Audited Final Results for Year Ended 31 December 2017

29 June 2018: Ncondezi Energy Limited ("Ncondezi" or the "Company") (AIM: NCCL) is pleased to announce its audited final results for the year ended 31 December 2017.

Highlights
During the year

- On 11 May 2017, the Company agreed an amendment to extend the Shareholder Loan repayment date to 2 September 2017. The Shareholder Loan included the original Shareholder Loan and Tranche A provided by African Finance Corporation ("AFC").

- On 26 May 2017, exclusive negotiations with Shanghai Electric Power Co., Ltd ("SEP") were suspended ending the Joint Development Agreement ("JDA") and the Company launched a new partner search process.

- On 26 May 2017, Christiaan Schutte resigned as Chief Operating Officer but remained as a non-executive director.

- On 23 June 2017, the Company obtained funding of an additional US$350,000 under the amended Shareholder Loan ("New Loan"). The New Loan provided the Company with sufficient funding to progress the new partner search and cover working capital costs until the beginning of September 2017. In addition, the senior management team agreed to convert their deferred salaries of US$232,000 into the existing Shareholder Loan ("Employee Shareholder Loan").

- On 2 September 2017, the Company agreed a further amendment to extend the Shareholder Loan repayment date to 2 September 2018. The Shareholder Loan includes the Shareholder Loan, Tranche A provided by AFC the New Loan and Employee Shareholder Loan.

- On 18 October 2017, the Company raised a total of £750,000 before expenses through an oversubscribed placing of 15,000,000 ordinary shares in the Company at a price of 5 pence per ordinary share.

- On 20 October 2017, the Company announced that it had agreed in principle the terms of a Non-Binding Offer ("NBO") with China Machinery Engineering Corporation ("CMEC") and General Electric South Africa (PTY) Limited ("GE") (together the "Consortium") to enter into exclusive negotiations to develop, construct and operate the Power Project and Mine Project. The Company formally signed the NBO on 9 November 2017 at a signing ceremony in Beijing.

- On 27 December 2017, the Company announced that the JDA conclusion date with CMEC and GE had been extended to 31 July 2018.

Post balance sheet events

- In principle support received from Electricity de Mozambique ("EDM") and the Ministry of Mineral Resources and Energy ("MIREME") for proposed strategic partners, CMEC and GE announced on 18 April 2018.

- The Project integrated financial model ("FM") updated with proposals for engineering, procurement, and construction ("EPC") and operations and maintenance ("O&M") contracts, and approved by CMEC and GE for submission to MIREME and EDM in June 2018.

- Raised a total of £950,000 before expenses through a placing of 15,200,000 ordinary shares in the Company at a price of 6.25 pence per ordinary share on 4 May 2018.

- On 25 May 2018, as part of the Company's management incentive scheme, the Company granted share options in respect of 22,897,522 shares in the Company to its directors, executive senior management team and contracted personnel representing 8.2 per cent of the issued share capital of the Company.

- On 11 June 2018, the Company announced that the FM and updated tariff proposal had been accepted by its potential partners for submission to EDM and MIREME.

The Company will post its Annual Report and Accounts for the year ended 31 December 2017 ("2017 Annual Report and Accounts") to shareholders on 29 June 2018. A copy of the 2017 Annual Report and Accounts will be available on the Company's website www.ncondezienergy.com.

Enquiries

For further information please visit www.ncondezienergy.com or contact:

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Note:
The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation ("MAR"). Upon the publication of this announcement via Regulatory Information Service ("RIS"), this inside information is now considered to be in the public domain. If you have any queries on this, then please contact Hanno Pengilly, Chief Development Officer of the Company (responsible for arranging release of this announcement) on +27 (0) 71 362 3566.

Ncondezi Energy owns 100% of the Ncondezi Project which is strategically located in the power generating hub of the country, the Tete Province in northern Mozambique. The Company is developing an integrated thermal coal mine and power plant in phases of 300MW up to 1,800MW. The first 300MW phase is targeting domestic consumption in Mozambique using reinforced existing transmission capacity to meet current demand.

NCONDEZI ENERGY

Chairman's Statement

Dear Shareholder,

The 2017 financial year has seen the identification of new potential strategic partners in CMEC and GE, who are global leaders in the power sector with specific expertise operating in Mozambique. Successful capital raisings in October 2017 and May 2018 through the placing of new shares raised £1.7 million before expenses, putting the Company in a position of financial strength to finalise the JDA process with its potential partners.

Operations

The Project remains one of the most advanced development coal power projects in the region and, with the recently updated and approved Financial Model (FM), is well positioned to re-start tariff negotiations in Mozambique with a more attractive tariff proposal for the Government.

Currently only 25% of Mozambicans have access to electricity and the Government wants to improve access to 58% by 2023 and 100% by 2030. To achieve this will require significant expansion in generation capacity, of which coal is expected to play a significant role with 1,250 MW planned from coal fired projects. Coal is seen as a key factor in reducing the country's dependence on hydroelectric power (particularly in the north), where current generation is vulnerable to the extreme weather effects of climate change.

In May 2017, following over three years of negotiations and ongoing delays in SEP providing funding for the Power Project, the board of Directors (the "Board") suspended exclusive discussions with SEP and engaged with alternative potential partners which had expressed an interest in developing the Power Project.

In October 2017, in principle terms were agreed between CMEC, GE and Ncondezi. The proposed terms represent a material opportunity to de-risk the delivery of the Integrated Project. From a technical perspective the terms propose that the Power Project and Mine Project be treated as an integrated project, and that the Power Project return to Circulating Fluidized-Bed ("CFB") boiler technology from Pulverized Coal ("PC"), where technical work is more advanced. From a commercial perspective, CMEC and GE are looking to acquire a minimum 60% equity stake in the Integrated Project, be responsible for the EPC and O&M for the Integrated Project on a build own operate basis and lead project debt financing in conjunction with Ncondezi for the Integrated Project at Financial Close ("FC").

The terms are to be finalised in a binding JDA which is subject to CMEC and GE successfully completing their due diligence and agreeing the terms of the JDA. As part of this process, the Company has submitted to CMEC and GE a draft JDA and updated the FM based on new EPC and O&M proposals received from its potential partners in April 2018.

The updated FM has generated positive results indicating Project economics can be maintained with a more than 10% reduction in the previously agreed tariff envelope. This lower tariff proposal strengthens the commercial negotiating position of the Project in Mozambique.

In early June 2018, the results of the FM were accepted by CMEC and GE, and the Company has subsequently prepared an updated tariff proposal to be submitted to MIREME and EDM in early July to seek in principle support to initiate negotiations for a new power tariff envelope. This represents a key milestone in confirming the Project economics, re-starting tariff negotiations and completing the JDA process.

Receipt of this support is being treated as a main priority and is a key factor in finalising the JDA process which is currently targeted for end of July 2018.

All development work streams for the Ncondezi Project, including FC, are expected to remain on hold until the JDA is concluded, and are expected to take at least 12 to 18 months to complete once initiated.

NCONDEZI ENERGY

Financing

In June 2017, the Company announced an additional US$0.35 million had been secured through existing Shareholder Loan holders to fund the Company until the beginning of September 2017 in order to progress with the new partner search process. In addition, senior management deferred salaries totalling US$0.23m were satisfied through issuance of an additional loan of the same value. Further details of the terms of the loans are set out in the Operations Review and in note 11 of the financial statements.

In October 2017, The Company raised £750,000 before expenses through an oversubscribed placing of 15,000,000 ordinary shares in the Company at a price of 5 pence per ordinary share. This was the first time the Company had looked to the equity markets for capital since January 2015, and was a good indicator of growing interest in the Company by new investors as it delivers on its milestones towards the JDA and FC. This was followed up by a second placing in May 2018, where the Company raised £950,000 before expenses through placing of 15,200,000 ordinary shares in the Company at a price of 6.25 pence per ordinary share. This second placing represented a 25% premium over the previous placing and further demonstrated the growing support from new investors for the Company.

On 25 May 2018, the Company granted share options in respect of 22,897,522 shares in the Company to its directors, executive senior management team and contracted personnel. Of the options granted, 61% are performance related and linked to delivery of specific milestones, 17% are in lieu of director remuneration and the balance of 22% is in lieu of deferred payments to senior management, ex-employees and consultants remuneration.

Cost saving initiatives and strict budget control allowed the Company to reduce administrative expenses, from US$2.4million in 2016 to US$1.1 million in 2017, despite additional unbudgeted third party consultancy work being carried out to search for new strategic partner.

With the new JDA process underway and the focus on cost control during this time, the Company regretfully announced that Mr Christiaan Schutte had resigned as Chief Operating Officer with effect from 26 May 2017 but remains on the board as a Non-Executive Director. The finance function, financial advisor and Mozambican operations report directly to and are actively managed by the Board.

A total of US$2.8 million has been drawn down under the Shareholder Loan and the repayment amount is now US$5.1 million on 2 September 2018 including principal and return. The Directors are exploring a number of refinancing and extension solutions for the Shareholder Loan ahead of the 2 September 2018 maturity date. The financial statements have been prepared in anticipation of a positive outcome but it is important to highlight that the new partner negotiations are in their early stages and that there are no binding agreements in place with no certainty that the Shareholder Loan will be restructured and that additional funding will be raised.

Michael Haworth
Non-Executive Chairman

28 June 2018

Operations Review

Ncondezi is focused on the phased development of an integrated coal fired power plant and mine, commencing with 300MW first phase. The project is located near Tete in northern Mozambique.

Non-Binding Offer
On 20 October 2017, the Company announced that it had agreed in principle terms of a NBO with CMEC and GE. On 9 November 2017, the Company announced that the NBO had been signed. The NBO was part of a new partner process which was launched in May 2017.

The NBO sets out the terms, work program and timetable by which the parties will work together to execute a legally binding JDA by 31 July 2018 or such later date agreed between the parties.

The key terms of the NBO include:

- CMEC and GE to acquire a minimum 60% stake in both the Power Project and Mine Project holding companies which currently hold 100% of each project respectively.
- JDA will set out the commercial terms on which the parties will complete the acquisition and jointly develop and fund the Integrated Project up to and including FC.
- The Power Project and the Mine Project will be developed as an integrated project, with CMEC and GE taking full responsibility for EPC and O&M contracting.
- CMEC and GE will take full responsibility for managing the EPC process for the Transmission Line, which will be constructed on a Build Transfer model, subject to EDM approval.
- CMEC and GE to lead project debt financing in conjunction with Ncondezi for both the Power Project and Mine Project at FC.
- Funding ratios to be adjusted should CMEC and GE take an equity stake larger than 60%.
- The power plant generation technology will return to CFB boiler technology from PC boiler technology. This provides a number of advantages to the project including the technical feasibility work being more advanced on a CFB solution, reduced time required to reach FC and lower coal costs as CFB fuel requirements are more suitable for Mozambican coal qualities.

Conditions
The terms of the NBO were subject to a number of conditions including:

- CMEC and GE completing satisfactory due diligence on the project including development status, permits, project economics and security package.
- CMEC and GE completing satisfactory audit of the historic development costs.
- CMEC and GE having exclusivity on the EPC and O&M for the Integrated Project, and submitting binding offers that support the agreed tariff envelope.
- Confirmation of the process to award the Power Concession Agreement and Power Purchase Agreement from Mozambican Government and EDM respectively.
- Execution of a binding JDA.
- Compliance with relevant CMEC and GE compliance rules and guidelines.
- Compliance with Mozambique and relevant governmental regulations and approvals.

JDA process update
As part of the JDA process, the following milestones have been achieved:

- Submission by Ncondezi of the draft JDA for review by CMEC and GE.

- Site visit by CMEC and GE to inspect the Ncondezi Project's proposed development sites.
- In principle support received from EDM and MIREME for proposed strategic partners.
- Updated EPC and O&M proposals received and reviewed for the Integrated Project
- FM updated and accepted for submission to MIREME and EDM by CMEC, GE and the Company.

Results of Integrated Financial Model

At the end of April 2018, the Company received updated and completed EPC and O&M proposals and began a process to review and update the FM. The Company completed its review of the FM on 3 May 2018 and submitted it to its potential partners for review and acceptance. The Company's potential partners have now completed their review of the FM and approved its submission to EDM and MIREME.

The updated FM has been completed targeting a revised tariff that the Company and its potential partners believe will be attractive to EDM. Meetings with EDM in January 2018 indicated that the historical tariff agreed was no longer competitive given downward pressure in regional tariff rates and would need to be revised down. Based on benchmarking of new and competing projects in Mozambique and the southern African region, the Company and its potential partners targeted a new tariff lower than the previously agreed tariff envelope with EDM.

The specific tariff rate and target returns in the updated FM are commercially sensitive and still to be negotiated with EDM. The FM is based on the Project generating a gross 300MW at a target tariff rate in excess of 10% lower than the tariff envelope previously agreed with EDM, paid on an annual basis for 25 years.

With the lower tariff target, it was essential that improvements were identified to protect the Project equity IRR agreed in the previous tariff envelope. This was achieved primarily through the choice of technology (moving from Pulverized Coal to Circulating Fluidized-Bed boiler technology), integration of the power and mine projects and optimisation of common infrastructure capex. Of key importance was the ability to link boiler design to the most cost effective coal product produced from the mine. This allows the Project to minimise coal costs to the power plant which is achieved through integration of a dedicated coal supply. Ncondezi is the only power project in Mozambique with a dedicated coal fuel source for in country power generation.

In addition to the lower proposed tariff envelope, the Project is also expected to significantly benefit Mozambique through tax receipts and royalties over the life of the Project which are estimated to be between US$1.1 to 1.4 billion. This is in addition to local skills development and thousands of jobs during construction and hundreds of jobs during operation, as well as the economic multiplier effect of providing stable cost effective power to the north of Mozambique.

The FM results are not final and subject to change based on a number of factors including the finalisation of tariff negotiations with EDM, debt terms with commercial banks, technical and operating assumptions and EPC and O&M contracts.

Next steps

The Company prepared an updated tariff proposal for submission to EDM and MIREME in early July 2018 and will be seeking in principle support to start negotiations on a new power tariff envelope for the Power Project. Receipt of this support is being treated as a main priority and is a key factor in finalising the JDA process which is currently targeted to be completed by the end of July 2018.

Background to Non-Binding Offer

The NBO was signed as part of a new partner search launched in June 2017, which focused on identifying a partner capable of providing a leadership role in the financing, construction and operation of the Power Project, with a credible track record in both the global and African power sectors.

CMEC is a large Chinese integrated company with international reach and engineering contracting as its core business. CMEC's project experience, technical ability, and financing capacity, has allowed it

to undertake projects in more than 150 countries in the fields of international contracting and general international trade. CMEC's contracting business involves a broad range of areas such as electric power & energy, transportation, electronic communication, water supply & treatment, housing & architecture, manufacturing and processing plant, environmental protection, mining and resource prospecting. As a world-renowned engineering contractor, CMEC has been ranked among China's top 10 contractors by business turnover from overseas contracted projects by the Chinese Ministry of Commerce for many consecutive years.

GE is a world energy leader that provides technology, solutions and services across the entire energy value chain from the point of generation to consumption. GE's Power business is transforming the electricity industry by uniting all the resources and scale of the world's first Digital Industrial Company. GE's customers operate in more than 150 countries, and together power more than a third of the world to illuminate cities, build economies and connect the world.

CMEC and GE have jointly worked on numerous projects across the world and successfully completed a number of power projects in the sub Saharan African region. Most relevant to Ncondezi, the two parties are currently working together on the Thar Block II Power Plant project in Pakistan, which is a 660MW integrated coal fired power plant and mine which utilises two 330MW CFB boilers and due to be commissioned in 2019.

Experience in Mozambique
Both CMEC and GE have successful track records operating in Mozambique.

CMEC has been involved in supplying and installing transmission infrastructure to EDM, improving access to electricity for Mozambicans and new industry development. In 2015, CMEC completed a 110kV transmission line project in Nacala City in northern Mozambique, and in 2017, CMEC signed an EPC contract for a 400kV transmission line project in the same location. CMEC is also an EPC contractor for the Moatize to Macuse railway and port project designed to provide a new coal transport corridor from the Tete region.

GE has been present in Mozambique for over four years with offices in Maputo and over 44 employees. GE is active in multiple sectors including the transport, health care, oil and gas and energy sectors. To date, GE has supplied over 120 locomotives, installed 10 4.4MW power units for the Kuvaninga gas IPP project and is to provide technology solutions and services to ENI's US$7 billion Coral South LNG project in the Rovuma Basin. In addition, GE is working on initiatives to improve access and quality of basic and diagnostic services of rural healthcare and reduce infant mortality rates. This work is run in parallel to GE's local skills development programs which include scholarships, funding of educational facilities and the provision of local courses.

Suspension of Exclusive Discussions with SEP
On 26 May 2017, the Company announced that it had suspended exclusive discussions with SEP. Exclusivity arrangements with SEP had lapsed and Ncondezi had engaged with additional strategic partners which had expressed an unsolicited interest in developing the project alongside Ncondezi. This process led to the signing of a NBO with CMEC and GE in November 2017.

Shareholder Loan
On 11 May 2016, the Company announced that it had secured a US$1.32 million loan facility ("Shareholder Loan") with certain of Ncondezi's Directors, Management and long term shareholders (together the "Lenders").

The Shareholder Loan was intended to provide the Company with bridge funding for its corporate overheads while it completed the SEP Investment Conditions to make the JDA effective.

On 31 August 2016, AFC agreed to accede to the existing Shareholder Loan and its terms, advancing Ncondezi up to US$3.0 million, with an initial tranche of $1.0 million ("Tranche A") and a further tranche of US$2.0 million ("Tranche B") with Tranche B conditional amongst other things upon the fulfilment of certain conditions precedent, the completion of the JDA and Ncondezi providing an appropriate security package.

Tranche A was drawn down in accordance with the existing Shareholder Loan terms (set out in the announcement dated 11 May 2016), some of which have been amended since year end as detailed in note 11 to the financial statements. A catch up advance of US$960,000 was paid to Ncondezi as an upfront payment on 2 September 2016, which was equivalent to AFC's pro rata payment alongside the existing drawdown from Lenders.

Tranche A was utilised to fund project development costs in accordance with an agreed budget.

Repayment of the Shareholder Loan (comprising the existing Shareholder Loan and initial US$1.0 million Tranche A from AFC) was initially payable by no later than 10 May 2017, however on 11 May 2017, the Company agreed an amendment to the repayment terms, with repayment due on 2 September 2017. On 2 September 2017, the Company entered into a formal agreement to extend the total Shareholder Loan repayment date to 2 September 2018.

Under the terms of the Shareholder Loan the cost of the loan was 1.5x (comprising 1.0x principal and 0.5x return) if repayment was made by 10 May 2017 and increased to 2.0x if repayment was post 10 May 2017. The cost of the Shareholder Loan is now 2.0x the drawn down amount (comprising 1.0x principal and 1.0x return).

Tranche B has lapsed and is not available for drawn down as it was subject to certain conditions precedent including the finalisation of the JDA with SEP.

On 23 June 2017, the Company entered into an amendment ("New Loan") to the original Shareholder Loan with an additional funding of US$350,000. The financing has been committed by the Chairman Michael Haworth (US$200,000) and other existing long term shareholders (US$150,000). The New Loan will receive a 1.25x return at its maturity on 2 September 2017.

As part of this same amendment the senior management team of the Company have agreed to convert their deferred 50% salary between November 2016 and January 2017, and a percentage of their salary since February 2017 into the existing Shareholder Loan. The total amount is US$232,000, but this sum will not attract any interest.

At 5 July 2017, a total of US$2,774,545 had been drawn down under the total Shareholder Loan, this total includes the US$232,000 deferred salaries. The repayment amount will be US$5,054,591 which is due on 2 September 2018.

Development Program to Financial Close

The Power Project and Mine Project are at an advanced level of development and will be advanced once the JDA has been executed and the Company focusses on achieving Financial Close. The Company expects Financial Close to take between 12 and 18 months post JDA execution.

NCONDEZI ENERGY

Financial Review

Results from operations
The Group made a loss after tax for the year of US$1.7 million compared to a loss of US$3.0 million for the previous financial year. The basic loss per share for the year was 0.7 cents (2016: 1.2 cents).

Administrative expenses totalled US$1.1 million (2016: US$2.4 million). Administrative expenses refer principally to staff costs, professional fees and travel costs and underlying administrative expenses, which have reduced due to cost cutting measures.

The loss after tax includes a US$0.64 million (2016: US$0.65 million) finance cost associated with the amortisation of the redemption premiums on the Shareholder Loan. This comprises US$2.7 million of finance costs arising from the original and revised amortisation periods as the loans were rescheduled and gains on rescheduling of US$2.1 million.

Financial Position
The Group's statement of financial position at 31 December 2017 and comparatives at 31 December 2016 are summarised below:

	2017 US$'000	2016 US$'000
Non-current assets	**18,313**	8,995
Current assets	**697**	242
Non-current assets held for sale	**-**	9,389
Total assets	**19,010**	18,626
Current liabilities	**4,620**	3,374
Total liabilities	**4,620**	3,374
Net assets	**14,390**	15,252

The movement in non-current assets of US$9.3 million was largely due to reclassification of US$9.4 million power related assets from non-current asset held for sale to Property, Plant and Equipment. This reclassification arose as the transaction with SEP was terminated in the year. Given the recently signed NBO with CMEC and GE is still in early stages with significant conditions required to be met for completion, the IFRS 5 criteria are not considered to be met and hence the Power assets have been reclassified as PPE.

Capitalised additions totalled US$0.05 million (2016: US$0.2 million) principally in respect of the Power Project.

The increase in current liabilities principally relates to the Shareholder Loan, together with accrued interest.

Cash Flows
The net cash outflow from operating activities for the year was US$0.9 million (2016: US$1.9 million). The cash outflow principally represented administrative costs for the year with limited working capital movements.

Net cash from investing activities was US$0.08 million (2016: US$(0.3) million), mainly related to disposal of plant and equipment from Mozambican subsidiary and development activities incurred on the Power Project.

Net cash from financing activities was US$1.3 million (2016: US$1.9 million) mainly related to the short term loans described above and share issues in 2017.

The resulting year end cash and cash equivalents held totalled US$0.6 million (2016: US$0.2 million). As at 18 June 2018 the Company held cash and cash equivalents totalling US$1.34 million.

Outlook

As at 18 June 2018 the Group had cash reserves of approximately US$1.34 million. Based upon projections the current cash reserves will cover non project corporate costs until the beginning of July 2019, subject to the Shareholder Loan being extended or restructured. The Shareholder Loan matures on 2 September 2018, and the Company is currently evaluating options to extend or restructure the loan together with proposals received from a number of parties for refinancing of the loans.

The Directors continue to explore options in respect of raising further funds to continue with the power plant and mine development programmes. At present there are no binding agreements in place and there can be no certainty as to the Group's ability to raise additional funding.

The Group will need to extend, refinance or settle the US$5.1 million Shareholder Loan (principal and redemption premium) in equity by their maturity date, of which US$0.91 million of the principal was lent by Directors. In addition, further funding will be required by the end of June 2019 to meet operating cash flows under current forecasts or in the event of accelerated project advancement. The Directors are exploring a number of funding and working capital solutions beyond the 2 September 2018 maturity of the Shareholder Loan. The financial statements have been prepared on a going concern basis in anticipation of a positive outcome but it is important to highlight that there are no binding agreements in place and there can be no certainty that the Shareholder Loan will be restructured, settled in equity or refinanced and that additional funding will be raised.

These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern. Such adjustments would principally be the write down of the Group's non-current assets.

Environmental and Social Responsibility

Ncondezi Social Development Programme

Ncondezi's Social Development Programme has been put on hold pending positive development being made on the JDA.

Achievements from previous years include:

- The drilling of 14 boreholes in several villages within the Tete province.
- Four students completed their Master's degree in Mining Engineering at Coimbra University benefiting from a full bursary from Ncondezi.
- A 4x4 ambulance was purchased to assist villagers in more remote areas.
- Ncondezi built a new primary school at Waenera village.
- Upgrading of the Mameme clinic and the construction of a new maternity wing.
- An Agricultural Project based on conservation farming. This included the villages of Catabua and Canjedza as an initial model. The objective being a platform to educate the local communities in all aspects of crop husbandry using their own resources.

Director's Biographies

Michael Haworth / Non-Executive Chairman
Michael Haworth has over 20 years finance experience, predominantly in emerging markets and natural resources. Mr Haworth co-founded Greenstone Resources a private equity fund specialising in the mining and metals sector in 2013 and is a Senior Partner of Greenstone Capital LLP and a Director of Greenstone Management Limited. In addition, Mr Haworth is a Non-Executive Director of Zanaga Iron Ore Company Limited. Mr Haworth was previously a Managing Director at J.P. Morgan and Head of Mining and Metals Corporate Finance in London.

Christiaan Schutte / Non-Executive Director (resigned as Chief Operating Officer in May 2017)
Christiaan Schutte's career in the power sector spans over 20 years during which time he held a number of senior management positions at Eskom, the South African electricity public utility which is the largest producer of electricity in Africa.

Most recently he was Senior General Manager of the Group Technology Division and responsible for all the engineering functions at Eskom, including design accountability for new power stations, transmission lines and distribution development. Prior to this he was Senior General Manager of the Generation Division, managing five power stations with over 18,000MW total installed capacity, an operational budget of 3.8 billion Rand and a capital budget just under 4 billion Rand. Operational experience was gained at Majuba power station, which he also integrated into a single cluster operation, and Kendal power station. He holds a degree in mechanical engineering as well as an MBL from Unisa.

Estevão Pale / Non-Executive Director
Estevão Pale has more than 30 years' experience in the mining industry. He is the Chief Executive Officer of Companhia Moçambicana de Hidrocarbonetos S.A., a Mozambican natural gas company. Between 1996 and 2005, Mr Pale was the National Director of Mines in the Ministry of Mineral Resources and Energy, where he was responsible for the supervision and control of mineral activities in Mozambique and the formulation and implementation of the mining and geological policy approved by the Government of Mozambique.

Mr Pale has been a director of numerous companies in the mining sector including Promaco SARL and the Mining Development Company, as well as the General Director and Chief Executive of Minas Gerais de Moçambique. Mr Pale has a postgraduate diploma in Mining Engineering from the Camborne School of Mines in Cornwall and a masters degree in Financial Economics from the University of London (SOAS). He completed a course in Gas Business Management in Boston at the Institute of Human Resources Development Corporation in 2006.

Jacek Glowacki / Non-Executive Director
Jacek Glowacki has over 30 years of international experience in the power sector and is currently Chief Executive Officer and Chairman of the Board of Polenergia Group, a Polish Independent Power Producer and a subsidiary of Kulczyk Investments S.A. one of Poland's largest private investment companies.
During his career, he has held senior executive positions at Kulczyk Investments, AEI Corporation (USA), Trakya Elektrik (Turkey) and Prisma Energy Europe. Mr Glowacki's operating experience includes General Manager of Nowa Sarzyna, which was owned by ENRON and Chief Production Engineer at Cracow Combined Heat and Power Plant, owned by EDF. He holds a degree in engineering from the University of Mining and Metallurgy in Cracow and an MBA from the University of Chicago.

Aman Sachdeva / Non-Executive Director
Aman Sachdeva has more than 20 years experience in the infrastructure industry, specializing in the energy sector; ranging from project finance, management consulting, regulatory affairs, mergers and acquisitions, power system planning, energy conservation and marketing. Mr Sachdeva is currently the founder and Chief Executive Officer of Synergy Consulting, an independent consulting practice with a focus on project finance, which has to date closed projects worth US$12 billion. Mr Sachdeva is also an advisor to the World Bank, Energy Sector for Central Asia, South Asia and Africa on a variety of projects.

NCONDEZI ENERGY

Directors' Report

The Directors present their Annual Report and the audited group financial statements headed by Ncondezi Energy Limited for the year ended 31 December 2017.

Principal activities
The principal activity of the Group is the development of an integrated 300MW power plant and mine to produce and supply electricity to the Mozambican domestic market.

Business review and future developments
Details of the Group's business and expected future developments are set out in the Chairman's Statement, the Operations Review and in the Financial Review.

Principal risks and uncertainties
The Group operates in an uncertain environment that may result in increased risk, cost pressures and schedule delays. The key risk factors that face the Group and their mitigation are set out below.

Additionally, the Group's multi-national operations expose it to a variety of financial risks such as market risk, foreign currency exchange rates and interest rates, liquidity risk, and credit risk. These are considered further in notes 1 and 17.

Key performance indicators
The key performance indicators of the Group are as follows:

	2017	2016	2015
Mine exploration expenditure (US$'000)	**3**	13	21
Power development expenditure (US$'000)	**48**	249	939
Share price at 31 December (pence)	**3.63**	5.3	3.6
Cash at bank at 31 December (US$'000)	**614**	152	402

Results and dividends
The results of the Group for the year ended 31 December 2017 are set out below.

The Directors do not recommend payment of a dividend for the year (2016: nil). The loss will be transferred to reserves.

Events after the reporting date
See note 20 for further information.

Financial instruments
Details of the use of financial instruments by the Company, its subsidiary undertakings and financial risk management are contained in note 17 of the financial statements.

Going concern
As at 18 June 2018 the Group had cash reserves of approximately US$1.34 million. The current cash reserves are sufficient to fund ongoing costs until beginning of July 2019, subject to the Shareholder Loan being extended or restructured. Details on going concern are contained in note 1 of the financial statements.

NCONDEZI ENERGY

Directors and Directors' interests

Director	Note	Appointment date	Ordinary Shares held 31 December 2017	Ordinary Shares held 31 December 2016
Michael Haworth	1	01.06.12	**16,468,087**	16,438,296
Jacek Glowacki	2	28.10.13	-	-
Estevão Pale		03.06.10	-	-
Christiaan Schutte		04.02.13	-	-
Aman Sachdeva	3	21.05.15	-	-

1. Includes shares held by a trust of which Michael Haworth is a potential beneficiary.
2. Jacek Glowacki is a director of Polenergia Group which holds 20,754,161 ordinary shares representing 7.82% of the issued Ordinary Shares as at 31.12. 2017 and 7.36% as at 29.06.18.
3. Aman Sachdeva is AFC's nominated director. AFC holds 54,988,520 ordinary shares representing 20.73% of the issued Ordinary Shares as at 31.12.17 and 19.51% as at 29.06.18.

Annual General Meeting

Resolutions will be proposed at the forthcoming Annual General Meeting, as set out in the Formal Notice. In accordance with the Company's Articles of Association one third of the Directors are required to retire by rotation. Accordingly, Christiaan Schutte and Estevão Pale will offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

Corporate Governance

The Company's compliance with the principles of corporate governance is explained in the corporate governance statement set out below.

Ordinary Share Capital

The Company's Ordinary Shares of no par value represent 100% of its total share capital. At a meeting of the Company every member present in person or by proxy shall have one vote for every Ordinary Share of which he is the holder. Holders of Ordinary Shares are entitled to receive dividends.

On a winding-up or other return of capital, holders are entitled to share in any surplus assets pro rata to the amount paid up on their Ordinary Shares. The shares are not redeemable at the option of either the Company or the holder. There are no restrictions on the transfer of shares.

Disclosure of information to auditors

So far as each Director at the date of approval of this report is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

BDO LLP have expressed their willingness to continue in office as auditors, and a resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board

Elysium Fund Management Limited
Company Secretary

28 June 2018

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Risk Factors

Risk(s)	Potential Impact(s)	Mitigation Measure(s)
Financing risk	The Group will need to restructure its existing loans by 2 September 2018 and secure investment from strategic investors and/or investment from co-developers to provide sufficient working capital for the next 12 months. Failure to do so may lead to the Group not being a going concern (see note 1). Additionally, project financing will be required to complete the Project and failure to secure such financing would result in failure of the Power Project and/or delay in its execution. To achieve Financial Close of the Project, the Group will also need to progress conclude some of its on-going negotiations on key project agreements, including the Power Concession Agreement ("PCA") and the Power Purchase Agreement ("PPA"). Failure or delay in doing so may lead to failure of the Project and/or delay in its execution.	The Project is at an advanced level of development with the majority of technical work completed and advanced form PPA and PCA documents being agreed. Ncondezi has signed a NBO with new potential strategic partners and is negotiating a JDA which will provide financial support to the project both at the developmental stages to Financial Close as well as during construction. It is important to highlight that there is no certainty that the JDA will occur or additional funding will be raised. The Company is in discussions with the existing loan holders regarding restructuring of the loans, if necessary, together with exploring funding solutions to refinance the loans. The Company intends to engage with a range of potential financing partners with the objective of securing additional development capital for the costs that will not be covered by a new partner, including select corporate overheads. Since October 2017, Ncondezi has had a successful track record in raising additional capital with £1.7 million before expenses raised to cover development costs during the year and since year end. The Directors' will monitor the monthly cash burn rate to ensure the Group operates within its cash resources for as long as possible.
Off-taker risk	In the event that the Group is unable to renew the commercial deal with EDM or finalise the PPA on acceptable terms, the Group will need to secure an alternative credible power off-taker(s) to raise finance for the project. There is no guarantee that, in such circumstances, the Group will be able to secure a credit worthy off-taker for the full output with the plant operating at load factors in excess of 80 per cent.	The Company has substantially advanced the PPA and PCA through previous negotiations with EDM and Ministry of Mineral Resources and Energy. EDM has indicated its willingness to continue negotiations once the Company introduces an acceptable strategic partner and a new tariff proposal. Subsequent to signing the NBO, the Company received in principle support for its new partners and is planning to submit an updated tariff proposal in early July 2018 which is more attractive that the previously agreed tariff envelope. There is a shortage of power in the region, with Mozambique currently exporting power to South Africa, Zimbabwe, Zambia, Botswana and Namibia. Each of these countries could provide a potential credible power off-taker for the Power Project either as a substitute or as additional power off-taker for an expanded power plant. The Company monitors this potential closely and

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		has responded to a Request for Information ('RFI') from the South African government regarding potential cross border power supply.
Competition from other power stations in Mozambique	Other power stations are being developed in the Tete region and are competing for offtake to EDM as well as resources such as water and transmission line servitudes.	The Project is one of the most advanced projects in the region, making competition from nearby projects more difficult due to the time they require to catch up. Competing gas projects are mainly located in the southern part of Mozambique and are not able to supply the portion of the Mozambican power grid that the Power Project is to connect to in the north of the country. Additionally, being a thermal coal power station project, the Group can implement commissioning of the power plant faster than competing hydroelectric projects which typically take 2-3 years longer to commission.
Estimating mineral reserve and resource	The estimation of mineral reserves and mineral resources is a subjective process and the accuracy of reserve and resource estimates is a function of the quantity and quality of available data and the assumptions used and judgements made in interpreting engineering and geological information. There is significant uncertainty in any reserve or resource estimate and the actual deposits encountered and the economic viability of mining a deposit may differ materially from the Group's estimates. The exploration of mineral rights is speculative in nature and is frequently unsuccessful. The Group may therefore be unable to successfully discover and/or exploit reserves.	Resources • Sign-off of resources by registered Competent Person ("CP"). • Reporting resources in accordance with the JORC code • Classification of resources into a high level of confidence category • Conduct detailed geological modelling • The utilisation of accredited laboratories for the analyses of coal samples • QA/QC procedures according to best practices Reserves • Sign-off of reserves by registered CP • Classification of reserves into proven or probable reserves Detailed mine design and scheduling.
Coal risk	Coal specification developed at the pre-feasibility study and verified during the feasibility stage may not be representative of coal to be used in the plant. Not properly characterised coal resources may lead to incorrect boiler design and plant underperformance.	Further coal quality analysis will be conducted and supplied to the boiler supplier for finalisation of boiler design.
Transmission grid constraints	Available transmission capacity is allocated to other power generators.	A Transmission Agreement Heads of Terms has been signed with EDM and the Mozambican Government to ensure that available transmission infrastructure allocation is secured early and that proper evacuation infrastructure and capacities are available to the Project in line with the Group's strategy. The Group will explore and develop all potential future transmission options

		including new transmission capacity in Mozambique as well as other countries including Malawi and Zambia.
Environmental and other regulatory requirements	Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted. Before production can commence on any properties, the Group must obtain regulatory approval and there is no assurance that such approvals will be obtained. No assurance can be given that new rules and regulations will not be enacted or existing rules and regulations will not be applied in a manner which could limit or curtail the Group's operations.	The Group adopts standards of international best practice in environmental management and community engagement in addition to focussing on satisfying Mozambican environmental regulations and requirements in all stages of development. Environmental Management and Social Development Plans have been advanced and are being implemented to satisfy national and international best practice. The Mine and Power Plant Environmental Social Impact Assessment (ESIA) have been conducted by independent, internationally recognised consultants, and have approved by the Mozambican Government.
Foreign Country risk	The Group's exploration licences and project are in Mozambique. The Group faces political risk whereby changes in government policy or a change of governing political party could place its exploration licences and project in jeopardy. Mozambique has recently defaulted on commercial loans resulting in donors and the International Monetary Fund (IMF) freezing aid to Mozambique, which may affect financing of the Project at Financial Close.	The Mozambican Government has been stable for many years and fosters a beneficial climate towards companies exploring for resources. The Mozambican Government is working with donors and the IMF to restore aid to the country, and an audit report into the defaulting loans has been commissioned as a first step to reaching a resolution. All parties have committed to resolving the issue in a reasonable and transparent manner to restore confidence in the country.

Corporate Governance Statement

The Company's shares are admitted to trading on AIM and so it is not required to comply with the UK Corporate Governance Code, which applies to companies which are officially listed and admitted to trading on the Main Market of the London Stock Exchange with a Premium Listing. Although the Company does not comply with the UK Corporate Governance Code, the Board has given consideration to the provisions. The Directors support the objectives of this code and intend to comply with those aspects which they consider relevant to the Group's size and circumstances.

A statement of the Directors' responsibilities in respect of the financial statements is set out on Statement of the Directors' Responsibilities. Below is a brief description of the role of the Board and its committees, including a statement regarding the Group's system of internal financial control.

The workings of the Board and its committees

The Board of Directors
At 31 December 2017, the Board comprised a Non-Executive Chairman, (Michael Haworth), and four further Non-Executive Directors (Aman Sachdeva, Christiaan Schutte, Estevão Pale, and Jacek Glowacki).

An agreed procedure exists for Directors in the furtherance of their duties to take independent professional advice. With the prior approval of the Chairman, all Directors have the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors. If the Chairman is unable or unwilling to give approval, Board approval will be sufficient. Newly appointed Directors are made aware of their responsibilities through the Company Secretary. The Company does not make any provision for formal training of new Directors.

The Company has established audit and remuneration committees of the Board with formally delegated duties and responsibilities. In 2017 Estevão Pale was appointed as second member of the remuneration committee together with Michael Haworth.

Conflicts of interest
The Board confirms that it has instituted a process for reporting and managing any conflicts of interest held by Directors. Under the Company's Articles of Association, the Board has the authority to authorise, to the fullest extent permitted by law:

(a) any matter which would otherwise result in a Director infringing his duty to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company and which may reasonably be regarded as likely to give rise to a conflict of interest (including a conflict of interest and duty or conflict of duties);

(b) a Director to accept or continue in any office, employment or position in addition to his office as a Director of the Company and may authorise the manner in which a conflict of interest arising out of such office, employment or position may be dealt with, either before or at the time that such a conflict of interest arises provided that for this purpose the Director in question and any other interested Director are not counted in the quorum at any board meeting at which such matter, or such office, employment or position, is approved and it is agreed to without their voting or would have been agreed to if their votes had not been counted.

Company materiality threshold
The Board acknowledges that assessment on materiality and subsequent appropriate thresholds are subjective and open to change. As well as the applicable laws and recommendations, the Board has considered quantitative, qualitative and cumulative factors when determining the materiality of a specific relationship of Directors.

Bribery Act
It is our policy to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, implementing and enforcing effective systems to counter bribery.

We will uphold all laws relevant to countering bribery and corruption in all the jurisdictions in which we operate and remain bound by the laws of the UK, including the Bribery Act 2010, in respect of our conduct both at home and abroad.

Board meetings
Board meetings are held on average every quarter. Decisions concerning the direction and control of the business are made by the Board.

Generally, the powers and obligations of the Board are governed by the Company's Memorandum and Articles and the BVI Business Companies Act 2004, as amended and the other laws of the jurisdictions in which it operates. The Board is responsible, inter alia, for setting and monitoring Group strategy, reviewing trading performance, ensuring adequate funding, examining major acquisition opportunities, formulating policy on key issues and reporting to the shareholders.

The Audit Committee
During 2017, the Audit Committee members were Jacek Glowacki (Committee Chairman) and Christiaan Schutte.

The Committee provides a forum for reporting by the Group's external auditors. Meetings are held on average twice a year and are also attended, by invitation, by the Non-Executive Directors.

The Audit Committee is responsible for reviewing a wide range of financial matters including the annual and half year results, financial statements and accompanying reports before their submission to the Board and monitoring the controls which ensure the integrity of the financial information reported to the shareholders.

The Remuneration Committee
The Remuneration Committee comprised Michael Haworth (Committee Chairman) and Estevão Pale.

The Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The Remuneration Committee determines the contract terms, remuneration and other benefits for the Executive Directors, including performance related bonus schemes, compensation payments and option schemes. The Board itself determines the remuneration of the Non-Executive Directors.

Internal financial control
The Board is responsible for establishing and maintaining the Group's system of internal financial controls. Internal financial control systems are designed to meet the particular needs of the Group and the risk to which it is exposed, and by its very nature can provide reasonable, but not absolute, assurance against material misstatement or loss.

The Directors are conscious of the need to keep effective internal financial control, particularly in view of the cash resources of the Group. Due to the relatively small size of the Group's operations, the Executive Director and senior management are very closely involved in the day-to-day running of the business and as such have less need for a detailed formal system of internal financial control. The Directors have reviewed the effectiveness of the procedures presently in place and consider that they are still appropriate to the nature and scale of the operations of the Group.

Continuous disclosure and shareholder communication
The Board is committed to the promotion of investor confidence by ensuring that trading in the Company's securities takes place in an efficient, competitive and informed market. The Company has procedures in place to ensure that all price sensitive information is identified, reviewed by management and disclosed to the market through a Regulatory Information Service in a timely manner.
All information disclosed through a Regulatory Information Service is posted on the Company's website http://www.ncondezienergy.com. Shareholders are forwarded documents relating to each Annual

General Meeting, being the Annual Report, Notice of Meeting and Explanatory Memorandum and Proxy Form, and are invited to attend these meetings.

Managing business risk

The Board constantly monitors the operational and financial aspects of the Company's activities and is responsible for the implementation and on-going review of business risks that could affect the Company. Duties in relation to risk management that are conducted by the Directors include but are not limited to:

- Initiate action to prevent or reduce the adverse effects of risk;
- Control further treatment of risks until the level of risk becomes acceptable;
- Identify and record any problems relating to the management of risk;
- Initiate, recommend or provide solutions through designated channels;
- Verify the implementation of solutions;
- Communicate and consult internally and externally as appropriate; and
- Inform investors of material changes to the Company's risk profile.

Ongoing review of the overall risk management programme (inclusive of the review of adequacy of treatment plans) is conducted by external parties where appropriate. The Board ensures that recommendations made by the external parties are investigated and, where considered necessary, appropriate action is taken to ensure that the Company has an appropriate internal control environment in place to manage the key risks identified.

Remuneration Committee Report

At the year ended 31 December 2017, the Remuneration Committee (the "Committee") comprised Michael Haworth and Estevão Pale.

Remuneration packages are determined with reference to market remuneration levels, individual performance and the financial position of the Company and the Group.

The Board determines the remuneration of Non-Executive Directors within the limits set by the Company's Articles of Association. The Non-Executive Directors have letters of engagement with the Company and their appointments are terminable on one months' or three months' written notice on either side.

Long Term Incentive Plan ("LTIP") and unapproved share option scheme

The Company adopted an LTIP and unapproved share option scheme which are administered by the Committee. These are discretionary and the Committee will decide whether to make share awards under the LTIP or unapproved share option scheme at any time. As at 31 December 2017 the following awards to Directors remained in place:

Non-Executives	Date of grant	Number granted	Exercise price	Expiry
Estevão Pale	5 May 2015	75,000	17.25p	10 years from vesting
Christiaan Schutte	5 May 2015	75,000	17.25p	10 years from vesting

Grant of Share Awards

During 2017 no share options were issued to the Company's executive senior management and contracted personnel (2016: nil).

Directors' Options

During 2017 no share options were issued to the Company's Directors (2016: nil).

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Directors' service agreements
None of the Directors have a service contract which is terminable on greater than one year's notice.

Non-Executive Directors' fees
The Company has adopted a standard level of fees for Non-Executive directors of £40,000 per annum, and £70,000 for the Chairman. The current Chairman has waived all fees since his original appointment. In addition, Jacek Glowacki and Aman Sachdeva have waived their Directors fees since 1 April 2015 and Christiaan Schutte and Estevao Pale since 1 April 2017. £66,000 of the current year fees was converted into the existing Shareholder loan.

Awards post year end
On 25 May 2018, as part of the Company's management incentive scheme, the Company granted share options in respect of 22,897,522 shares in the Company to its directors, executive senior management team and contracted personnel representing 8.2 per cent of the issued share capital of the Company. Directors related share options amounts to 8,987,542 of the total.

Directors' remuneration
The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2017 for individual directors who held office in the Company during the period.

Director	Note	Base Salary/fee US$'000	Benefits US$'000	Share based payments US$'000	Total 2017 US$'000	Total 2016 US$'000
Michael Haworth		-	-	-	-	-
Christiaan Schutte		**60**	**-**	**-**	**60**	324
Estevão Pale		**12**	**-**	**-**	**12**	61
Jacek Glowacki		**-**	**-**	**-**	**-**	-
Aman Sachdeva		**-**	**-**	**-**	**-**	-
Total		**72**	**-**	**-**	**72**	385

£66,000 of the current year fees was converted into the existing Shareholder loan.

On behalf of the Board

Jacek Glowacki
Non-Executive Director

28 June 2018

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements for the Group. The Directors have prepared the financial statements for each financial year which present fairly the state of affairs of the Group and of the profit or loss of the Group for that year.

The Directors have chosen to use the International Financial Reporting Standards ("IFRS") as adopted by the European Union in preparing the Group's financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of financial statements.

International Accounting Standards require that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'.

In virtually all circumstances a fair presentation will be achieved by compliance with all applicable IFRS as adopted by the European Union. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and accounting estimates that are reasonable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRS as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state that the Group has complied with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. In addition to being mailed to shareholders, financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

Independent audit report to the members of Ncondezi Energy Limited

Opinion

We have audited the financial statements of Ncondezi Energy Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion:

- the financial statements present fairly, in all material respects the state of the group's affairs and its financial position as at 31 December 2017 and of its financial performance and its cash flows for the year ended; and
- have been prepared in accordance with IFRS as adopted by the European Union.

Basis for opinion

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

Material uncertainty relating to going concern

We draw attention to Note 1 to the financial statements concerning the group's ability to continue as a going concern which states that the group will need to extend, refinance or settle existing loans by their maturity date of 2 September 2018 and raise further funds to enable the group to meet its liabilities as they fall due for a period of at least 12 months form the date of signing these financial statements.

The matters explained in note 1 indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group were unable to continue as a going concern. Our opinion is not modified in respect of this matter.

Given the conditions and uncertainties noted above we considered going concern to be a Key Audit Matter.

We performed the following procedures in respect of this key audit matter:

- We obtained management's cash flow forecasts to 30 June 2019 and critically assessed the key assumptions. In doing so, we compared the operating cash flows to historical operating expenditure and reviewed the group's licences, board minutes and market announcements for indications of additional cash requirements.
- We reviewed the terms of the existing loans and recalculated the repayment on maturity on 2 September 2018.
- We considered management's judgment that they had a reasonable expectation of refinancing, extending or settling the loans in equity and securing additional financing to meet working capital requirements. In doing so, we made specific inquiries of the Board, reviewed term sheets for prospective funding being negotiated by the group and obtained written representations from the Board.
- Our assessment also included making enquiries of management of the future financing plans and options and evaluating the adequacy of the disclosure made in the financial statements in

respect of going concern to confirm that they are consistent with the relevant accounting framework and set out the material risks and uncertainties.

We found the key underlying assumptions in the forecasts to be within an acceptable range and the disclosures in the financial statements in respect of going concern to be appropriate.

Key audit matters

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

<table>
<tr><th>Matter identified</th><th>How we addressed the matter</th></tr>
<tr><td colspan="2">Carrying value of the group's mining and power assets and appropriateness of disclosures of key judgments and estimates in the financial statements</td></tr>
<tr><td>The group's mining and power assets represent its most significant assets and total US$17 million as at 31 December 2017. The mining assets are held at their recoverable value of US$7.7 million which is below cost following previous impairment.

The Board are required to assess whether they consider there are any indications that the group's mining and power assets may be impaired as at 31 December 2017.

Management performed impairment assessments for the mining and power assets and concluded that no impairment of the power assets was required and that no further impairment or reversal of impairment on the mining assets was required as detailed in note 2 and 6 which sets out the key judgments and estimates involved in the impairment assessment.

The carrying value of mining and power assets represented a significant risk for our audit given the significant judgements required in the impairment assessment, together with the appropriateness of associated disclosures.</td><td>We assessed the appropriateness management's conclusion that the mining and power assets represented separate cash generating units, notwithstanding the planned integrated project development plan, against the relevant accounting framework.

We obtained the power asset financial models, prepared by an external consultant, and confirmed that the models demonstrated significant headroom over the carrying value of the power assets. In respect of key inputs we confirmed that the project costs were consistent with updated quotes and supporting information, compared the discount rate to relevant third party rates and performed sensitivity analysis. We determined that the project development is dependent on the electricity tariff which remains subject to agreement with the Government. Management confirmed that the tariff rate represented their best estimate of the rate required by the Government based on verbal discussions they had held and we obtained specific written representation to that effect. We reviewed market reports and internal correspondence to confirm that they were consistent with the tariff used in the model.

We reviewed the agreements with the project partners and obtained supporting documents demonstrating progress against the conditions precedent and the continued feasibility of the project at this time. We obtained correspondence demonstrating the review and approval of the financial models and key assumptions by the project partners.

In respect of the mining assets we obtained the Life of Mine Plan and obtained evidence supporting key inputs such as confirming the coal reserves to the Competent Person's Report, agreeing the coal price to the associated coal costs in the power</td></tr>
</table>

	models and confirming the costs to quotations. We found the mine valuation to be highly sensitive to changes in discount rate and considered whether the discount rate was in an acceptable range given the status of the project, risks and uncertainties. We reviewed the disclosures in notes 2 and 6 against the requirements of the relevant accounting framework and considered whether they appropriately reflected the key judgments and estimates.
Accounting for debt instruments	
As detailed in notes 2 and 11, the group holds a number of loan instruments which are repayable inclusive of redemption premiums and which were extended during the year. Where an amendment to a loan agreement results in substantially different terms from the original agreement, the loan is derecognised and new loan recognised initially at fair value resulting in gains or losses. The accounting for the instruments is considered complex and required management to apply judgement in the accounting treatment of gains arising on modification of the loans, together with the determination of the effective interest rate applied for the amended loans in order to arrive at a fair value.	We reviewed the loan agreements and amendments to those agreements to assess the key terms. We verified amounts drawn down to bank and deferred salary/fee arrangements. We assessed the accounting treatment adopted by management for the loan modifications against the relevant accounting requirements. In doing so, we confirmed that the amendments represented a significant modification of terms under those standards. We recalculated the gain on modification based on the terms of the agreements and determined whether the discount rate applied in the calculations was in an acceptable range based on the terms of the original loans and the group's financial position. We considered whether management's recognition of the gain in the income statement was appropriate, as opposed to the gains being considered in whole or in part a capital contribution with loan holders acting in their capacity as shareholders. In determining whether management's treatment was appropriate we made inquiries of management as to the discussions at the time, reviewed the shareholding levels of the loan holders and considered relevant facts and circumstances around the transactions, including the group financial position. We reviewed the calculation of the amortised cost of the loans before and after modification and assessed the appropriateness of the effective interest rate used. We reviewed the disclosures in notes 2 and 11 against the requirements of the relevant accounting framework and considered whether they appropriately reflected the key judgments and estimates.

Our application of materiality

The materiality for the group financial statements as a whole was set at US$0.28 million (2016: US$0.37 million). This was based on 1.5% (2016: 2.0%) of total assets which we consider to be an appropriate benchmark due to the focus of stakeholders being the assets of the group.

Whilst materiality for the financial statements as a whole was US$0.28 million (2016: US$0.37million), the significant components of the group were audited to a lower materiality of US$0.1millon to US$0.17million (2016: US$0.12 million to US$0.23million).

Performance materiality was set at US$0.20million (2016: US$0.26million) which represents 70% of the above materiality levels.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$6,000 (2016: US$7,000), which was set at 2% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We evaluated any uncorrected misstatements against both quantitative measures of materiality discussed above and in light of other relevant qualitative considerations when forming our opinion.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the group and its environment, as well as assessing the risks of material misstatement in the financial statements at group level.

In approaching the audit, we considered how the group is organised and managed. We completed a full scope audit on the group's financial information and the components we deemed significant. The group comprises seven components of which we identified two to be significant and performed a full scope audit on these components. The non-significant components were subject to analytical review procedures.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report
This report is made solely to the company's members, as a body, in accordance with our engagement letter dated 1 June 2018. 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.

BDO LLP

Chartered Accountants

55 Baker Street
London
W1U 7EU
United Kingdom

28 June 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

NCONDEZI ENERGY

Consolidated statement of profit or loss

for the year ended 31 December 2017

	Note	**2017** **US$'000**	2016 US$'000
Other administrative expenses	3	**(1,051)**	(2,356)
Total administrative expenses and loss from operations		**(1,051)**	(2,356)
Finance expense	11	**(644)**	(648)
Loss for the year before taxation		**(1,695)**	(3,004)
Taxation	4	**-**	58
Loss for the year attributable to equity holders of the parent company		**(1,695)**	(2,946)
Loss per share expressed in cents			
Basic and diluted	5	**(0.7)**	(1.2)

Consolidated statement of other comprehensive income

for the year ended 31 December 2017

	2017 **US$'000**	2016 US$'000
Loss after taxation	**(1,695)**	(2,946)
Other comprehensive income:		
Exchange differences on translating foreign operations*	**6**	(10)
Total comprehensive loss for the year attributable to equity holders of the parent company	**(1,689)**	(2,956)

*Items that may be reclassified to profit or loss subject to certain future events.

NCONDEZI ENERGY

Consolidated statement of financial position

as at 31 December 2017

	Note	**2017 US$'000**	2016 US$'000
Assets			
Non-current assets			
Property, plant and equipment	6	**18,313**	8,995
Total non-current assets		**18,313**	8,995
Current assets			
Inventory		**-**	2
Trade and other receivables	8	**83**	88
Cash and cash equivalents	9	**614**	152
Total current assets		**697**	242
Non-current assets held for sale (diluted interest in relation to SEP transaction)	6	**-**	9,389
Total assets		**19,010**	18,626
Liabilities			
Current liabilities			
Trade and other payables	10	**1,018**	1,205
Loans and borrowings	11	**3,495**	2,169
Derivative financial liability	17	**107**	-
Total current liabilities		**4,620**	3,374
Total liabilities		**4,620**	3,374
Capital and reserves attributable to shareholders			
Share capital	12	**87,384**	86,557
Foreign currency translation reserve		**-**	(6)
Accumulated losses		**(72,994)**	(71,299)
Total capital and reserves		**14,390**	15,252
Total equity and liabilities		**19,010**	18,626

The financial statements were approved and authorised for issue by the Board of Directors on 28 June 2018 and were signed on its behalf by:

Jacek Glowacki
Non-Executive Director

The notes to the consolidated financial statements form part of these financial statements.

Consolidated statement of changes in equity

for the year ended at 31 December 2017

	Share capital US$'000	**Foreign Currency Translation reserve US$'000**	**Accumulated Losses US$'000**	**Total US$'000**
At 1 January 2017	**86,557**	**(6)**	**(71,299)**	**15,252**
Loss for the year	**-**		**(1,695)**	**(1,695)**
Other comprehensive loss for the year	**-**	**6**	**-**	**6**
Total comprehensive loss for the year	**-**	**6**	**(1,695)**	**(1,689)**
Issue of shares	**987**	**-**	**-**	**987**
Costs associated with issue of shares	**(160)**	**-**	**-**	**(160)**
Equity settled share-based payments	**-**	**-**	**-**	**-**
At 31 December 2017	**87,384**	**-**	**(72,994)**	**14,390**

	Share capital US$'000	Foreign Currency Translation reserve US$'000	Accumulated Losses US$'000	Total US$'000
At 1 January 2016	86,557	4	(68,353)	18,208
Loss for the year	-	-	(2,946)	(2,946)
Other comprehensive income for the year	-	(10)	-	(10)
Total comprehensive loss for the year	-	(10)	(2,946)	(2,956)
Issue of shares	-	-	-	-
Costs associated with issue of shares	-	-	-	-
Equity settled share-based payments	-	-	-	-
At 31 December 2016	86,557	(6)	(71,299)	15,252

The notes to the consolidated financial statements form part of these financial statements.

NCONDEZI ENERGY

Consolidated statement of cash flows

for the year ended at 31 December 2017

	2017 US$'000	2016 US$'000
Cash flow from operating activities		
Loss before taxation	**(1,695)**	(3,004)
Adjustments for:		
Finance expense	**644**	648
Unrealised foreign exchange movements	**3**	(34)
(Gain)/loss on disposal of property plant and equipment	**(89)**	1
Deferred payroll costs capitalised to Shareholder Loan	**132**	231
Depreciation and amortisation	**78**	126
Net cash flow from operating activities before changes in working capital	**(927)**	(2,032)
Decrease in inventory	**2**	6
Increase in payables	**13**	16
Decrease in receivables	**5**	16
Net cash flow from operating activities before tax	**(907)**	(1,994)
Income taxes refunded	**-**	58
Net cash flow from operating activities after tax	**(907)**	(1,936)
Investing activities		
Sales of property plant and equipment	**133**	-
Power development costs capitalised	**(48)**	(249)
Mine development costs capitalised	**(3)**	(13)
Net cash flow from investing activities	**82**	(262)
Financing activities		
Issue of ordinary shares	**987**	-
Cost of share issue	**(50)**	-
Bank charges	**-**	(13)
Short term loan	**350**	1,961
Net cash flow from financing activities	**1,287**	1,948
Net increase/(decrease) in cash and cash equivalents in the year	**462**	(250)
Cash and cash equivalents at the beginning of the year	**152**	402
Cash and cash equivalents at the end of the year	**614**	152

The notes to the consolidated financial statements form part of these financial statements.

Notes to the consolidated financial statements

1. Principal accounting policies.

General
The Company is a limited liability company incorporated on 30 March 2006 in the British Virgin Islands. The address of its registered office is Ground Floor, Coastal Building, Wickham's Cay II, PO Box 2136, Road Town, Carrot Bay, VG1130 Tortola, British Virgin Islands.

Going concern
The Directors have reviewed future cash forecasts for a period of at least the next 12 months. As at 18 June 2018 the Group had cash reserves of approximately US$1.34 million. Based upon projections the current cash reserves will cover non project corporate costs until the beginning of July 2019, subject to the Shareholder Loan being extended or restructured. The Shareholder Loan matures on 2 September 2018, and the Company is currently evaluating options to extend or restructure the loan together with proposals with a number of parties for refinancing of the loans.

The Directors continue to explore options in respect of raising further funds to continue with the power plant and mine development programmes. At present there are no binding agreements in place and there can be no certainty as to the Group's ability to raise additional funding.

The Group will need to extend, refinance or settle the US$5.1 million Shareholder Loan (principal and redemption premium) in equity by their maturity date, of which US$0.91 million of the principal was lent by Directors. In addition, further funding will be required by the end of June 2019 to meet operating cash flows under current forecasts or in the event of accelerated project advancement. The Directors are exploring a number of funding and working capital solutions beyond the 2 September 2018 maturity of the Shareholder Loan. The financial statements have been prepared on a going concern basis in anticipation of a positive outcome but it is important to highlight that there are no binding agreements in place and there can be no certainty that the Shareholder Loan will be restructured, settled in equity or refinanced and that additional funding will be raised.

These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern. Such adjustments would principally be the write down of the Group's non-current assets.

Basis of preparation
The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

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

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.

The Group financial information is presented in United States dollars (US$) and values are rounded to the nearest thousand dollars (US$'000).
Loss from operations is stated after charging and crediting all operating items excluding finance income and expenses.

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

Standards in issue but not yet effective
The following standards, amendments and interpretations which have been recently issued or revised and are mandatory for the Group's accounting periods beginning on or after 1 January 2018 or later periods have not been adopted early**:**

Standard	Description	Effective date
IFRS 9	Financial Instruments	1 Jan 2018
IFRS 15	Revenue from Contracts with Customers	1 Jan 2018
IFRS 16	Leases	1 Jan 2019
IFRS 2	Amendment – Classification and measurement of share based payment transactions	1 Jan 2018

The only standard which is anticipated to be significant or relevant to the Group is IFRS 9 "Financial Instruments". Both IFRS 15 and IFRS 16 are not expected to have a material impact on the Group based on its current operations.

IFRS 9 "Financial instruments" addresses the classification and measurement of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The level of credit risk that the Group is exposed to is not expected to give rise to material allowances within this new model. The Group is in the process of completing their assessment of the classification and measurement of the Group's existing financial assets and liabilities under the requirements of IFRS 9 and do not anticipate any material impact to the financial statements upon adoption of this standard.

Basis of consolidation

Subsidiaries
Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations
The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a business is the fair value of the assets transferred, liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition

related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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 has been identified as the Board of Directors.

Share-based payments
Equity-settled share-based payments to employees and Directors are measured at the fair value of the equity instrument. The fair value of the equity-settled transactions with employees and Directors is recognised as an expense over the vesting period. The fair value of the equity instrument is determined at the date of grant, taking into account market based vesting conditions.

The fair value of the equity instrument is measured using the Black-Scholes model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

When grant of equity instruments is cancelled or settled during the vesting period the cancellation is accounted for as an acceleration of vesting and the amount that otherwise would have been recognised for services received over the remainder of the vesting period is immediately expensed.

If, after the vesting date, fully vested options lapse or are not exercised the previously recognised share based payment charge is not reversed.

Property, plant and equipment
Property, plant and equipment are stated at cost on acquisition less depreciation. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

The annual rate of depreciation for each class of depreciable asset is:

Plant and equipment	25%
Other	20%-33%
Buildings	10%

The carrying value of property plant and equipment is assessed annually and any impairment is charged to the profit or loss.

Power project costs
Power project expenditure is expensed until it is probable that future economic benefits associated with the project will flow to the Group and the cost of the project can be measured reliably. When it is probable that future economic benefits will flow to the Group, all costs associated with developing the 300MW power project are capitalised as power project expenditure within property, plant and equipment category of tangible non-current assets. The capitalised expenditure includes appropriate technical an administrative expenses but not general overheads. Power project assets are not depreciated until the asset is ready and available for use.

Exploration and evaluation assets
Exploration and evaluation assets include all costs associated with exploring and evaluating prospects within licence areas, including the initial acquisition of the licence are capitalised on a project-by-project basis. Costs incurred include appropriate technical and administrative expenses but not general overheads. Where a licence is relinquished, a project is abandoned, or is considered to be of no further commercial value to the Group, the related costs will be written off.

The recoverability of exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Group to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition of recoverable reserves.

Mining assets
When the technical feasibility of the exploration project is determined, mining licence concession is obtained and a decision is made to proceed to development stage the related exploration and evaluation assets are assessed for potential impairment and then transferred to non-current mining assets and included within property, plant and equipment.

Mining properties are depleted over the estimated life of the reserves on a 'unit of production' basis.

Commercial reserves are proven and probable reserves. Changes in commercial reserves affecting unit of production calculations are dealt with prospectively over the revised remaining reserves.

Impairment
The carrying amounts of non-current assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash generating unit level.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the statement of profit or loss and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in the prior years.

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The Group's cash-generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairments are recognised in the statement of profit or loss to the extent that the carrying amount exceeds the assets recoverable amount. The revised carrying amounts are amortised in line with the Group's accounting policies.

The Group has two cash generating units being the coal mining asset and the power plant project.

Operating leases
Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease') amounts payable under the lease are charged to the profit or loss on a straight-line basis over the lease term.

Foreign currency
The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results of overseas Group entities are translated into US$, which is the functional currency of the Company and its primary operating subsidiaries and presentation currency for the consolidated financial statements, at rates approximating to those ruling when the transactions took place, all assets and liabilities of overseas Group entities are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations with a non US$ functional currency at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange translation reserve.

In preparing the financial statements of the individual entities, transactions in currencies other than the

entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in the statement of profit or loss.

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.

Taxation
Income 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 profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. 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 asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the statement of profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. 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
Financial assets and liabilities are recognised when the Group becomes party to the contractual provisions of the instrument.

Financial assets
The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group did not have any financial assets designated at fair value through profit or loss and as held to maturity or held for trading. Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

The Group's accounting policy for each category is as follows:

Loans and receivables
Loans and receivables (including trade receivables) are measured on initial recognition at fair value and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand, deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial liabilities

Financial liabilities held at amortised cost

Financial liabilities refer to trade and other payables and loans and borrowings and are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Where loans and borrowings include a redemption premium, the estimated premium is included in the calculation of the effective interest rate.

Where there is a significant modification to a financial liability, the financial original liability is de-recognised and a new financial liability is recognised at fair value in accordance with the Group's policy.

Financial liabilities at fair value through profit or loss

This category comprises only warrants instruments classified as derivative financial liability due to the warrant resulting in the issue of a variable number of shares. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any other financial liabilities as being at fair value through profit or loss.

Fair value measurement hierarchy

The Group classifies its financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (note 17). The fair value hierarchy has the following levels:

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2);
c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within the financial liability is determined on the basis of the lowest level input that is significant to the fair value measurement.

Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's ordinary shares are classified as equity instruments. The Company considers its capital to be total equity. The Company is not subject to any externally imposed capital requirements.

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when: they are available for immediate sale subject only to customer conditions; management is committed to a plan to sell; it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn; an active programme to locate a buyer has been initiated; the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of: their carrying amount immediately prior to being classified as held for sale in accordance with the group's accounting policy; and fair value less costs to sell. Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

2. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

NCONDEZI ENERGY

Accounting judgements and estimates

(i) Impairment of mining assets
The Group's mining assets were impaired to US$7.7 million in 2014 and are held at its estimated value in use which is below cost. Assessment of the carrying value, potential additional impairment or reversal of impairment involves management estimates on highly uncertain matters such as future commodity prices which are in turn linked to the Power Project tariff, IRR and commercial development, estimates of future operating expenses, discount rates, production profiles and the outlook for regional market power demand in Mozambique. Management have performed an impairment test using the current economic model for the mine as at year end. The expected future cash flows were estimated using management's best estimates which are based on currently available information such as reserves reports and proposed coal prices for supply to the Power Project. Refer to (ii) for details of key judgments and estimates associated with the Power Project which impact the carrying value of the mining asset.

As disclosed in note 1, the value of the Group's coal mining asset and power project is dependent on the Group's ability to raise the required finance for the construction of the coal processing facilities and the power plant.

The key estimates and assumptions are further disclosed in note 6.

(ii) Power Project development
The carrying value of the power plant costs in note 6 is dependent on the success of the power plant project. Management have considered key milestones, signing of NBO, risks and de-risking events and determined that it is more likely than not that the power plant will be developed given the progress to date. The carrying value of the assets and feasibility of the project is supported by the current financial models. However, the Government have indicated that a more competitive tariff is required compared to the previous tariff envelope agreed in principle under the SEP transaction. The financial model is based on an approximate 10% reduction in the previous tariff which management anticipate being acceptable to the Government following benchmarking and discussions with EDM to date. However, negotiations are continuing and should an acceptable tariff not be agreed or other cost efficiencies realised the project may not proceed and the power assets may not be recoverable.

(iii) Asset classified as held for sale
Subsequent to suspension of exclusivity discussion with SEP on the 26 May 2017 the Group has reclassified the 'Non-current asset held for sale' to Property, plant and equipment. The assets reclassified total US$9.4m from PPE held at net book value which is below fair value less cost to sell (note 6).

Management have considered whether the NBO with CMEC was such that the power and mining assets met the criteria of IFRS 5. Having considered the status of the proposals at 31 December 2017, the significance and nature of conditions required for a JDA and subsequent financial closure and the period of time to final completion of a transaction and concluded that the criteria were not met.

(v) Amendments to shareholder loans
Judgement and estimate was required in accounting for the Group's shareholder loans which were extended during the year. The extensions were considered to represent significant modifications with the maturity extended without additional redemption premiums. Judgement was required in assessing whether the holders were acting principally in their capacity as debt holders or shareholders with gains on modification recorded in the income statement under the former or equity under the latter. Management concluded that the holders were acting principally in their capacity as debt holders based on assessment of the size of their shareholdings, the financial position of the Group at the time which was considered to be such that the holders accepted the terms to maximise their potential for eventual recovery of the loans (including premium) and other facts and circumstances.
Judgement and estimation was required in determining the market rate of return to apply in calculating the fair value of the loan instruments on extension in May 2017 and September 2017. Management estimated the market rate of return and this was applied to arrive at the fair value of the loan instruments.

3. Administrative expenses

	2017 US$'000	2016 US$'000
Staff costs	**167**	581
Professional and consultancy	**763**	1,201
Office expenses	**75**	128
Travel and accommodation	**12**	253
Other expenses	**57**	60
Gain on disposal of PPE	**(89)**	(10)
Depreciation	**78**	126
Foreign exchange	**(12)**	16
Total administrative expenses	**1,051**	2,356

Auditors' remuneration

	2017 US$'000	2016 US$'000
Group auditors' remuneration		
- audit of the Group's accounts	**48**	40
- audit of the Group's subsidiaries	**-**	15
Other services		
- interim review	**3**	12
	51	67

Auditors' remuneration is included within professional and consultancy costs.

Staff costs (including Directors)

	2017 US$'000	2016 US$'000
Wages and salaries	**188**	694
Social security costs	**1**	6
	189	700

US$21,561 (2016: US$119,000) included within wages and salaries have been capitalised to the power project asset.

The average monthly number of employees (including executive Directors) of the Group were:

	2017 Number	2016 Number
Operational	**1**	8
Administration	**3**	5
	4	13

Key management compensation:

	2017 US$'000	2016 US$'000
Salary	**72**	385
Fees	**23**	121
Social security costs	**-**	6
	95	512

Key management personnel are considered to be Directors and senior management of the Group.

The average monthly number of employees (including executive Directors) of the Group were:

	2017 Number	2016 Number
Operational	**8**	11
Administration	**5**	9
	13	20

4. Taxation

The Group entities subject to corporate income tax are Ncondezi Coal Company Mozambique Limitada and Ncondezi Power Company S.A. which are subject to tax at the rate of 32% (2016: 32%) on their profits in Mozambique. No tax charge/ (credit) arose in the current or prior year for Ncondezi Coal Company Mozambique Limitada and Ncondezi Power Company S.A.

	2017 US$'000	2016 US$'000
Current tax – UK corporation tax	**-**	(58)
Group loss on ordinary activities before tax	**(1,695)**	(3,004)
Effects of:		
Reconcile to Mozambique corporation tax rate of 32% (2016: 32%)	**(542)**	(962)
Differences arising from different tax rates	**499**	862
Taxable losses utilised not previously recognised	**(77)**	-
Under/over provision from previous period	**-**	(58)
Foreign exchange effect originating in overseas companies	**95**	(229)
Unrecognised taxable losses in subsidiaries	**25**	329
Total tax for the year	**-**	(58)

During the exploration and development stages, the Group will accumulate tax losses which may be carried forward. As at 31 December 2017, no deferred tax asset has been recognised for tax losses of US$7,978,000 (2016: USD$7,867,000) carried forward within the Group's overseas subsidiaries, as the recovery of this benefit is dependent on the future profitability, the timing and certainty of which cannot be reasonably foreseen.

Tax losses in Mozambique are available for use over a five year period. Of the total available Mozambican subsidiary tax credits, US$52,000 will be available until 31 December 2022, US$1,129,000 will be available until 31 December 2021, US$760,000 will be available until 31 December 2020, US$1,269,000 will be available until 31 December 2019, and US$1,834,000 will be available until 31 December 2018.

5. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Due to the losses incurred during the year a diluted loss per share has not been calculated as this would serve to reduce the basic loss per share. Out of 7,525,000 (2016: 13,550,000) share incentives outstanding at the end of the year 6,775,000 (2016: 11,225,000) had already vested, which if exercised could potentially dilute basic earnings per share in the future.

	2017			2016		
	Loss US$'000	Weighted average number of shares (thousands)	Per share amount (cents)	Loss US$'000	Weighted average number of shares (thousands)	Per share amount (cents)
Basic and diluted EPS	**(1,695)**	**253,349**	**(0.7)**	(2,946)	250,075	(1.2)

6. Property, plant and equipment

	Power assets US$'000	Mining assets US$'000	Buildings US$'000	Plant and equipment US$'000	Other US$'000	Total US$'000
Cost (less impairment)						
At 1 January 2016	**9,140**	**7,638**	**1,736**	**447**	**718**	**19,679**
Additions	249	13	-	-	-	262
Disposals	-	-	-	(1)	-	(1)
Transfer to held for sale	(9,389)	-	-	-	-	(9,389)
At 1 January 2017	**-**	**7,651**	**1,736**	**446**	**718**	**10,551**
Additions	48	3	-	-	-	51
Disposals	-	-	(337)	(404)	-	(741)
Reclassified from non-current assets held for sale	9,389	-	-	-	-	9,389
At 31 December 2017	**9,437**	**7,654**	**1,399**	**42**	**718**	**19,250**
Depreciation						
At 1 January 2016	**-**	**-**	**359**	**353**	**718**	**1,430**
Depreciation charge	-	-	73	53	-	126
At 1 January 2017	**-**	**-**	**432**	**406**	**718**	**1,556**
Depreciation charge	-	-	70	8	-	78
Disposals	-	-	(312)	(385)	-	(697)
At 31 December 2017	**-**	**-**	**190**	**29**	**718**	**937**
Net Book value 2017	**9,437**	**7,654**	**1,209**	**13**	**-**	**18,313**
Net Book value 2016	-	7,651	1,304	40	-	8,995

Power assets relate to the development of a 300MW power plant. In 2017, the Power assets were reclassified from 'Non-current asset held for sale to Property, plant and equipment as detailed in note 2.

Mine assets relate to the initial acquisition of the licences and subsequent expenditure incurred in evaluating the Ncondezi mine project. These were transferred from intangible assets on receipt of the mining concession in 2013.

The mine assets are stated net of an impairment of US$32 million recorded in 2014 which is considered to remain appropriate based on the impairment test at 31 December 2017. The carrying value for the coal mining asset has been assessed based on a value in use calculation using the economic model for the mine. The key estimates used in the value in use calculation are as follows:

- Coal price of US$1.23/Gj being the transfer price at 31st December 2017 escalated thereafter.
- Capital costs of US$104.5m based on contractor quotations
- Discount rate - 12% including allowances for project risk
- Coal production of 1.4mt to meet the power assets requirements. The resource is supported by a JORC compliant resource estimate.
- Life of the coal asset (based on the anticipated conditional EDM deal) – 25 years
- Inflation rates have been calculated based on a mixed basket of inflation rates in order to determine appropriate escalation factors. The baskets includes Mozambique CPIX, US CPIX,

RSA producer purchase index, Coal CPI Index, Fuel Supply Index, Mining Contractor Index and CHPP Index.

The impairment is highly sensitive to changes in the discount rate with a 1% increase in the discount rate increasing impairment by US$7.0 million. The coal price payable by the power station to the mine is consistent with the power project financial model which itself includes a critical estimate regarding the electricity tariff. The electricity tariff in the power project model is subject to ongoing negotiations with EDM as detailed in note 2. In the event of changes to operating inputs the pricing mechanism is revised to maintain the return on equity of the asset, subject to the economic viability of the power project and its return on equity.

7. Subsidiaries

The Group has the following subsidiary undertakings:

		% interest 2017	% interest 2016	Country of incorporation	Activity
Zambezi Energy Corporation Holdings 1 Limited	'ZECH1'	100	100	Mauritius	Holding company
Zambezi Energy Corporation Holdings 2 Limited	'ZECH2'	100	100	Mauritius	Holding company
Ncondezi Coal Company Mozambique Limitada	'NCCML'	100	100	Mozambique	Mining exploration and development
Ncondezi Power Holdings Limited	'NPHL'	-	100	Mauritius	Holding company
Ncondezi Power Holdings 2 Limited	'NPH2L'	100	100	UAE	Holding company
Ncondezi Power Company SA	'NPCSA'	100	100	Mozambique	Energy company
Ncondezi Power Mozambique Limitada	'NPML'	100	100	Mozambique	Energy company

Ncondezi Coal Company Mozambique Limitada is owned by Zambezi Energy Corporation Holdings 1 Limited and Zambezi Energy Corporation Holdings 2 Limited. Ncondezi Power Holdings 2 Limited is owned by Ncondezi Energy Limited. Ncondezi Power Company SA is owned by Ncondezi Energy Limited, Zambezi Energy Corporation Holdings 1 Limited and Ncondezi Power Holdings 2 Limited. Ncondezi Power Mozambique Limitada is owned by Zambezi Energy Corporation Holdings 2 Limited.

Ncondezi Power Holdings Limited was dissolved during the year.

8. Trade and other receivables

	2017 US$'000	2016 US$'000
Current assets:		
Other receivables	**83**	88
Total trade and other receivables	**83**	88

The fair value of receivables is not significantly different from their carrying value.

There are no receivables that are past due or impaired at year end.

9. Cash and cash equivalents

	2017 US$'000	2016 US$'000
Cash at bank and in hand	**614**	152
	614	152

The Group's cash and cash equivalents balances may be analysed by currency as follows:

	2017 US$'000	2016 US$'000
US Dollars	**77**	104
Great British Pounds	**535**	25
Mozambique Meticais	**2**	23
	614	152

Where possible cash is deposited in floating rate deposit accounts at reputable financial institutions with high credit ratings.

10. Trade and other payables

	2017 US$'000	2016 US$'000
Other payables	**213**	220
Other taxation and social security	**-**	2
Accruals	**805**	983
	1,018	1,205

Accruals includes US$0.5 million (2016: US$0.6 million) of interest in respect of the loans in note 11. The fair value of payables is not significantly different from their carrying value.

11. Short term loan

	31 December 2017 Audited US$'000	31 December 2016 Audited US$'000
Short term loan (unsecured)	**3,495**	2,193
Unamortised related costs	**-**	(24)
Total Short term loan	**3,495**	2,169

On 11 May 2016, the Group entered into a US$1.32 million loan facility ("Shareholder Loan") with certain of Ncondezi's Directors, Management and long term shareholders. On 31 August 2016, AFC acceded to the existing loan facility agreement, providing a facility of US$3.0 million, with an initial tranche of US$1.0 million ("Tranche A") and a further tranche of US$2.0 million ("Tranche B") which was conditional amongst other things upon the fulfilment of certain conditions precedent, the completion of the JDA and Ncondezi providing an appropriate security package. Tranche B was never drawn and lapsed.

The repayment terms of the Shareholder Loan were as follows:

- if the SEP JDA became effective before December 2016 the full drawn down amount was repayable on 10 May 2017 and a 0.5 times return on the drawn down amount was repayable 6 months from 10 May 2017
- if the SEP JDA became effective after December 2016 the full drawn down amount and the 0.5 times return was repayable on 10 May 2017
- if the repayment occurred after 10 May 2017, then an additional return of 0.5 times the total drawings is repayable in addition to the 1.5 times of the full drawn down amount

The Shareholder Loan was initially recorded at fair value, being the proceeds received, and subsequently at amortised cost. The estimated repayment premium of 0.5x capital was recognised over the period of the loan through the effective interest rate.

Repayment of the Shareholder Loan (comprising the existing Shareholder Loan and initial US$1.0 million Tranche A from AFC) was initially payable by no later than 10 May 2017. On 11 May 2017, the Company agreed an amendment to the repayment terms, with repayment of the principal and redemption premium on 2 September 2017. Subsequently on 2 September 2017 the Company was

able to agree an amendment to the repayment terms of the Shareholder Loan, with repayment now due on 2 September 2018.

On 23 of June 2017 the Company entered into an amendment ("New Loan") to the original Shareholder Loan with an additional funding of US$350,000. The financing has been committed by the Chairman

Michael Haworth (US$200,000) and other existing long term shareholders (US$150,000). The New Loan will receive a 1.25x return and was due to mature on 2 September 2017. The loan has subsequently been extended to 2 September 2018 with no additional return.

As part of this same amendment the senior management team of the Company have agreed to convert their deferred 50% salary between November 2016 and January 2017, and a percentage of their salary since February 2017 into the existing Shareholder Loan. The total amount of US$232,000 was initially due to mature 2 September 2017without interest. The maturity date was subsequently extended to 2 September 2018 with no additional return.

At the date of the extensions the loans, held at principal plus redemption premiums, were extinguished and replaced with the amended loans discounted at market rates of return (see note 2). The difference between the carrying value of the previous loan and the fair value of the amended loan was taken to finance costs as a gain. The discount is then accreted to the date of maturity with charges recorded in finance costs.

Finance costs of US$0.6 million comprise US$2.7 million of finance charges and US$2.1 million of gains on significant modification of the loans. The finance charges include the redemption premiums amortised to original maturity together with the additional redemption premium on the 2016 loan for non-payment, amortisation of the amended Shareholder Loan discount between 11 May 2017 and 2 September 2017 and amortisation of the discount of each loan from 3 September 2017 to 31 December 2017.

As at 31 December 2017, a total of US$2,774,545 has been drawn down under the total Shareholder Loan, this includes US$232,000 deferred salaries, and the repayment amount will be US$5,054,591 on 2 September 2018.

Net financial cost for the year totalled in relation to short term loan was US$644,000 (2016: US$648,000).

Accrued interest is recorded in other payables.

12. Share capital

	2017	2016
Number of shares		
Allotted, called up and fully paid		
Ordinary shares of no par value	**265,299,844**	250,299,844

	Shares Issued Number	**Share capital US$'000**
At 1 January 2017	**250,299,844**	**86,557**
Issue of shares	**15,000,000**	**987**
Issue costs	**-**	**(160)**
At 31 December 2017	**265,299,844**	**87,384**

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	Shares Issued Number	Share capital US$'000
At 1 January 2016	249,849,844	86,557
Issue of shares	450,000	-
At 31 December 2016	250,299,844	86,557

13. Reserves

The following describes the nature and purpose of each reserve within owners' equity.

Share capital	Amount subscribed for share capital, net of costs of issue
Foreign currency translation reserve	Gains/losses arising on retranslating the net assets of overseas operations into US Dollars
Retained earnings	Cumulative net gains and losses less distributions made, together with share based payment equity increases

14. Share-based payments

Share awards are granted to employees and Directors on a discretionary basis and the Remuneration Committee will decide whether to make share awards under the LTIP or unapproved share option scheme at any time.

Long term incentive plan and unapproved share option scheme

Exercise price per share	Grant date	Outstanding at start of year	Granted during the year	Lapsed/ cancelled during the year	Outstanding at year end	Final exercise date
2017						
Nil	27.05.10	2,400,000	-	-	2,400,000	26.05.20
25c	27.05.10	800,000	-	-	800,000	26.05.20
30.5p (47.8c)	19.06.12	500,000	-	(500,000)	-	18.06.22
17.25p (26.3c)	26.04.13	4,600,000	-	(2,825,000)	1,775,000	25.04.23
Nil	31.01.14	1,800,000	-	-	1,800,000	30.06.20
6.5p (10.8c)	31.01.14	3,450,000	-	(2,700,000)	750,000	30.06.20
Total		**13,550,000**	**-**	**(6,025,000)**	**7,525,000**	
WAEP (cents)		**14.92**	**-**	**21.2**	**9.94**	

Exercise price per share	Grant date	Outstanding at start of year	Granted during the year	Exercised during the year	Outstanding at year end	Final exercise date
2016						
Nil	27.05.10	2,400,000	-	-	2,400,000	26.05.20
25c	27.05.10	800,000	-	-	800,000	26.05.20
30.5p (47.8c)	19.06.12	500,000	-	-	500,000	18.06.22
17.25p (26.3c)	26.04.13	4,600,000	-	-	4,600,000	25.04.23
Nil	31.01.14	2,250,000	-	(450,000)	1,800,000	30.06.20
6.5p (10.8c)	31.01.14	3,450,000	-	-	3,450,000	30.06.20
Total		14,000,000	-	(450,000)	13,550,000	
WAEP (cents)		14.44	-	-	14.92	

The Company's mid-market closing share price at 31 December 2017 was 3.63p (31 December 2016: 5.3p). The highest and lowest mid-market closing share prices during the year were 9.87p (2016: 6.4p)

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and 1.75p (2016: 3.5p) respectively.

Of the total number of options outstanding at year end 6,775,000 (2016: 11,225,000) had vested and were exercisable. The weighted average exercise price for the exercisable options at year end was 8.86p (2016: 13.96p).

The weighted average contractual life of the options outstanding at the year-end was six years (2016: seven years).

The fair value of the share awards granted under the Group's unapproved share option scheme has been calculated using the Black-Scholes model and spread over the vesting period. The following principal assumptions were used in the valuation:

Grant date	Share price at date of grant	Exercise price per share	Volatility	Period likely to exercise	Risk-free investment	Fair value
19.01.12	90.67c	90.67c	50%	5 years	0.9%	39.63c
19.06.12	47.83c	47.83c	50%	5 years	0.7%	20.76c
26.04.13	26.32c	26.32c	37.65%	3-5 years	0.7%	8.10c
26.04.13	26.32c	26.32c	37.65%	3-5 years	0.7%	8.09c
26.04.13	26.32c	26.32c	37.65%	3-5 years	0.7%	8.08c
26.04.13	26.32c	26.32c	37.65%	3-5 years	0.7%	7.87c
26.04.13	26.32c	26.32c	37.65%	3-5 years	0.7%	8.23c
26.04.13	26.32c	26.32c	37.65%	4-5 years	0.7%	8.50c
31.01.14	10.77c	-	34.17%	5 years	2.4%	10.77c
31.01.14	10.77c	10.77c	43.57%	2 years	2.4%	3.18c
31.01.14	10.77c	10.77c	34.17%	5 years	2.4%	3.66c

The volatility rates have been calculated using the share price of a similar company with coal assets in Mozambique and analysis of historic Company share price volatility.

Based on the above fair values, the expense arising from equity-settled share options made to employees and Directors was nil for the year (2016: nil).

Warrants

During the year ended 31 December 2017, 1,500,000 warrants at subscription price of 5 pence per share, were granted to Novum Securities Limited as part of the placing agreement entered in October 2017. The warrants have an exercise period of 2 years from 20 October 2017. The warrants are classified at fair value profit and loss as the functional currency of the Company is US Dollars and the exercise price is set in GBP.

The fair value on the grant date and reporting date were determined using the Black Scholes Model. The fair value was based on the following assumptions:

Share Price (£)	0.06
Expected volatility	119%
Options life (years)	2
Expected dividends	0
Risk free rate	0.74%

The fair value of the 1,500,000 warrants on the grant date was US$110,229. On initial recognition the warrants' cost was deducted from share capital balance as it represents the cost of issuing shares. Subsequent changes in the fair value of the warrants are recognised through profit or loss. The warrants were valued at US$106,559 at the year end with the change of fair value of US$3,670 recognised through profit or loss 3.63p). The highest and lowest mid-market closing share prices during the year were 6.4p (2016: 5.5p) and 3.5p (2016: 1.63p) respectively.

15. Segmental analysis

The Group has three reportable segments:

- Mine project - this segment is involved in the exploration for coal and development of coal mine within the Group's licence areas in Mozambique
- Power project – this segment relates to the development of a 300MW integrated power plant next to the Group's coal mine concession areas in Mozambique
- Corporate - this comprises head office operations and the provision of services to Group companies

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker and are based on differences in products from which each reportable segment will derive its future revenues. The chief operating decision-maker has been identified as the Board of Directors.

The operating results of each of these segments are regularly reviewed by the Group's chief operating decision-maker in order to make decisions about the allocation of resources and assess their performance.

The segment results for the year ended 31 December 2017 are as follows:

Income statement	**Power project US$'000**	**Mine project US$'000**	**Corporate US$'000**	**Group US$'000**
For the year ended 31 December 2017				
Segment result after allocation of central costs	**(615)**	**44**	**(480)**	**(1,051)**
Finance expense	**-**	**-**	**(644)**	**(644)**
Finance income	**-**	**-**	**-**	**-**
Loss before taxation	**(615)**	**44**	**(1,124)**	**(1,695)**
Taxation	**-**	**-**	**-**	**-**
Loss for the year	**(615)**	**44**	**(1,124)**	**(1,695)**

The segment results for the year ended 31 December 2016 are as follows:

Income statement	Power project US$'000	Mine project US$'000	Corporate US$'000	Group US$'000
For the year ended 31 December 2016				
Segment result after allocation of central costs	168*	(486)	(2,038)	(2,356)
Finance expense	(1)	(2)	(645)	(648)
Finance income	-	-	-	-
Loss before taxation	167	(488)	(2,683)	(3,004)
Taxation	-	-	58	58
Loss for the year	167	(488)	(2,625)	(2,946)

*The gain includes the effect of gains on intercompany transactions with offsetting losses incurred in the corporate segment.

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Other segment items included in the Income statement are as follows:

Income statement	**Power project US$'000**	**Mine project US$'000**	**Corporate US$'000**	**Group US$'000**
For the year ended 31 December 2017				
Depreciation charged to the income statement	**-**	**(78)**	**-**	**(78)**

Income statement	Power project US$'000	Mine project US$'000	Corporate US$'000	Group US$'000
For the year ended 31 December 2016				
Depreciation charged to the income statement	-	(124)	(2)	(126)
Share based payments	-	-	-	-
Income tax credit	-	-	58	58

The segment assets and liabilities at 31 December 2017 and capital expenditure for the year then ended are as follows:

Statement of financial position	**Power project US$'000**	**Mine project US$'000**	**Corporate US$'000**	**Group US$'000**
At 31 December 2017				
Segment assets	**9,439**	**8,643**	**928**	**19,010**
Segment liabilities	**(210)**	**(11)**	**(4,399)**	**(4,620)**
Segment net assets	**9,229**	**8,632**	**(3,471)**	**14,390**
Property plant and equipment capital expenditure	**48**	**3**	**-**	**51**

The segment assets and liabilities at 31 December 2016 and capital expenditure for the year then ended are as follows:

Statement of financial position	Power project US$'000	Mine project US$'000	Corporate US$'000	Group US$'000
At 31 December 2016				
Segment assets	9,399	9,090	137	18,626
Segment liabilities	(209)	(36)	(3,129)	(3,374)
Segment net assets	9,190	9,054	(2,992)	15,252
Property plant and equipment capital expenditure	249	13	-	262

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16. Reconciliation of liabilities arising from financing activities

	Accrued interest	Short term loan	Derivative financial liability	Total
	US$'000	US$'000	US$'000	US$'000
At 1 January 2017	610	2,169	-	2,779
Cash flows	-	350	-	350
Deferred payroll costs capitalised to shareholder loan	-	232	-	232
Non cash finance charges net of modification gains	-	744	-	744
Non cash change in accruals	(100)	-	-	(100)
FV of warrants issued	-	-	110	110
Change in fair value	-	-	(3)	(3)
At 31 December 2017	**510**	**3,495**	**107**	**4,112**

17. Financial instruments

The Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 1.

There have been no substantive changes in the Group's objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group from which financial instrument risk arises, are as follows:

	2017	2016
	US$'000	US$'000
Loans and receivables at amortised cost		
Trade and other receivables	**44**	33
Cash and cash equivalents	**614**	152
Financial liabilities held at amortised cost		
Trade and other payables	**1,018**	1,203
Loans and borrowings	**3,495**	2,169
Financial liabilities at fair value through profit or loss		
Derivative financial liability	**107**	-

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and retains ultimate responsibility for them.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

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The Board receives cash flow projections on a monthly basis as well as information on cash balances.

2017	**Total**	**on demand**	**in 1 month**	**Between 1 and 6 months**	**Between 6 and 12 months**	**Between 1 and 3 years**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Trade and other payables	**1,018**	**-**	**228**	**265**	**525**	**-**
Loans and borrowings	**5,100**	**-**	**-**	**-**	**5,100**	**-**

2016	Total	on demand	in 1 month	Between 1 and 6 months	Between 6 and 12 months	Between 1 and 3 years
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Trade and other payables	1,203	-	216	610	377	-
Loans and borrowings	2,678	-	-	2,678	-	-

Loans and borrowings represent the loan principal and premium less interest accrued whilst accrued interest to 31 December 2017 is included in trade and other payables. Refer to note 11. The Group endeavours to match the maturity of its current assets with its current liabilities to mitigate liquidity risk. Refer to note 1 for the material uncertainty regards going concern.

Borrowing facilities
The Group had no undrawn and unconditional committed borrowing facilities available at 31 December 2017 (2016: Nil).

Market risk
The Group does not currently sell any coal or electricity. As such there is no specific market risk at the date of this report. However, there is a risk that the Group is unable to secure a credit worthy off-taker for the full output of the power plant, with the plant operating at load factors in excess of 80%.

Currency risk
The Group is exposed to currency risk through its activities due to certain costs arising in Mozambique Meticais and cash held in GBP, whilst the functional currency is US dollars. The Group has no formal policy in respect of foreign exchange risk, however, it reviews its currency exposures on a monthly basis. Currency exposures relating to monetary assets held by foreign operations are included within the Group statement of profit or loss. The Group also manages its currency exposure by retaining the majority of its cash balances in US dollars, being a relatively stable currency.

A 5% appreciation in the value of the US dollar against the Meticais and GB pounds will decrease net assets by US$20,803 (2016: decreased net assets by US$5,701).

Currency exposures
As at 31 December the Group's net exposure to foreign exchange risk was as follows:

	2017 US$'000 Assets/(liabilities) held			2016 US$'000 Assets/(liabilities) held		
	GBP	**MZN**	**Total**	GBP	MZN	Total
US dollars	**485**	**39**	**524**	(73)	42	(31)
	485	**39**	**524**	(73)	42	(31)

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Mozambican Meticais and Sterling, but these are not significant as most of the transactions are in USD.

18. Related party transactions

Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In relation to the Shareholder Loan as at 31 December 2017 US$671,591 (2016: US$331,439) was drawn by a Trust of which Non-Executive Chairman, Michael Haworth, is a potential beneficiary. US$185,864 (2016: US$101,864) was drawn by Director, Christiaan Schutte, US$55,011 (2016: US$33,011) from Director, Estevão Pale. Refer to note 11 for details of the terms and conditions.

Christiaan Schutte

During the year US$23,400 (2016: US$60,000) were paid to CPS Consulting in respect of services provided by Christiaan Schutte. There was no outstanding balance at 31 December 2017 (2016: Nil).

Details of Key Management Remuneration are contained in Note 3.
There is no ultimate controlling party.

19. Commitments

Social development programme

In December 2012 a Memorandum of Understanding was signed with the Mozambican Ministry of Mineral Resources and Energy in respect of a Social Development Programme, with a committed spend of US$2m following an agreed programme. By December 2016 half of this budget has been successfully spent in various initiatives. During the year there were no expenditure related to social development programmes (2016: US$21,180). Further to an Addendum, the program was postponed to be completed during the mining phase. In addition, upon receiving the mining concession a further US$5m was committed. The expenditure programme is still to be negotiated with the Ministry of Mineral Resources and Energy.

Environmental licence fee

An environmental licence fee of 0.2% of the capital cost of construction is payable before commencement of construction.

EMEM 5% investment in NCCML

Along with the issuance of the Mining Concession, Ncondezi's local subsidiary NCCML also concluded an Addendum to Mine Framework Agreement ("MFA") with Mozambican Ministry of Mineral Resources and Energy. Under the terms of the Addendum to the MFA, it has been agreed that the Government owned Mozambican Mining Exploration Company ("EMEM") will be granted a 5% free carry in the share capital of NCCML up to the start of the Ncondezi mine's construction. However, from the commencement of construction EMEM will be required to pay, through an agreed funding mechanism, for its share of any future equity funding obligations that may be required from the shareholders of NCCML including its share of the construction and commissioning costs of bringing the Ncondezi mine into commercial operation.

20. Events after the reporting date

Power project update
On 18 April 2018 Company announced in principle support received from Electricity de Mozambique ("EDM") and the Ministry of Mineral Resources and Energy ("MIREME") for proposed strategic partners, CMEC and GE.

On 3 May the new integrated financial model ("FM") was updated with proposals for engineering, procurement, and construction ("EPC") and operations and maintenance ("O&M") contracts.

On 11 June 2018, the Company announced that the FM and new tariff proposal had been accepted by its potential partners for submission to EDM and MIREME.

Placing
On 4th May 2018 Company raised a total of £950,000 before expenses through a conditional placing of 15,200,000 ordinary shares in the Company at a price of 6.25 pence per ordinary share.

Share Options

On 25 May 2018, as part of the Company's management incentive scheme, the Company granted share options in respect of 22,897,522 shares in the Company to its directors, executive senior management team and contracted personnel representing 8.2 per cent of the issued share capital of the Company.

This provides the Company with more time to progress the project and new Strategic Partner search and better develop loan repayment options.

NCONDEZI ENERGY

Company Information

Directors	Michael Haworth (Non-Executive Chairman) Christiaan Schutte (Non-Executive Director) Estevão Pale (Non-Executive Director) Jacek Glowacki (Non-Executive Director) Aman Sachdeva (Non-Executive Director)
Company Secretary	Elysium Fund Management Limited PO Box 650, 1st Floor, Royal Chambers St Julian's Avenue St Peter Port Guernsey GY1 3JX
Registered Office	Ground Floor, Coastal Building Wickham's Cay II PO Box 2136 VG1130 Road Town Tortola British Virgin Islands
Company number	1019077
Nominated Advisor and Corporate Broker	Liberum Capital Limited Ropemaker Place Level 12 25 Ropemaker Street London EC2Y 9AR
Auditors	BDO LLP 55 Baker Street London W1U 7EU
Registrar	Computershare Investor Services (BVI) Limited Woodbourne Hall PO Box 3162 Road Town Tortola British Virgin Islands
Legal advisor to the Company as to BVI law	Ogier LLP 41 Lothbury London EC2R 7HF
Legal advisor to the Company as to English law	Bryan Cave Leighton Paisner LLP Adelaide House London Bridge London EC4R 9HA