimations that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Recoverability of Intangible Exploration and Evaluation Assets

Determining whether an exploration and evaluation asset is impaired requires an assessment of whether there are any indicators of impairment, including by reference to specific impairment indicators prescribed in IFRS 6 *Exploration for and Evaluation of Mineral Resources*. If there is any indication of potential impairment, an impairment test is required based on the recoverable amount of the asset. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. At 31 December 2016, the Directors determined that there were indicators of impairment in respect of the Group's intangible O&G exploration and evaluation assets held in Germany and of the Group's uranium and copper exploration and evaluation assets held in U.S.A and Mexico, on the basis that the carrying amount of these assets may not be recovered in full. The Directors therefore considered that it was appropriate to make a provision for impairment in respect of these assets at the year end.

The carrying amount of intangible exploration and evaluation assets at the balance sheet date was US$10.1 million (2015: US$10.2 million) and an impairment of US$0.36 million (2015: US$3.7 million) was identified and recognised in the year to 31 December 2016, US$0.34 in respect of uranium and copper assets and US$0.02 in respect of O&G assets held in Germany.

Recoverability of Loans to Subsidiary Undertakings

The Company has outstanding loans from its directly held subsidiaries which have then made a number of loans to their own subsidiaries as the primary method of financing the activity of those subsidiaries. The principal loans are shown in the Company balance sheet on the basis that the loans incur interest at a commercial rate according to the Group's inter-company loan policy, which is being rolled up until such time as the subsidiaries are in a position to settle. However, there is a risk that the indirectly held subsidiaries will not commence revenue-generating activities and that the carrying amount of the Company's investment will, therefore, exceed the recoverable amount. The Board have assessed the recoverability of its loans based on this risk and the Directors consider that, in consideration of the losses currently being generated and the impairment of the Group's intangible exploration and evaluation assets which was recognised at 31 December 2016, a provision of US$1.5 million (2015: US$8.2 million) should be recognised by the Company in the year to 31 December 2016.

5. Revenue

The external revenue of the Group arises from the sale of precious minerals arising from activities in Mexico. The revenue reported during the year ended 31 December 2016 of US$0.9 million relates to the milling of third party ore in Mexico.

6. Segmental Information

For management purposes, the Group is organised into three operating divisions based on its principal activities of gold and silver mining, research and evaluation of potential uranium and copper properties and the exploration and development of O&G resources. These divisions are the basis on which the Group reports its segment information.

Segment information about these divisions is presented below.

	2016 US$'000	2015 US$'000
Income statement		
Revenue		
Gold and silver	898	4,129
O&G	–	191
	898	4,320
Segmental results		
Uranium and copper	(483)	(3,470)
Gold and silver	(454)	(698)
O&G	1,544	(1,975)
Total segment results	607	(6,143)
Loss on disposal of assets held for sale	–	(485)
Unallocated results	(1,877)	(3,236)
Current and deferred tax	1,120	797
Loss after taxation	(150)	(9,067)

The unallocated results of US$1.87 million include costs associated with the Cuba project (refer to note 8), Directors remuneration and other general and administrative costs incurred by the Company.

	2016 US$'000	2015 US$'000
Depreciation		
Uranium and copper	2	2
Gold and silver	164	182
O&G	35	50
	201	234

	2016 US$'000	2015 US$'000
Impairment		
Uranium and copper	344	3,141
O&G	16	553
	360	3,694

Notes to the Financial Statements

continued

Employees

The average numbers of employees for the year for each of the Group's principal divisions were as follows:

	2016 Number	2015 Number
Uranium and copper	1	2
Gold and silver	36	41
O&G	2	9
Total segment employees	39	52
Unallocated employees	2	2
Total employees	41	54

	2016 US$'000	2015 US$'000
Balance Sheet		
Segment assets		
Uranium and copper	60	467
Gold and silver	1,410	2,318
O&G	10,237	10,289
Total segment assets	11,707	13,074
Unallocated assets including cash and cash equivalents	1,256	1,669
Total assets	12,963	14,743
Segment liabilities		
Uranium and copper	5	3
Gold and silver	192	306
O&G	105	163
Total segment liabilities	302	472
Unallocated liabilities	332	404
Current and deferred tax	1	3
Total liabilities	635	879
Segment net assets		
Uranium and copper	55	464
Gold and silver	1,217	2,009
O&G	10,132	10,126
Total segment net assets	11,404	12,599
Unallocated net assets including cash and cash equivalents	924	1,265
Total net assets	12,328	13,864

7. Operating and Development Expenses

	2016 US$'000	2015 US$'000
Operating expenses – mining	162	364
Operating expenses – O&G	405	818
Development expenses	33	340
	600	1,522

Development expenses represent expenditure incurred by the Group in respect of mining activities prior to the commencement of production.

8. Project Development Expenses

	2016 US$'000	2015 US$'000
Cuba project	580	–

Project development expenses represent expenditure incurred by the Group in respect of the assessment and pursuit of new projects.

9. Impairment of Intangible Exporation and Evaluation Assets

	2016 US$'000	2015 US$'000
Uranium and copper assets	344	3,141
O&G assets	16	553
	360	3,694

During 2016, the Group relinquished its interest in its hydrocarbon licences in the Weiden Basin, located in the State of Bavaria, southeast Germany. The assets were impaired in full during the year, resulting in an impairment charge of US$0.01 million being recognised in the year, and the Group ceased to recognise the assets at 31 December 2016. See note 17.

At 31 December 2016, there were indicators of impairment of both the Group's intangible uranium assets held in the U.S.A. and its intangible copper assets held in Mexico. The Directors consider that there is reasonable uncertainty that the Group will recover the carrying value of these assets and as a result an impairment charge of US$0.3 million has been recognised in the year.

In April 2016, the Board announced that it had entered into an agreement with Rockies Standard to terminate its earn-in rights to the Mancos acreage and dispose of the Cisco Dome field and related assets. The Group had a number of operator bonds in place with the State of Utah and Bureau of Land Management ("BLM"), and under the terms of this agreement the Group agreed to leave these bonds in place for the benefit of Rockies Standard. The Board determined that it was appropriate to make a provision for impairment in respect of these bonds, and as a result an impairment charge of US$0.006 million (2015: US$0.4 million) has been recognised in the year.

The remaining intangible exploration and evaluation assets have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. These assets are not amortised until technical feasibility and commercial viability is established.

10. Finance Income

	2016 US$'000	2015 US$'000
Interest on bank deposits	4	13
Unwinding of discount on provisions	5	–
	9	13

11. Finance Costs

	2016 US$'000	2015 US$'000
Unwinding of discount on provisions	–	5

12. Loss before Taxation

The loss for the year has been arrived at after charging/(crediting):

	2016 US$'000	2015 US$'000
Depreciation of property, plant and equipment	201	234
Loss on disposal of property, plant and equipment	17	–
Staff costs excluding share-based payments	1,409	2,788
Share-based payments	326	1,523
Operating leases – land and buildings	166	284
Net foreign exchange gains	(2,496)	(438)

13. Auditor's Remuneration

Amounts payable to the external auditors and their associates in respect of both audit and non-audit services:

	2016 US$'000	2015 US$'000
Audit of these financial statements	23	23
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	41	46
	64	69

14. Staff Costs

The average monthly number of employees (including Executive Directors) was:

	2016 Number	2015 Number
Office and management	2	6
Operations	39	48
	41	54

14. Staff Costs continued

Their aggregate remuneration comprised:

	2016 US$'000	2015 US$'000
Wages and salaries	1,204	3,079
Social security costs	177	294
Other pension costs	29	129
Share-based payments	210	1,398
	1,620	4,900

There were no wages and salaries capitalised to intangible exploration and evaluation assets during the year ended 31 December 2016 (2015: US$0.7 million).

The remuneration of the highest paid Director was US$0.2 million (2015: US$0.3 million) and pension contributions of US$0.02 were made on their behalf.

15. Taxation

	2016 US$'000	2015 US$'000
Current tax:		
Current year	8	10
Total current tax	8	10
Deferred tax:		
Origination and reversal of temporary differences	(1,128)	(807)
Total deferred tax	(1,128)	(807)
Tax credit on loss for the year	(1,120)	(797)

The credit charge for the year can be reconciled to the loss per the income statement as follows:

	2016 US$'000	2015 US$'000
Loss before tax	1,270	9,864
Loss multiplied by rate of corporation tax for UK companies of 20% (2015: 20.25%)	(254)	(1,998)
Effects of:		
Expenses not deductible for tax purposes	153	960
Temporary differences	(605)	(407)
Share-based payments	65	309
Unrelieved tax losses carried forward	42	734
Difference in foreign tax rates	(521)	(395)
Tax credit on loss for the year	(1,120)	(797)

There has been no impact due to changes in UK taxation rates during the years reported.

Unrelieved tax losses carried forward, as detailed in note 26, have not been recognised as a deferred tax asset, as there is currently insufficient evidence that the asset will be recoverable in the foreseeable future. The losses must be utilised in relation to the same operations. Tax for other jurisdictions is provided at rates prevailing in those countries.

15. Taxation continued

Income tax charge included in other comprehensive income during the year is:

	2016 US$'000	2015 US$'000
Foreign tax on net investment in foreign operations	1,128	1,212

16. Loss per Ordinary Share

Basic loss per Ordinary Share is calculated by dividing the net loss for the year attributable to owners of the parent company by the weighted average number of Ordinary Shares in issue during the year. The calculation of the basic and diluted loss per Ordinary Share is based on the following data:

	2016 US$'000	2015 US$'000
Losses		
Losses for the purpose of basic loss per Ordinary Share being net loss attributable to owners of the parent company	(150)	(9,067)
	Number '000	**Number '000**
Number of shares		
Weighted average number of shares for the purpose of basic loss per Ordinary Share	3,008,811	2,037,308
Loss per Ordinary Share		
Basic and diluted, cents per share	(0.01)	(0.45)

Due to the losses incurred in the years reported, there is no dilutive effect from the existing share options, share based compensation plan or warrants.

17. Intangible Assets

	Exploration and evaluation assets US$'000
Cost	
At 1 January 2015	15,433
Additions	4,010
Relinquishment of licences	(887)
Exchange differences	(45)
At 1 January 2016	18,511
Additions	276
Disposals	(607)
Relinquishment of licences	(2,303)
Exchange differences	(54)
At 31 December 2016	15,823
Impairment	
At 1 January 2015	5,486
Impairment charge	3,694
Relinquishment of licences	(887)
Exchange differences	(3)
At 1 January 2016	8,290
Impairment charge	360
Disposals	(602)
Relinquishment of licences	(2,303)
Exchange differences	(39)
At 31 December 2016	5,706
Carrying amount	
At 31 December 2016	10,117
At 31 December 2015	10,221

Rockies Standard Earn-In Agreement

In March 2014, the Group signed an agreement under which its subsidiary, Rose Petroleum (Utah) LLC ("Rose Utah"), acquired the right to commence earning into a 75 per cent working interest of certain oil, gas and hydrocarbon leases in Grand and Emery Counties, Utah, from Rockies Standard Oil Company LLC ("RSOC"), which retains the remaining 25 per cent working interest.

Farm-in costs incurred by the Group are accounted for as required by the relevant accounting standards including the capitalisation of intangible exploration and evaluation assets in accordance with IFRS 6.

In April 2016, the Group entered into a revised agreement with RSOC to cease earning into the Mancos acreage and dispose of the Cisco Dome field, wells, pipelines, gas tap, gas plant and all the associated equipment and liabilities.

17. Intangible Assets continued

As part of the revised agreement the Group agreed to cover the cost of the existing plug and abandonment liability of the four wells already scheduled with the authorities for the sum of US$0.3 million, and this obligation was settled during the year. The Group also agreed to leave the existing operator bonds in place with the State of Utah and Bureau of Land Management, which are now refundable to RSOC rather than the Group.

RSOC has, in turn, agreed to reduce the Group's carry obligation to earn the 75 per cent working interest in the Paradox acreage by US$2.0 million to US$5.5 million. Under the terms of the agreement, the obligation is not contractually committed and therefore no liability or contingent liability has been recognised in these financial statements. The Group was also given an exclusive option to acquire RSOC's 25 per cent interest in the Paradox acreage for a one-time payment of US$1.0 million at any time prior to 30 June 2016, however, this option was not exercised.

The Group has not recognised any disposal of its intangible exploration and evaluation assets, other than the bonds, as it considers its total expenditure on the project as one cost pool whose carrying value is supported by the remaining acreage in the Paradox.

The Group's total expenditure in respect of its U.S.A. O&G assets, included within intangible exploration and evaluation assets, as at 31 December 2016 is US$10.1 million (2015: US$9.9 million).

Tango Project

On 25 August 2014, Minerales VANE S.A. de C.V., a wholly owned subsidiary of the Group, entered into an agreement with Minera Camargo S.A de C.V. ("Camargo"), in respect of both gold and silver and base metal exploration. Under the terms of the agreement MV has the right to operate gold and silver mining activities at concessions owned by Camargo with gross margin earned to be allocated on the basis of 50 per cent to MV and 50 per cent to Camargo. In addition, MV has the option to earn a 75 per cent ownership of the base metals (porphyries) by investing US$5.0 million in work expenditures over a period of 5 years. Under the terms of the agreement, the option to earn-in is not contractually committed and therefore no liability or contingent liability has been recognised in these financial statements.

The Directors consider that there is reasonable uncertainty that the Group will recover the carrying value of these assets and as a result they have been impaired in full at 31 December 2016.

German Licences

At 31 December 2015, the Group had relinquished, and ceased to recognise its interest in two hydrocarbon licences in south-western Germany. During 2016, the Group has further relinquished its interest in its hydrocarbon licences in the Weiden Basin, located in the State of Bavaria, southeast German, and has ceased to recognise them at 31 December 2016.

U.S.A. Copper Projects

On 2 March 2016, the Group entered into an agreement with Burdett Gold LLC ("Burdett") to conduct exploration drilling on the Ardmore copper project. The terms included a cash payment of US$5,350 and the Group retained a 15 per cent net profit interest in the Ardmore project and any other claims that Burdett might acquire within a three-mile area.

In May 2016, the Group assigned its interest in the Bouse copper project to a third party. No compensation was received in respect of this assignment.

All remaining licences relating to U.S.A. copper projects were relinquished during the year and have ceased to be recognised at 31 December 2016.

18. Property, Plant and Equipment

	Diablito mine US$'000	Ore processing mill US$'000	Plant and machinery US$'000	Total US$'000
Cost				
At 1 January 2015	6,752	797	930	8,479
Additions	–	56	66	122
De-recognition	(6,343)	–	–	(6,343)
Exchange differences	(409)	(119)	(117)	(645)
At 1 January 2016	–	734	879	1,613
Additions	–	10	–	10
Disposals	–	–	(64)	(64)
Exchange differences	–	(120)	(110)	(230)
At 31 December 2016	–	624	705	1,329
Accumulated depreciation				
At 1 January 2015	6,752	543	361	7,656
Charge for the year	–	79	155	234
De-recognition	(6,343)	–	–	(6,343)
Exchange differences	(409)	(88)	(57)	(554)
At 1 January 2016	–	534	459	993
Charge for the year	–	93	108	201
Disposals	–	–	(38)	(38)
Exchange differences	–	(96)	(68)	(164)
At 31 December 2016	–	531	461	992
Carrying amount				
At 31 December 2016	–	93	244	337
At 31 December 2015	–	200	420	620

The depreciation has been charged to the income statement as follows:

	2016 US$'000	2015 US$'000
Cost of sales	124	110
Operating and development expenses	38	69
Administrative expenses	39	55
	201	234

Notes to the Financial Statements

continued

19. Investments

		Company	
	Shares in subsidiary undertakings US$'000	Loans to subsidiary undertakings US$'000	Total US$'000
Cost			
At 1 January 2015	6,040	34,268	40,308
Additions	–	8,810	8,810
Capital contribution	–	797	797
Exchange differences	(283)	(1,629)	(1,912)
At 1 January 2016	5,757	42,246	48,003
Additions	–	2,194	2,194
Capital contribution	–	(195)	(195)
Exchange differences	(958)	(7,079)	(8,037)
At 31 December 2016	4,799	37,166	41,965
Impairment			
At 1 January 2015	–	23,800	23,800
Impairment charge	–	8,186	8,186
Exchange differences	–	(1,376)	(1,376)
At 1 January 2016	–	30,610	30,610
Impairment charge	3,572	(2,050)	1,522
Exchange differences	(320)	(4,910)	(5,230)
At 31 December 2016	3,252	23,650	26,902
Carrying amount			
At 31 December 2016	1,547	13,516	15,063
At 31 December 2015	5,757	11,636	17,393

The Company has a number of loans made to its subsidiaries which incur interest at a commercial rate, according to the Group's inter-company loan policy. However, there is a risk that the subsidiaries will not commence revenue-generating activities and that the carrying amount of the investments exceed the recoverable amount. The Board have assessed the recoverability of these loans and consider that a provision of US$1.5 million (2015: US$8.2 million) should be recognised in the period.

Notes to the Financial Statements

continued

19. Investments continued

The Company had investments in the following subsidiary undertakings as at 31 December 2016 which principally affected the losses and net assets of the Group:

	Place of incorporation (or registration) and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
Directly owned:				
VANE Minerals (UK) Limited	UK	100%	100%	Holding company
Rose Petroleum (UK) Limited	UK	100%	100%	Holding company
Rose Cuba Limited	UK	100%	100%	Holding company
Rose Resources Limited	UK	100%	100%	Holding company
Indirectly owned:				
AVEN Associates LLC	U.S.A.	100%	100%	Exploration
VANE Minerals (US) LLC	U.S.A.	100%	100%	Exploration
Minerales VANE S.A. de C.V.	Mexico	100%	100%	Mining
Minerales VANE Operaciones S.A. de C.V.	Mexico	100%	100%	Mining
Naab Energie GmbH	Germany	100%	100%	Exploration
Rose Petroleum (US) LLC	U.S.A.	100%	100%	Holding company
Rose Petroleum (Utah) LLC	U.S.A.	100%	100%	Exploration
Rose Gypsum Limited	UK	100%	100%	Holding company

Parkyn Energy Germany GmbH, a wholly owned subsidiary of Rose Petroleum (UK) Limited, was dissolved on 11 August 2015 and the required period of liquidation was completed on 31 December 2016.

Parkyn Energy (Holdings) plc and Parkyn Energy (Germany) Limited were struck off by the Company during the year.

The registered office address of all companies incorporated in the United Kingdom is 20-22 Wenlock Road, London, N1 7GU.

The registered office address for VANE Minerals (US) LLC and AVEN Associates LLC is 8987 E. Tanque Verde Road, Tucson, Arizona 85749.

The registered office address for all companies registered in Mexico is Humboldt No. 121, Colonia del Valle, C.P. 78200, San Luis Potosi, S.L.P.

The registered office address for Rose (US) LLC and Rose Petroleum (Utah) LLC is 383 Inverness Parkway, Ste 330, Englewood, CO 80112.

The registered office address for Naab Energie GmbH is Merzhauser Strasse 4, D-79100 Freiburg, Germany.

20. Joint Operations

Arizona Project

On 1 September 2008, the Group entered into a Mining Venture Agreement with Uranium One Americas Inc. ("U1"). The terms of this agreement created a Joint Venture Agreement ("JVA") between VANE Minerals (US) LLC ("VANE") and U1, with each partner holding a 50 per cent interest. The Mining Venture Agreement was amended on 15 July 2013 to extend the terms of the agreement to 31 December 2017. During the year ended 31 December 2015, U1 sold its 50 per cent interest to Anfield Resources Inc. ("Anfield").

The JVA established an agreed sharing of control with decisions about the relevant activities requiring the unanimous consent of VANE and Anfield. The parties have rights to the assets and obligations for liabilities relating to the arrangement and the JVA has, therefore, been accounted for as a joint operation recognising the Group's relevant share of assets, liabilities, revenues and expenses as appropriate.

The JVA combined interests in over 60 breccia pipe targets, including 10 known mineralised pipes, in northern Arizona and also secured access to U1's Ticaboo Mill in Utah for ore developed on JV properties.

The aggregate amounts related to the joint operation included within the consolidated accounts are:

	2016 US$'000	2015 US$'000
Net assets	47	53
Expenses	(3)	(3)

21. Inventories

	Group	
	2016 US$'000	2015 US$'000
Work in progress	–	19

22. Trade And Other Receivables

	Group		Company	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Trade receivables	–	12	–	–
Amounts owed by Group companies	–	–	–	242
Amounts owed by joint arrangement partners	35	35	–	–
VAT recoverable	608	683	25	16
Tax recoverable	263	311	–	–
Other receivables	35	161	3	15
Prepayments & accrued income	295	282	41	49
	1,236	1,484	69	322

At 31 December 2015, other receivables included the sum of US$0.05 million in respect of the disposal of assets held for sale at 31 December 2014 and which was received during the year ended 31 December 2016. See note 24.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

23. Cash and Cash Equivalents

Cash and cash equivalents held by the Group and the Company as at 31 December 2016 were US$1.3 million and US$1.2 million respectively (2015: US$2.4 million, US$1.6 million). The Directors consider that the carrying amount of these assets approximate to their fair value.

24. Assets held for Sale

At 31 December 2014, the Board had resolved to dispose of the Group's interest in Wate Mining Company LLC and these operations were classified as non-current assets held for sale and presented separately in the balance sheet.

On 17 February 2015 (the "closing"), the Company completed the sale of its 50 per cent interest in Wate Mining Company LLC ("Wate") to EFR Arizona Strip LLC ("EFR"). As consideration for the 50 per cent interest EFR agreed to pay a total of US$1.75 million, consisting of an immediate cash payment of US$0.25 million, a US$0.5 million non-interest bearing promissory note, payable in two equal instalments of US$0.25 million on each of the first and second anniversaries of the closing, a further US$0.5 million conditional cash, and 2 per cent production royalty on EFR's stake in the project. The royalty can be purchased by EFR upon payment to the Company of an additional sum of US$0.75 million, less any royalties previously paid.

The Company received the immediate cash payment of US$0.25 million on closing, however, prior to payment of the first instalment of the non-interest bearing promissory note due, an addendum to the terms of the original agreement was agreed with EFR. Under the terms of this addendum it was agreed that EFR would make a payment of US$0.05 million in respect of the US$0.25 million due on 17 February 2016 and defer the remainder of all payments due under the non-interest bearing promissory note until the commencement of commercial production. No further payments have fallen due during the year ended 31 December 2016.

Due to the uncertainty surrounding the commencement of commercial production and receipt of further funds the Company has only recognised those funds of which there was certainty, when calculating the loss on disposal of Wate.

The net assets of Wate at the date of disposal were:

	17 February 2015 US$'000
Intangible exploration and evaluation assets	785
Loss on disposal	(485)
Proceeds on disposal	300

Wate Mining Company LLC did not contribute to the Group's net operating cash flows during the year ended 31 December 2015.

25. Trade and Other Payables

	Group		Company	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Trade payables	102	134	55	58
Amounts owed to Group companies	–	–	–	31
VAT payable	7	14	–	–
Taxes and social security	40	38	17	16
Other payables	–	–	–	–
Accruals	375	498	92	99
	524	684	164	204

Trade payables and accruals principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade purchases is 30 days (2015: 30 days). The Group has financial risk management policies to ensure that all payables are paid within the credit time frame.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. No interest is generally charged on balances outstanding.

26. Deferred Tax

There are unrecognised deferred tax assets in relation to:

	2016 US$'000	2015 US$'000
UK tax losses	5,252	5,428
U.S.A. tax losses	15,952	17,355
German tax losses	–	57
Mexican tax losses	2,271	1,953
Republic of Ireland tax losses	–	41
	23,475	24,834

The unrecognised deferred tax asset in relation to tax losses in the Company at 31 December 2016 was US$0.8 million (2015: US$0.5 million).

There has been no impact due to changes in UK taxation rates during the years reported.

27. Provisions

	Group Decommissioning	
	2016 US$'000	2015 US$'000
At 1 January	192	52
Additions	10	143
On disposal	(87)	–
Unwinding of discount	(5)	5
Exchange differences	–	(8)
At 31 December	110	192
Current provision	110	–
Non-current provision	–	192
At 31 December	110	192

In accordance with the Group's environmental policy and applicable legal requirements, the Group expects to restore sites where it has carried on activities, following final conclusion of those activities.

Under the terms of the revised agreement with RSOC, the Group no longer has any restoration obligations in respect of its O&G assets. See note 17.

A provision is required to cover the decommissioning costs for the ore processing mill and the Directors' assumptions are that restoration of the Mill will take place within twelve months of the Balance Sheet date.

28. Share Capital

	Group and Company			
	2016		2015	
	Number '000	US$'000	Number '000	US$'000
Authorised				
Ordinary Shares of 0.1p each	7,779,297	9,599	7,779,297	11,515
Deferred Shares of 9.9p each	190,108	23,223	190,108	27,858
	7,969,405	32,822	7,969,405	39,373
Allotted, issued and fully paid				
Ordinary Shares of 0.1p each	3,764,471	5,722	2,550,185	4,125
Deferred Shares of 9.9p each	190,108	34,640	190,108	34,640
	3,954,579	40,362	2,740,293	38,765

The Deferred Shares are not listed on AIM, do not give the holders any right to receive notice of, or to attend or vote at, any general meetings, have no entitlement to receive a dividend or other distribution or any entitlement to receive a repayment of nominal amount paid up on a return of assets on a winding up nor to receive or participate in any property or assets of the Company. The Company may, at its option, at any time redeem all of the Deferred Shares then in issue at a price not exceeding £0.01 from all shareholders upon giving not less than 28 days' notice in writing.

28. **Share Capital** continued

Issued Ordinary Share Capital

On 6 May 2016, the Company issued 500,000,000 Ordinary Shares of 0.1p each at a price of 0.16p per share, raising gross proceeds of US$1.16 million (£0.8 million).

On 26 October 2016, the Company issued 714,285,714 Ordinary Shares of 0.1p each at a price of 0.14p per share, raising gross proceeds of US$1.22 million (£1.0 million). In addition, for every two shares issued the subscriber received a warrant to subscribe for a new Ordinary Share at a price of £0.25p per share, resulting in the issue of 357,142,857 warrants which are exercisable at any time until October 2019. Considering the Company's average share price during the year in relation to the exercise price of the warrants, no value has been attributed to the warrants and the full value of the consideration received for the share placing has been allocated to share capital.

	Ordinary Shares Number '000
At 1 January 2015	1,510,185
Allotment of shares	1,040,000
At 1 January 2016	2,550,185
Allotment of shares	1,214,286
At 31 December 2016	3,764,471

29. Share-Based Payments

Equity Settled Share Option Plan

The Company has a Share Option Plan under which options to subscribe for the Company's shares have been granted to certain Directors and to selected employees and consultants. The Rose Petroleum plc Share Option Plan was originally adopted by the Company on 25 May 2004, and in August 2013, was replaced by the adoption of the 2013 Share Option Plan Part A (employees) and 2013 Share Option Plan Part B (non-employees).

No share options were granted during the year ended 31 December 2016 (2015: 20 million).

At 31 December 2016, 130.8 million options had been granted under the terms of the Share Option Plans and not exercised.

The Company has no legal or constructive obligation to repurchase or settle the options in cash. The latest date for exercise of the options is 15 March 2025 and the options are forfeited if the employee or consultant leaves the Group before the options vest, or if those options which have vested are not exercised within three months of leaving.

Details of the share options outstanding at the end of the year were as follow:

	2016		2015	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Outstanding at 1 January	155,533	1.938p	183,200	1.725p
Granted	–	–	20,000	1.800p
Forfeited/cancelled	(24,750)	2.437p	(47,667)	1.062p
Outstanding at 31 December	130,783	1.843p	155,533	1.938p
Exercisable at 31 December	104,950	1.615p	71,967	1.596p

28. Share Capital continued

The options outstanding and not yet vested at 31 December 2016 had an estimated weighted average remaining contractual life of 0.7 years (2015: 1 year), with an exercise price ranging between 1.625p and 3.425p.

Share-Based Compensation

Under the terms of a contract of employment the Company agreed to issue Ordinary Shares in the Company to a Director in return for services provided. The fair value of the services provided can be measured directly, and accordingly, an expense of US$0.05 million was recognised in the year ended 31 December 2015. No further expense has been recognised in the current year.

Warrants

On 26 October 2016, the Company issued 42,857,142 warrants to Turner Pope Investments, in respect of broker services provided by them in relation to the placing of the Company's shares which took place on the same date. The warrants permit the holder to subscribe for one new Ordinary Share at a price of 0.25 pence per share and are exercisable at any time until October 2019.

As the fair value of the services provided by the warrant holder cannot be measured directly, the Company has measured the value of the services by reference to the fair value of the equity instruments granted as consideration, using the Black-Scholes model. The significant inputs into the model for the IFRS 2 valuation were as follows:

	Grants in year 42,857,142 warrants
Exercise price (pence)	0.25
Expected volatility (%)	105-117
Expected life (years)	2.52
Risk free rates (%)	0.19-0.27
Expected dividends	–
Performance condition	None

Expected volatility was calculated considering Rose Petroleum plc share price movements over a period commensurate with the expected term immediately prior to the issue date.

The fair value of the warrants issued during the year was US$0.05 million (2015: US$ nil).

In the year ended 31 December 2016, the Company recognised a total expense of US$0.32 million (2015: US$1.5 million) related to equity-settled share-based payment transactions. This represented US$0.27 million (2015: US$1.45 million) in respect of the Share Option Plan, US$0.05 million (2015: US$ nil) in respect of warrants and US$ nil (2015: US$0.05) in respect of share-based compensation.

30. Commitments under Operating Leases

The Group has entered into commercial leases on certain properties. The future minimum rentals payable under non-cancellable operating leases are as follows:

	Group		Company	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Land and buildings				
Amounts due within one year	74	126	6	59
Amounts due in 2-5 years	83	232	83	163
	157	358	89	222

31. Financial Instruments

Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns, while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2015.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group is not subject to externally imposed capital requirements.

The Group plans its capital requirements on a regular basis and as part of this review the Directors consider the cost of capital and the risks associated with each class of capital.

Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3.

Categories of Financial Instruments

	Group		Company	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Financial assets measured at amortised cost				
Cash and cash equivalents	1,273	2,399	1,185	1,582
Trade receivables	–	12	–	242
Amounts owed by joint arrangement partners	35	35	–	–
Other receivables	35	161	3	15
Loans to subsidiary undertakings	–	–	13,599	11,636
	1,343	2,607	14,787	13,475

	Group		Company	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Financial liabilities measured at amortised cost				
Trade payables	102	134	55	89
	102	134	55	89

31. Financial Instruments continued

On 26 October 2016, the Company issued 714,285,714 Ordinary Shares of 0.1p each at a price of 0.14p per share, raising gross proceeds of US$1.22 million (£1.0 million). In addition, for every two shares issued the subscriber received a warrant to subscribe for a new Ordinary Share at a price of £0.25p per share, resulting in the issue of 357,142,857 Warrants which are exercisable at any time until October 2019. Considering the Company's average share price during the year in relation to the exercise price of the warrants, no value has been attributed to the warrants and the full value of the consideration received for the share placing has been allocated to share capital.

Fair Value of Financial Instruments

The Directors consider that the carrying amount of its financial instruments approximates their fair value.

Financial Risk Management Objectives

Management provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group. These risks include foreign currency risk, credit risk, liquidity risk and cash flow interest rate risk.

The policies for managing these risks are regularly reviewed and agreed by the Board.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Foreign Exchange Risk and Foreign Currency Risk Management

The Group undertakes certain transactions denominated in foreign currencies, with the result that exposure to exchange rate fluctuations arise.

The Group does not normally hedge against the effects of movements in exchange rates. The Group policy is not to repatriate any currency where there is the requirement or obligation to spend in the same denomination. When foreign exchange is required the Group purchases using the best spot rate available. As a result, there is limited currency risk within the Group and the carrying amount of the Group's currency denominated monetary assets and liabilities at the reporting date are not material.

Interest Rate Risk Management

The Group's policy on interest rate management is agreed at Board level and is reviewed on an on-going basis.

The Group has no substantial exposure to fluctuating interest rates on its liabilities. The Group has no liabilities which attract interest charges at 31 December 2016.

Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flow.

Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group does not have any significant credit risk exposure on trade receivables.

The Group makes allowances for impairment of receivables where there is an identified event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The credit risk on liquid funds (cash) is considered to be limited because the counterparties are financial institutions with high and good credit ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

32. Related Party Transactions

Amounts Due from Subsidiaries

Balances and transactions between the Company and its subsidiaries which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Company has entered into a number of unsecured related party transactions with subsidiary undertakings. The most significant transactions carried out between the Company and their subsidiary undertakings are management charges for services provided to the subsidiary company and long-term financing. Details of these transactions are as follows:

	2016		2015	
	Transactions in the year US$'000	Amounts owing US$'000	Transactions in the year US$'000	Amounts owing US$'000
Loans	1,092	29,787	7,162	34,422
Management charges	562	2,783	1,070	2,664
Interest (1.5%)	539	3,712	578	3,865
Capital contribution	(195)	884	797	1,295

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	2016		2015	
	Transactions in the year US$'000	Amounts owing US$'000	Transactions in the year US$'000	Amounts owing US$'000
Accommodation and office rent	10	4	–	–

The related party is a relative of a Director of the Company.

Remuneration of Key Management Personnel

The remuneration of key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2016		2015	
	Purchase of services US$'000	Amounts owing US$'000	Purchase of services US$'000	Amounts owing US$'000
Short-term employee benefits	473	–	867	–
Consultancy payments	1	1	34	–
Post-employment benefits	29	8	52	2
Share-based payments	324	–	850	–
	827	9	1,803	2

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

All transactions with related parties have been conducted on an arm's length basis.

Included in the amounts for the year ended 31 December 2015 is the sum of US$159,989 paid to JM Blair under the terms of his termination agreement.

32. Related Party Transactions

Directors' Emoluments

Remuneration paid to Directors during the year was as follows:

	2016					
	Emoluments entitlement US$'000	Emoluments[1] taken US$'000	Bonus US$'000	Consultancy US$'000	Pension US$'000	Total US$'000
Executive Directors						
MC Idiens	164	171	34	–	16	221
KK Hefton	78	108	–	–	4	112
KB Scott	38[2]	–	–	1	–	1
CJ Eadie	92	97	–	–	9	106
Non-executive Directors						
PE Jeffcock	45[2]	17	–	–	–	17
	417	393	34	1	29	457

[1] Emoluments include benefits-in-kind which are not included in emoluments entitlement

[2] PE Jeffcock and KB Scott waived their rights to certain emoluments during the year

	2015					
	Emoluments entitlement US$'000	Emoluments[1] taken US$'000	Bonus US$'000	Consultancy US$'000	Pension US$'000	Total US$'000
Executive Directors						
MC Idiens	306	274	–	–	26	300
KK Hefton	157	164	–	–	7	171
KB Scott	46	–	–	34	–	34
JM Blair	63[2]	67	–	–	–	67
CJ Eadie	206	189	–	–	18	207
Non-executive Directors						
Rt Hon Earl of Kilmorey PC	69	52	–	–	–	52
PE Jeffcock	53	40	–	–	–	40
	900	786	–	34	51	871

[1] Emoluments include benefits-in-kind which are not included in emoluments entitlement

Emolument to the date of resignation on 22 April 2015

The remuneration of Directors and key executives is decided by the remuneration committee having regard to comparable market statistics.

Certain Directors operate in the capacity of consultant as described above.

Directors share options are detailed in the Directors Report.

Directors' pensions

	2016 No.	2015 No.
The number of Directors to whom retirement benefits are accruing under money purchase schemes was	2	2

33. Post Balance Sheet Events

All matters relating to events since the balance sheet date have been disclosed elsewhere in the financial statements.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Rose Petroleum plc ("**the Company**") will be held at the offices of Allenby Capital Limited, 3 St Helen's Place, London EC3A 6AB on 29 June 2017 at 9:30 AM at which the following matters will be dealt with:

Ordinary Business

1. To receive the Reports of the Directors and Auditors and the Financial Statements for the Year ended 31 December 2016.

2. To re-elect Matthew Idiens, who retires by rotation, as a Director of the Company.

3. To re-elect Kelly Scott, who retires by rotation, as a Director of the Company.

4. To re-appoint KPMG LLP as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting at which the requirements of section 437 and 438 of the Companies Act 2006 ("**2006 Act**") are complied with.

5. To authorise the Directors of the Company to agree the remuneration of the auditors.

Special Business

As Special Business to consider and, if thought fit, to pass the following resolutions, of which resolution number 6 will be proposed as an ordinary resolution and resolution number 7 will be proposed as a special resolution:

6. THAT the Directors of the Company be and are hereby generally and unconditionally authorised for the purposes of section 551 of the 2006 Act, to issue and allot ordinary shares of 0.1 pence each in the share capital of the Company ("**Ordinary Shares**") or grant rights to subscribe for or to convert any security into shares in the Company (together "**Rights**") up to a maximum nominal amount of £1,254,823 to such persons at such times and on such terms as they think proper, provided that this authority shall expire on the date falling 15 months from the date of passing of this resolution, or if earlier, on the date of the next Annual General Meeting of the Company to be held after the passing of this resolution (unless renewed, varied or revoked by the Company prior to or on that date), save that the Company may make an offer or agreement before the expiry of this authority which would or might require Ordinary Shares to be allotted or Rights to be granted after such expiry and the Directors may allot Ordinary Shares or grant Rights pursuant to any such offer or agreement as if the authority conferred by this resolution had not expired. This authority is in substitution for all previous authorities conferred on the Directors in accordance with section 551 of the 2006 Act.

7. THAT, subject to and conditional upon the passing of resolution 6 above, in accordance with section 570 of the Act, the Directors be and are hereby generally empowered to allot for cash or otherwise equity securities (as defined in section 560 of the Act) of the Company pursuant to the authority conferred by resolution 7 above (as varied from time to time by the Company in general meeting) as if section 561 of the Act did not apply to such allotment provided that this power shall be limited to:

   a. the allotment of equity securities in connection with any other offer (whether by way of rights issue, open offer or otherwise) to holders of Ordinary Shares in the capital of the Company in proportion (as nearly as may be) to their existing holdings of such shares, subject only to any exclusions or other arrangements which the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory or the requirements of any regulatory body or stock exchange in any territory;

b. the allotment of equity securities pursuant to the terms of any share schemes for Directors and employees of the Company or any of its subsidiaries; and

c. the allotment otherwise than pursuant to subparagraphs (a) to (b) (inclusive) above of equity securities not exceeding in aggregate the nominal amount of £752,894,

and provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, the date falling 15 months from the date of passing this resolution (unless renewed, varied or revoked by the Company prior to or on that date), save that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted for cash after such expiry and the Directors may allot equity securities for cash pursuant to any such offer or agreement as if the power conferred by this resolution had not expired. This authority is in substitution for all previous authorities conferred on the Directors in accordance with section 570 of the 2006 Act.

By Order of the Board 5 June 2017

Ian McNeill
Company Secretary

Rose Petroleum plc
20-22 Wenlock Road
London
N1 7GU

Notice of Annual General Meeting

continued

Notes:

Entitlement to attend and vote

1 Only those members registered on the Company's register of members at:

- close of business on 27 June 2017; or
- if this annual general meeting is adjourned, at close of business on the day two days prior to the adjourned meeting,

shall be entitled to attend and vote at the annual general meeting.

Appointment of proxies

2 A member is entitled to attend, speak and vote at the above meeting and is entitled to appoint one or more proxies to attend, speak and vote in his stead. A proxy need not be a member of the Company. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. If you wish your proxy to speak on your behalf at the annual general meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

3 You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, each different proxy appointment form must be received by Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time appointed for the meeting.

4 A vote withheld is not a vote in law which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the annual general meeting.

5 A prepaid envelope is enclosed. To be valid any form of proxy and power of attorney or other authority under which it is signed or a notarially certified or office copy of such power of authority must be lodged with the Company's Registrars: Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received not less than 48 hours before the time appointed for the meeting or any adjourned meeting. The return of a form of proxy will not preclude a member from attending and voting at the meeting in person should he subsequently decide to do so.

6 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the annual general meeting and any adjournment(s) thereof by utilising the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

7 In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the issuer's agent (Capita Registrars, ID RA10) not less than 48 hours before the time appointed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

8 CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

9 The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

10 In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

11 To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Asset Services on 0871 664 0300 in the UK (Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 (371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. We are open between 9.00 am to 5.30 pm, Monday to Friday excluding public holidays in England and Wales).

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

12 In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the Company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 48 hours prior to the meeting.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the annual general meeting and voting in person. If you have appointed a proxy and attend the annual general meeting in person, your proxy appointment will automatically be terminated.

Corporate representatives

13 A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

Issued shares and total voting rights

14 As at 6:00 pm on 4 June 2015, the Company's issued share capital comprised 3,764,470,841 Ordinary Shares of 0.1p each. Each Ordinary Share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 6:00 pm on 4 June 2015 is 3,764,470,841.

Communication

Except as provided above, members who have general queries about the annual general meeting should contact the Company Secretary at Rose Petroleum plc, 20-22 Wenlock Road, London, N1 7GU or on +44 (0) 207 225 4590 (no other methods of communication will be accepted). You may not use any electronic address provided either:

- in this notice of annual general meeting; or
- any related documents (including the Chairman's letter and proxy form),

to communicate with the Company for any purposes other than those expressly stated.

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Head Office:

4th Floor
3 Shepherd Street
London
W1J 7HL

www.rosepetroleum.com