

GULF AFRICA PETROLEUM CORPORATION
ANNUAL REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF AFRICA PETROLEUM CORPORATION

Report on audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of **Gulf Africa Petroleum Corporation** (the "Company") and **its subsidiaries** (the "Group"), which comprise the consolidated and separate statements of financial position as at 31 December 2016, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and Company as at 31 December 2016, and of their consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and comply with the requirements of the Mauritius Companies Act 2001 in so far as applicable to Category 1 Global Business Licence companies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements of the IESBA Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on other legal and regulatory requirements

Mauritius Companies Act 2001

In accordance with the requirements of the Mauritius Companies Act 2001, we report as follows:

- we have no relationship with, or interest in, the Company and its subsidiaries other than in our capacity as auditor;
- we have obtained all information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by the Company as far as appears from our examination of those records.

Other information

The directors are responsible for the other information. The other information comprises the Company Information, the Report of the Directors and the Certificate from the Secretary, but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

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

Responsibilities of directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards, and in compliance with the requirements of the Mauritius Companies Act 2001 in so far as applicable to Category 1 Global Business Licence companies and they are also responsible 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 consolidated and separate financial statements, the directors are responsible for assessing the Company and its subsidiaries' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or any of its subsidiaries or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF AFRICA PETROLEUM CORPORATION (CONT'D)

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

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

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

This report is made solely to the Company's shareholders, as a body, in accordance with section 205 of the Mauritius Companies Act 2001. Our audit work has been undertaken so that we might state to the Company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte
Chartered Accountants

Date : 21 April, 2017

Pradeep Malik, FCA
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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 US \$ '000	2015 US \$ '000
Revenue	4	871,283	1,823,613
Cost of sales		(845,233)	(1,793,260)
Gross profit		26,050	30,353
Other operating income	5	10,768	11,530
Administrative expenses		(11,043)	(11,342)
Establishment expenses		(12,925)	(11,122)
Operating profit	6	12,850	19,419
Finance cost	8(a)	(5)	-
Finance income	8(b)	1,919	7,976
Profit before tax		14,764	27,395
Income tax expense	9(a)	(7,202)	(4,959)
Profit for the year attributable to equity shareholder		7,562	22,436
Other comprehensive income/(loss):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Translation reserve movement		(2,917)	(31,968)
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Revaluation gains on property, plant and equipment	11	8,558	2,198
Deferred tax on revaluation of property, plant and equipment	11,13	(1,779)	(659)
Total comprehensive income / (loss) for the year attributable to equity shareholder		11,424	(7,993)

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 US \$ '000	2015 US \$ '000
Revenue	4	-	-
Other operating income	5	28,134	-
Liquidation of subsidiary		-	(42)
Administrative expenses		(139)	(77)
Operating profit / (loss)	6	27,995	(119)
Finance costs	8(a)	(1,034)	(1,041)
Profit / (loss) before tax		26,961	(1,160)
Income tax expense	9(a)	(2,813)	-
Profit / (loss) for the year		24,148	(1,160)
Other comprehensive income		-	-
Total comprehensive income / (loss) for the year		24,148	(1,160)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Notes	2016 US \$ '000	2015 US \$ '000
Non-current assets			
Property, plant and equipment	14	135,695	133,460
Prepaid lease rentals	15	2,373	2,531
Intangible assets	16	12,272	12,272
		<u>150,340</u>	<u>148,263</u>
Current assets			
Inventories	18	67,027	117,419
Trade and other receivables	19	6,728	21,272
Cash and cash equivalents	20	19,184	14,594
Current tax receivable	9(b)	1,169	-
		<u>94,108</u>	<u>153,285</u>
Total Assets		<u><u>244,448</u></u>	<u><u>301,548</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	10	22,000	22,000
Revaluation reserve	11	142,282	137,486
Retained earnings		119,175	109,630
Accumulated translation losses		(107,457)	(104,540)
Total equity attributable to owners of the company		<u>176,000</u>	<u>164,576</u>
Non-current liabilities			
Deferred tax	13	26,632	26,411
		<u>26,632</u>	<u>26,411</u>
Current liabilities			
Provision for service gratuity	12	847	814
Trade and other payables	21	40,969	108,887
Current tax payable	9(b)	-	860
		<u>41,816</u>	<u>110,561</u>
Total Liabilities		<u>68,448</u>	<u>136,972</u>
		<u><u>244,448</u></u>	<u><u>301,548</u></u>

The financial statements were approved and authorised for issue by the Board of Directors on 28th March, 2017 and were signed on its behalf by:

_____ DIRECTOR

_____ DIRECTOR

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	<u>Notes</u>	<u>2016</u> US \$ '000	<u>2015</u> US \$ '000
Non-current assets			
Investment in subsidiaries	17	<u>51,093</u>	<u>51,093</u>
Current assets			
Trade and other receivables	19	<u>24,874</u>	8
Cash and cash equivalents	20	<u>260</u>	<u>22</u>
		<u>25,134</u>	<u>30</u>
Total Assets		<u><u>76,227</u></u>	<u><u>51,123</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	10	<u>22,000</u>	22,000
Retained earnings / (accumulated losses)		<u>10,269</u>	<u>(13,879)</u>
Shareholders' funds		<u><u>32,269</u></u>	<u><u>8,121</u></u>
Non-current liabilities			
Payable to subsidiary	21	<u>-</u>	<u>42,969</u>
Current liabilities			
Other payables	21	<u>85</u>	33
Payable to subsidiary	21	<u>43,873</u>	<u>-</u>
		<u>43,958</u>	<u>33</u>
Total equity and liabilities		<u><u>76,227</u></u>	<u><u>51,123</u></u>

The financial statements, were approved and authorised for issue by the Board of Directors on 28th March, 2017 and were signed on its behalf by:

DIRECTOR

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

ATTRIBUTABLE TO OWNERS OF THE COMPANY

	Notes	Share capital	Revaluation reserve	Retained earnings	Accumulated translation losses*	Total
		US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Year ended 31 December 2015						
At start of year (restated)		22,000	137,671	85,460	(72,572)	172,559
Transfer of excess depreciation	11	-	(2,334)	2,334	-	-
Deferred tax on transfer of excess depreciation	11	-	615	(615)	-	-
Adjustment on liquidation of subsidiary		-	-	10	-	10
Transfer to retained earnings from revaluation reserve on disposal of property, plant and equipment	11	-	(5)	5	-	-
Revaluation gains on property, plant and equipment		-	2,198	-	-	2,198
Deferred tax on revaluation of property, plant and equipment		-	(659)	-	-	(659)
Profit for the year		-	-	22,436	-	22,436
Other comprehensive loss for the year		-	-	-	(31,968)	(31,968)
At end of year		<u>22,000</u>	<u>137,486</u>	<u>109,630</u>	<u>(104,540)</u>	<u>164,576</u>
Year ended 31 December 2016						
At start of year		22,000	137,486	109,630	(104,540)	164,576
Transfer of excess depreciation	11	-	(2,473)	2,473	-	-
Deferred tax on transfer of excess depreciation	11	-	656	(656)	-	-
Transfer to retained earnings from revaluation reserve on disposal of property, plant and equipment		-	(166)	166	-	-
Revaluation gains on property, plant and equipment		-	8,558	-	-	8,558
Deferred tax on revaluation of property, plant and equipment		-	(1,779)	-	-	(1,779)
Profit for the year		-	-	7,562	-	7,562
Other comprehensive loss for the year		-	-	-	(2,917)	(2,917)
At end of year		<u>22,000</u>	<u>142,282</u>	<u>119,175</u>	<u>(107,457)</u>	<u>176,000</u>

* The accumulated translation losses consists of translation differences arising upon the consolidation of subsidiaries whose financial statements are not presented in United States Dollars.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital	Retained earnings / (accumulated losses)	Total
	US \$ '000	US \$ '000	US \$ '000
Year ended 31 December 2015			
At start of year	22,000	(12,719)	9,281
Total comprehensive loss for the year	-	(1,160)	(1,160)
At end of year	<u>22,000</u>	<u>(13,879)</u>	<u>8,121</u>
Year ended 31 December 2016			
At start of year	22,000	(13,879)	8,121
Total comprehensive income for the year	-	24,148	24,148
At end of year	<u>22,000</u>	<u>10,269</u>	<u>32,269</u>

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 US \$ '000	2015 US \$ '000
Operating activities			
Net cash generated from operations	22	19,129	36,007
Interest (expense) / income	8	88	95
Tax paid	9(b)	(10,489)	(8,577)
Net cash generated from operating activities		8,728	27,525
Investing activities			
Purchase of property, plant and equipment	14	(2,440)	(3,459)
Proceeds from disposal of property, plant and equipment		171	190
Net cash used in investing activities		(2,269)	(3,269)
Net increase in cash and cash equivalents		6,459	24,256
Movement in cash and cash equivalents			
At start of year		14,594	3,811
Net increase		6,459	24,256
Effect of foreign exchange differences on consolidation of foreign subsidiaries		(1,869)	(13,473)
At end of year	20	19,184	14,594

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 US \$ '000	2015 US \$ '000
Operating activities			
Net cash generated from operations	22	817	792
Interest expenses	8	(1,034)	(1,041)
Net cash used in operating activities		(217)	(249)
Investing activities			
Proceeds on liquidation of subsidiary		-	196
Dividend from subsidiaries		455	-
Net cash generated from investing activities		455	196
Net increase / (decrease) in cash and cash equivalents		238	(53)
Movement in cash and cash equivalents			
At start of year		22	75
Increase / (decrease)		238	(53)
At end of year	20	260	22

Non-cash transaction:

Withholding tax of USD 2,813,406 on dividend income was deducted by the subsidiary company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. LEGAL FORM AND PRINCIPAL ACTIVITY

Gulf Africa Petroleum Corporation (the “Company”) was incorporated in the Republic of Mauritius as a private limited liability company under the Mauritius Companies Act 2001. The Company has been granted a Category 1, Global Business Licence by the Financial Services Commission.

The Company’s registered office is at IFS Court, Bank Street, TwentyEight, Cybercity, Ebène 72201, Mauritius.

The principal activity of the Group consists of the storage, handling and distribution of petroleum products through its retail network and industrial network in Tanzania, Zanzibar, Uganda and Kenya. The principal activity of the Company is that of an investment holding company.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”) and in compliance with the Mauritius Companies Act 2001.

The consolidated financial statements have been prepared under the historical cost convention, except for valuation of certain property, plant and equipment which are measured at fair value and are in accordance with International Financial Reporting Standards (IFRSs). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets.

The financial statements are presented in United States Dollar (“USD”).

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016. Subsidiaries are entities that are controlled by the Group. Control is achieved if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee,
- Rights arising from other contractual arrangements, and
- The Group’s voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the shareholders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

For the purpose of consolidation, the financial statements of the subsidiaries have been translated from Kenyan Shilling (KES), Tanzanian Shilling (TZS) and Ugandan Shilling (UGX) to the functional currency of the Gulf Africa Petroleum Corporation which is the USD at the following rates:

	2016		2015	
	Closing Rate	Average Rate	Closing Rate	Average Rate
TZS	2,188.0000	2,187.7618	2,159.0000	2050.7536
KES	102.4858	101.4983	102.3114	98.2551
UGX	3,625.0000	3,429.3182	3,387.0000	3247.8000

2.3 SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

The financial statements are presented in USD, which is also the Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from consolidation using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates prevailing at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences arising on settlement or retranslation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

(b) Revenue recognition

In making their judgement, the directors considered the detailed criteria for the recognition of revenue from the sale of goods set out in International Accounting Standard 18 on 'Revenue' and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. The directors are satisfied that revenue is only recognised when significant risks and rewards have been transferred to the customer and the customer has accepted the goods.

Dividend income is recognised when the Shareholder's right to receive the payment has been established. Interest income is recognised on an accrual basis when it is probable that the economic benefits will flow to the Group and the amount of income can be reliably measured.

(c) Investments in subsidiaries (separate financial statements of the Company)

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

Investments in subsidiaries in the separate financial statements of the Company are carried at cost, net of any impairment. Where the carrying amount of an investment is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount and the difference is recognised in profit or loss. Upon disposal of the investment, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(d) Property, plant and equipment

Property, plant and equipment is recorded at cost net of accumulated depreciation and accumulated impairment losses, except for land and buildings, plant, equipment and machinery which are carried at revalued amount. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Land and buildings, plant, equipment and machinery are subsequently shown at market value, based on periodic valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss in the financial year in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve in equity, through other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit or loss) and depreciation based on the asset's original cost is transferred directly from the revaluation reserve to retained earnings. This is referred to as excess depreciation.

Depreciation is calculated on a straight line basis to write down the cost/valuation of each asset, to its residual value over its estimated useful life using the following annual rates:

	Gapco Uganda Limited	Gapco Tanzania Limited	Gapco Kenya Limited	Gapoil Zanzibar Limited
	Rate %	Rate %	Rate %	Rate %
Buildings	4	2 – 4	4	4 - 10
Plant, equipment and machinery	4 – 20	5 – 10	10	5 - 10
Motor vehicles	12.5 - 20	12.5 - 20	20	12.5 - 20
Furniture and fittings	5	10 – 33	15 - 16.7	10

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Capital work in progress mainly comprises construction of storage facilities and retail outlets by various subsidiary companies. No depreciation has been provided on the capital work in progress.

(e) Accounting for leases

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

(f) Intangible assets

– Computer software

Computer software costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are estimated to be between three and five years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development staff costs and an appropriate portion of relevant overheads.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

- Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. This goodwill is included under intangible assets. Impairment tests are carried out on goodwill annually and the carrying amount in the consolidated statement of financial position is reduced by any impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

(g) Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current and non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading,
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities respectively.

(h) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(i) Financial instruments

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

Initial recognition and measurement

Financial assets and financial liabilities are initially recognised at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than those at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, upon initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Subsequent measurement

- Financial assets

The Group's financial assets which include cash in hand and cash at bank and trade and other receivables fall into the following category:

Loans and receivables: Financial assets with fixed or determinable payments that are not quoted in an active market, other than:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

- those that the entity intends to sell immediately or in the short term, which are classified as held for trading and those that the entity upon initial recognition designated as at fair value,
- those that the entity upon initial recognition designates as 'available-for-sale'; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are classified as current assets where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method.

Effective Interest Method: The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and parts paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the Group commits to purchase or sell the asset.

Impairment of Financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Impairment of financial assets is recognised in the profit or loss when there is objective evidence that the Group will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.

The amount of the impairment loss is calculated as the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate.

Subsequent recoveries of amounts previously impaired are credited to profit or loss in the year in which they occur.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities

Initial recognition and subsequent measurement

The Group's financial liabilities which include trade and other payables and borrowings fall into the following category:

Financial liabilities measured at amortised cost: These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss.

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss.

Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the draw down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortised over the period of the facility.

Subsequent measurement

Derecognition

Financial liabilities are derecognised when, and only when, the Group's obligations are discharged, cancelled or expired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on direct purchase value and all costs attributable to bringing the inventory to its current location and condition and is on a weighted average basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less the selling expense.

(k) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of bank overdrafts, if any.

In the statement of financial position, bank overdrafts, if any, are included within borrowings in current liabilities.

(l) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in the other comprehensive income or in equity. In this case, the tax is also recognised in other comprehensive income and equity.

Current tax

Current tax is provided on the results for the year, adjusted in accordance with tax legislation that have been enacted or substantially enacted at the reporting date.

Deferred tax

Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

(m) Retirement benefit obligations

Group companies contribute to various defined contribution pension schemes in accordance with the local conditions and practices in the countries in which they operate. The Group's contributions to these schemes are charged to profit or loss in the year to which they relate.

(n) Employee entitlements

Employee entitlements to gratuity and long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the end of the reporting period.

(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(p) Share capital

Ordinary shares are classified as equity.

(q) Related parties

Related parties are individuals and companies where the individual or company has the ability, directly or indirectly to control the other party or exercise significant influence over the other party in making financial and operating decisions.

(r) Expenses

Expenses are accounted for in the statement of profit or loss and other comprehensive income on an accrual basis.

(s) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2.4 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(i) *New and revised IFRSs applied with no material effect on financial statements*

The following relevant new and revised Standards and interpretations have been adopted in these financial statements. Their application has not had any material impact on the amounts reported for the current period or prior years but may affect the accounting for future transactions or arrangements.

IFRS 7	Financial Instruments: Disclosures - Amendments resulting from September 2014 Annual Improvements to IFRSs
IFRS 10	Consolidated Financial Statements - Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture
IFRS 10	Consolidated Financial Statements - Amendments regarding the application of the consolidation exception
IFRS 10	Consolidated Financial Statements - Amendments deferring the effective date of the September 2014 amendments
IAS 1	Presentation of Financial Statements - Amendments resulting from the disclosure initiative
IAS 16	Property, Plant and Equipment - Amendments regarding the clarification of acceptable methods of depreciation and amortisation
IAS 16	Property, Plant and Equipment - Amendments bringing bearer plants into the scope of IAS 16
IAS 19	Employee Benefits – Amendments resulting from September 2014 Annual Improvement to IFRSs
IAS 27	Separate Financial Statements (as amended in 2011) - Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements
IAS 38	Intangible Assets - Amendments regarding the clarification of acceptable methods of depreciation and amortisation

(ii) **New and revised IFRSs in issue but not yet effective**

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations were in issue but effective on annual periods beginning on or after the respective dates as indicated:

IFRS 7	Financial Instruments: Disclosures - Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9 (effective on or after 1 January 2018)
IFRS 7	Financial Instruments: Disclosures - Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures (effective on or after 1 January 2018)
IFRS 9	Financial Instruments - Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition (effective on or after 1 January 2018)
IFRS 15	Revenue from Contracts with Customers - Original issue (effective on or after 1 January 2018)
IFRS 15	Revenue from Contracts with Customers – Clarifications to IFRS 15 (effective on or after 1 January 2018)
IFRS 16	Leases – original Issue (effective on or after 1 January 2019)
IAS 7	Statement of Cash Flows - Amendments as result of the Disclosure initiative (effective on or after 1 January 2017)
IAS 12	Income Taxes - Amendments regarding the recognition of deferred tax assets for unrealized losses (effective on or after 1 January 2017)
IAS 39	Financial Instruments: Recognition and Measurement - Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception (effective on or after 1 January 2018)

The directors anticipate that these amendments will be adopted in the Group's and the Company's financial statements at the above effective date in future periods. The directors have not yet assessed the potential impact of the adoption of these amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, the disclosures of contingent liabilities. Uncertainties about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effects on the amounts recognised in the financial statements:

Determination of functional currency

The primary objective of the Company is to generate returns in USD, its capital-raising currency. The liquidity of the Company is managed on a day-to-day basis in USD. The Company's performance is evaluated in USD. Therefore management considers USD as the currency that most faithfully represents the economic effect of the underlying transactions, event and conditions. The functional currency of the subsidiaries is Gapco Kenya Limited - Kenyan Shilling (KES), Gapco Tanzania Limited - Tanzanian Shilling (TZS) and Gapco Uganda Limited - Ugandan Shilling (UGX).

Classification of leasehold land

In establishing whether the land component is an operating or finance lease the Company takes into account that land has an indefinite economic life. The directors consider that the titles to leasehold land held by the Group constitute finance leases since substantially all the risks and rewards incidental to ownership are transferred to the Group.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below :

- Impairment of trade receivables

The Group and the Company reviews their portfolio of trade receivables on regular basis. In determining whether receivables are impaired, management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cashflows expected.

- Provisions for pending litigation

Some of the Group's subsidiaries are currently involved in various legal cases. Management regularly reviews the status of these cases and, in consultation with legal counsel, estimates the probable liabilities that could be incurred in the event that the cases are lost. In determining whether to recognise the provisions in the financial statements, management critically evaluates the probability of losing these cases and only makes provision for the cases in which it is probable that future outflow of resources will be required to settle the obligations.

- Property, plant and equipment

Management reviews the useful lives and residual values of the items of property, plant and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

- Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value.

- Going concern

The financial performance of the Group is set out in the Director's report and in the statement of profit or loss and other comprehensive income. The financial position of the Group is set out in the statement of financial position. Disclosures in respect of risk management are set out in Note 24.

Based on the financial performance and position of the Group and its risk management policies, the directors are of the opinion that the Group is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4. REVENUE	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Sale of goods and services	871,283	1,823,613	-	-
5. OTHER OPERATING INCOME	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Throughput fees	7,290	8,031	-	-
Gain on disposal of property, plant and equipment	-	41	-	-
Dividend income	-	-	28,134	-
Miscellaneous income	3,478	3,458	-	-
	10,768	11,530	28,134	-
6. OPERATING PROFIT / (LOSS)	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
The following items have been charged in arriving at the operating profit:				
Depreciation on property, plant and equipment (Note 14)	7,179	6,767	-	-
Amortisation of prepaid operating lease rentals (Note 15)	158	158	-	-
Cost of inventories expensed	845,233	1,793,260	-	-
Loss on disposal of property, plant and equipment	65	-	-	-
Audit fees	210	183	73	56
Movement in provision for receivables (Note 19)	(164)	(39)	-	-
Staff costs (Note 7)	7,324	5,694	-	-
Operating lease rentals	1,038	855	-	-
7. STAFF COSTS	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Salaries and wages	6,206	4,568	-	-
Other staff costs	1,118	1,126	-	-
	7,324	5,694	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Mauritius

The Company is subject to income tax in Mauritius at the rate of 15% (2015 : 15%) on taxable profits. It is however entitled to a foreign tax credit equivalent to the higher of the actual foreign taxes suffered and 80% of the Mauritius tax on its foreign source income, thus reducing effective tax rate to a maximum of 3%. Current year tax expense is due to withholding tax on dividend.

Tanzania (including Zanzibar)

Tax rate is 30% (2015 : 30%) on taxable profits. Dividend payments are subject to withholding tax at 10% (2015 : 10%).

Kenya

Tax rate is 30% (2015 : 30%) on taxable profits. Dividend payments are subject to withholding tax at 10% for non resident (2015 : 10%).

Uganda

Tax rate is 30% (2015 : 30%) on taxable profits. Dividend payments are subject to withholding tax at 15% for non resident (2015 : 15%).

(b) Current tax (receivable) / payable

	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
At start of year	860	1,898	-	-
Charge for the year	8,224	7,497	2,813	-
Under provision in prior year	247	264	-	-
Translation difference	(11)	(222)	-	-
Tax paid during the year	(10,489)	(8,577)	(2,813)	-
At end of year	(1,169)	860	-	-

10. SHARE CAPITAL

	Group and Company	
	2016	2015
	US \$ '000	US \$ '000
Issued and fully paid:		
22,000 (2015: 22,000) ordinary shares of USD 1,000 each	22,000	22,000
All shares have equal voting rights and attract dividends at the same rate.		

11. REVALUATION RESERVE

	Group	
	2016	2015
	US \$ '000	US \$ '000
At start of year	137,486	137,671
Transfer of excess depreciation	(2,473)	(2,334)
Deferred tax on transfer of excess depreciation	656	615
Revaluation gains on property, plant and equipment during the year	8,558	2,198
Deferred tax on revaluation of property, plant and equipment	(1,779)	(659)
Disposal of revalued portion of property, plant and equipment	(166)	(5)
At end of year	142,282	137,486

The revaluation reserve represents the surplus on the revaluation of property, plant and equipment, net of deferred tax of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Gapco Kenya Limited, Gapco Uganda Limited, Gapco Tanzania Limited and Gapoil (Zanzibar) Limited.

Gapco Kenya Limited

Land, buildings, storage tanks and plant and machinery were revalued on 31 December 2016 by Vineyard Valuers Limited. Valuations were made on the basis of open market value for the existing use. The book values of the properties were adjusted and the resultant surplus was credited to the revaluation reserve in the shareholders' equity and losses recognised in the statement of profit or loss and other comprehensive income.

Gapco Tanzania Limited

Buildings and plant and machinery were last revalued on 31 December 2013 by Messr's M & R Agency Ltd. Valuations were made on the basis of open market value for the existing use. The book values of the properties were adjusted and the resultant surplus was credited to the revaluation reserve in the shareholders' equity and losses recognised in the statement of profit or loss and other comprehensive income.

Gapco Uganda Limited

Buildings and plant and machinery were last revalued in 2011 by Messr's East African Consulting Surveyors. Valuations were made on the basis of open market values. The book values of properties were adjusted and the resultant surplus was credited to the revaluation reserve in the shareholders' equity through the statement of profit or loss and other comprehensive income.

Gapoil (Zanzibar) Limited

Buildings, plant and machinery were last revalued in November 2015 by Messr's M & R Agency Ltd. Valuations were made on the basis of open market values. The book values of properties was adjusted and the resultant surplus was credited to the revaluation reserve in the shareholders' equity through the statement of profit or loss and other comprehensive income.

12. PROVISION FOR SERVICE GRATUITY

	Group	
	2016	2015
	US \$ '000	US \$ '000
Benefit payable	847	814

13. DEFERRED TAX

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate prevalent in the various jurisdictions the Group operates in. The movement on the deferred tax account is as follows:

	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
At start of year	26,411	33,935	-	-
Credit to profit or loss (Note 9(a))	(1,269)	(2,802)	-	-
On revaluation of property, plant & equipment	1,779	659	-	-
Translation reserve	(289)	(5,381)	-	-
At end of year	26,632	26,411	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Deferred tax liabilities and assets at the end of the reporting year and deferred tax (credit) / charge in profit or loss and other comprehensive income as follows:

GROUP	At start of year	Translation reserve	Charge to other comprehensive income	Credit to profit or loss	At end of year
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Deferred tax liabilities					
Accelerated capital allowances and revaluation surplus	31,010	(289)	1,779	(3,752)	28,748
Unrealised exchange differences	288	-	-	103	391
	<u>31,298</u>	<u>(289)</u>	<u>1,779</u>	<u>(3,649)</u>	<u>29,139</u>
Deferred tax assets					
Other temporary timing differences	(4,887)	-	-	2,380	(2,507)
Net deferred tax liability	<u>26,411</u>	<u>(289)</u>	<u>1,779</u>	<u>(1,269)</u>	<u>26,632</u>

14. PROPERTY, PLANT AND EQUIPMENT

Group - Year 2016	Land and buildings	Plant, equipment and machinery	Motor vehicles	Furniture and fittings	Capital work-in progress	Total
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Cost or valuation						
At start of year	61,428	108,374	430	921	1,533	172,686
Translation adjustments	(670)	(861)	(15)	(21)	(35)	(1,602)
Additions	-	13	-	14	2,413	2,440
Transfer from capital work in progress	1,713	1,483	-	131	(3,327)	-
Surplus on revaluation	3,147	(2,818)	-	-	-	329
Disposals	(219)	(49)	(18)	(5)	-	(291)
At end of year	<u>65,399</u>	<u>106,142</u>	<u>397</u>	<u>1,040</u>	<u>584</u>	<u>173,562</u>
Depreciation						
At start of year	12,207	26,295	388	336	-	39,226
Translation adjustments	(87)	(143)	(13)	(11)	-	(254)
On disposal	(30)	(7)	(18)	-	-	(55)
Reversal of Depreciation on Revaluation	(1,178)	(7,051)	-	-	-	(8,229)
Charge for the year	2,215	4,876	25	63	-	7,179
At end of year	<u>13,127</u>	<u>23,970</u>	<u>382</u>	<u>388</u>	<u>-</u>	<u>37,867</u>
Balance at 31 December 2016	<u>52,272</u>	<u>82,172</u>	<u>15</u>	<u>652</u>	<u>584</u>	<u>135,695</u>

Details on revaluation are as per Note 11 of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Details of the fair value hierarchy for the Group's property plant and equipment held at fair value as at 31 December 2016 and 2015 are as follows:

	2016				2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Land and buildings	-	52,272	-	52,272	-	49,221	-	49,221
Plant, equipment and machinery	-	-	82,172	82,172	-	-	82,079	82,079
31 December	-	52,272	82,172	134,444	-	49,221	82,079	131,300

The assets are grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group - Year 2015	Land and buildings	Plant, equipment and machinery	Motor vehicles	Furniture and fittings	Capital work-in progress	Total
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Cost or valuation						
At start of year	72,618	122,073	543	889	3,050	199,173
Translation adjustments	(13,495)	(17,643)	(105)	(151)	(581)	(31,975)
Additions	-	70	-	27	3,362	3,459
Transfer from capital work in progress	2,053	2,089	-	156	(4,298)	-
Surplus on revaluation	377	1,821	-	-	-	2,198
Disposals	(125)	(36)	(8)	-	-	(169)
At end of year	61,428	108,374	430	921	1,533	172,686
Depreciation						
At start of year	12,573	26,966	445	340	-	40,324
Translation adjustments	(2,446)	(5,246)	(87)	(66)	-	(7,845)
On disposal	(7)	(5)	(8)	-	-	(20)
Reclassified	-	6	-	(6)	-	-
Charge for the year	2,087	4,574	38	68	-	6,767
At end of year	12,207	26,295	388	336	-	39,226
Balance at 31 December 2015	49,221	82,079	42	585	1,533	133,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

If the land, buildings, storage tanks and plant and machinery were stated on the historical cost basis, the amount would be as follows:

	Land and buildings	Plant, equipment and machinery	Total
	US \$ '000	US \$ '000	US \$ '000
Year ended 31 December 2016			
Cost	23,024	56,261	79,285
Accumulated depreciation	(12,337)	(55,557)	(67,894)
Net book value	<u>10,686</u>	<u>703</u>	<u>11,390</u>
Year ended 31 December 2015			
Cost	21,530	53,953	75,483
Accumulated depreciation	(11,762)	(49,931)	(61,693)
Net book value	<u>9,768</u>	<u>4,022</u>	<u>13,790</u>

15. PREPAID LEASE RENTALS

	Group	
	2016	2015
	US \$ '000	US \$ '000
Cost		
At start and at end of year	<u>4,628</u>	<u>4,628</u>
Amortisation		
At start of year	<u>2,097</u>	<u>1,939</u>
Charge for the year	<u>158</u>	<u>158</u>
At end of year	<u>2,255</u>	<u>2,097</u>
Net book value	<u>2,373</u>	<u>2,531</u>

16. INTANGIBLE ASSETS

	Group	
	2016	2015
	US \$ '000	US \$ '000
a) Computer software		
Cost		
At start and at end of year	<u>2,666</u>	<u>2,666</u>
Amortisation		
At start and at end of year	<u>2,666</u>	<u>2,666</u>
Net book value	<u>-</u>	<u>-</u>
b) Goodwill		
At start and at end of year	<u>12,272</u>	<u>12,272</u>
Total	<u>12,272</u>	<u>12,272</u>
Balance as at 31 December	<u>12,272</u>	<u>12,272</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The carrying amount of the goodwill analysed by Cash Generating Unit (CGU) is as follows:

	Group	
	2016	2015
	US \$ '000	US \$ '000
GAPCO Tanzania Limited	10,766	10,766
GAPCO Uganda Limited	1,506	1,506
	12,272	12,272

When testing for impairment, the recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using 10% as an estimated growth rate. The growth rate does not exceed the long term average past growth of the various subsidiaries in the Group.

A discount rate of 10% (2015: 10%) was applied in discounting the cash flows mentioned above.

The assumptions used in preparing the above cash flows are as follows:

- Management determine budgeted profit based on past performance and its expectations for market development.
- The weighted average growth rates used are consistent with the forecasts included in industry reports (where available). The discount rates used are post-tax and reflect specific risks relating to the relevant segments.

17. INVESTMENT IN SUBSIDIARIES

	Company	
	2016	2015
	US \$ '000	US \$ '000
At 1 January	51,093	51,331
Investment written off on liquidation of Transenergy Kenya Limited	-	(238)
At 31 December	51,093	51,093

Name of Subsidiary	Class of shares held	Country of incorporation	Direct Holding	COMPANY	
				2016	2015
				US \$ '000	US \$ '000
GAPCO Tanzania Limited	Ordinary	Tanzania	99.99%	30,735	30,735
GAPCO Uganda Limited	Ordinary	Uganda	99.99%	5,430	5,430
GAPCO Kenya Limited	Ordinary	Kenya	99.99%	14,928	14,928
				51,093	51,093

Indirect holding

Gapoil (Zanzibar) Limited is a subsidiary of GAPCO Tanzania Limited.

The Company has adopted the policy of measuring its investment at cost less impairment. The director are of the opinion that the carrying value of the investments is fairly stated at cost and therefore has not suffered any impairment in value as at 31 December 2016 (2015: NIL).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

18. INVENTORIES	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Petroleum products for sale	23,549	18,579	-	-
Goods in transit	43,478	98,840	-	-
	67,027	117,419	-	-
19. TRADE AND OTHER RECEIVABLES	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Trade receivables (Net of provision for impairment)	5,961	16,070	-	-
Dividends Receivable	-	-	24,866	-
Prepayments and other receivables	767	5,202	8	8
	6,728	21,272	24,874	8

In the opinion of the directors, the Group and Company's carrying amounts of the trade and other receivables approximate their fair value. The entity ensures that services are offered to customers with an appropriate credit risk. The Group assesses the potential customer's credit quality before accepting any new customer.

The Group's credit risk arises primarily from trade receivables. The directors are of the opinion that the Group's exposure is limited because the debt is widely held. The Group's credit period is between 30 to 60 days. Interest is charged on overdue balances.

The carrying amounts of the Group and Company's trade and other receivables are denominated in the following currencies (converted into United States Dollars at the rate prevailing at the reporting date):

	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Kenya Shillings	371	440	24,866	-
Tanzanian Shillings	857	1,206	-	-
Ugandan Shillings	265	489	-	-
US Dollar	5,235	19,137	8	8
	6,728	21,272	24,874	8

Trade receivables that are less than three months past due are not considered impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

As of 31 December 2016, the Group's trade receivables amounting to USD 0.223 million (2015: USD 1.065 million) were past due out of which provision for impairment is USD 0.046 million (2015: USD 0.210 million). These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2016	2015
	US \$ '000	US \$ '000
3 to 12 months	223	1,065
	Group	
	2016	2015
	US \$ '000	US \$ '000
Movement in impairment provisions		
At start of year	210	249
Movement during the year	(164)	(39)
At end of year	46	210

Individually impaired receivables mainly relate to customers, where the chances of recovery is remote as per management assessment.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Cash at bank and in hand	19,184	14,594	260	22

For the purpose of the statements of cash flows, the cash and cash equivalents comprise the following:

	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Cash at bank and in hand	19,184	14,594	260	22
	19,184	14,594	260	22

The carrying amounts of the Group and Company's cash at bank and in hand are denominated in the following currencies:

	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Kenya Shillings	1,188	1,540	-	-
Tanzanian Shillings	665	4,765	-	-
Ugandan Shillings	518	444	-	-
US Dollar	16,813	7,845	260	22
	19,184	14,594	260	22

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

21. TRADE AND OTHER PAYABLES GROUP COMPANY	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Non-current				
Payable to subsidiary (Note 23 (vi))	-	-	-	42,969
Current				
Trade payables	21,782	24,394	-	-
Other payables	17,992	26,193	85	33
Payable to subsidiary (Note 23 (vi))	-	-	43,873	-
Payable to related party (Note 23 (vi))	1,195	58,300	-	-
	40,969	108,887	43,958	33
	40,969	108,887	43,958	43,002

The average credit period of trade payables is between 30 and 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The maturity analysis of trade and other payables for the Group and Company is as follows:

2016	0 to 3 months	3 to 12 months	On Demand	Total
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
GROUP				
Trade payables	21,155	306	321	21,782
Other payables	16,328	302	1,362	17,992
Payable to related party	1,195	-	-	1,195
	38,678	608	1,683	40,969
	0 to 3 months	3 to 12 months	Over 1 year	Total
COMPANY	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Other payables	85	-	-	85
Payable to subsidiary	43,873	-	-	43,873
	43,958	-	-	43,958
2015	0 to 3 months	3 to 12 months	On Demand	Total
GROUP	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Trade payables	21,642	1,912	840	24,394
Other payables	20,715	4,216	1,262	26,193
Payable to related party	58,300	-	-	58,300
	100,657	6,128	2,102	108,887
	0 to 3 months	3 to 12 months	Over 1 year	Total
COMPANY	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Other payables	-	33	-	33
Payable to subsidiary	-	-	42,969	42,969
	-	-	42,969	43,002

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The amount payable to subsidiary is related to Gapco Tanzania Limited which is unsecured and bears interest at the rate of 4% p.a (2015: 4% p.a). The loan has been repaid fully subsequent to year end.

The carrying amounts of the Group and Company's trade and other payables are denominated in the following currencies (converted into United States Dollars at the rate prevailing at the reporting date):

	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Kenyan Shillings	7,251	5,072	-	-
Tanzanian Shillings	2,218	1,932	-	-
Ugandan Shillings	1,552	1,789	-	-
US Dollar	29,948	100,094	43,958	43,002
	40,969	108,887	43,958	43,002
22. CASH GENERATED FROM OPERATIONS				
	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Reconciliation of profit/(loss) before tax to cash generated from operations:				
Profit/(loss) before tax	14,764	27,395	26,961	(1,160)
Adjustments for:				
Depreciation on property, plant and equipment (Note 14)	7,179	6,767	-	-
Dividend from subsidiaries	-	-	(28,134)	-
Amortisation of prepaid operating lease rentals (Note 15)	158	158	-	-
Loss / (Gain) on disposal of property, plant and equipment (Note 6)	65	(41)	-	-
Loss on liquidation of investment	-	42	-	42
Interest (income)/ expense (Note 8)	(88)	(95)	1,034	1,041
Provision for service gratuity	33	(23)		
Changes in working capital:				
- inventories	50,392	55,518	-	-
- trade and other receivables	14,544	(13,414)	-	(2)
- trade and other payables	(67,918)	(40,300)	956	871
Net cash generated from operations	19,129	36,007	817	792

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

23. RELATED PARTY DISCLOSURES

The following transactions were carried out with related parties:

	Group		Company	
	2016	2015	2016	2015
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
i) Purchase of goods				
Ultimate Holding company	483,790	1,429,451	-	-
Management consultancy/ Business support/ Trademark Licence Fee/ IT support services				
Ultimate Holding company	845	860	-	-
Reliance Petro Marketing Limited	76	78	-	-
Reliance Corporate IT Park Limited	832	860	-	-
	1,753	1,798	-	-
ii) Interest to subsidiaries (Note 8)	-	-	1,034	1,041
iii) Dividend from subsidiaries	-	-	28,134	-
iv) Administrative expenses to IFS	-	-	24	18
v) Key management compensation				
Short term employee benefits	282	362	-	-
vi) Outstanding balances				
Payable to subsidiary	-	-	43,873	42,969
Payable to related party	1,195	58,300	-	-
	1,195	58,300	43,873	42,969

24. RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the management under policies approved by the Board of Directors.

(a) Market risk

- Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Kenya Shilling, Ugandan Shilling and Tanzanian Shilling.

The risk arises from future transactions, assets and liabilities in the statement of financial position.

The Company is exposed to foreign exchange risk arising from currency exposure with respect to the Kenyan Shilling. The carrying amount of dividend receivable represent the Company's maximum exposure.

The table below summarises the effect on pre-tax profit had the United States Dollar weakened by 10% against each currency, with all other variables held constant. If the United States Dollar strengthened against each currency, the effect would have been the opposite.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

GROUP	2016 (US \$ '000)			Total
	Ksh.	Tshs.	Ushs.	
Effect on pre tax profit - (decrease)/increase	569	70	77	716
	2015 (US \$ '000)			
	KSh.	Tshs.	Ushs.	Total
Effect on pre tax profit - (decrease)/increase	309	(404)	86	(9)

24. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk (continued)

- Interest rate risk

The Group's exposure to interest rate risk arises from borrowings.

Financial assets and liabilities obtained at different rates expose the Group to interest rate risk. Financial assets and liabilities obtained at fixed rates expose the Company to fair value interest rate risk, except where the instruments are carried at amortised cost. The Group maintains adequate ratios of borrowings when compared to total borrowings in fixed interest rates.

The Group and the Company is not exposed to significant interest rate risk. The income and operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. None of the financial assets that are fully performing has been renegotiated in the last year.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company's/Group's management maintains flexibility in funding by maintaining availability under committed credit lines.

Note 21 disclose the maturity analysis of borrowings and trade and other payables respectively.

25. CAPITAL MANAGEMENT

Capital structure

The capital structure of the Group and the Company consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings, as detailed in the statement of changes in equity.

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and
- to maintain a strong asset base to support the development of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The management sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of capital expenditure incurred.

The Group and the Company are not geared as at 31 December 2016 (2015: Not geared) as the capital structure consists of issued capital and retained earnings.

26. CONTINGENT LIABILITIES

Gapco Kenya Limited

- i) Guarantees issued by banking institutions on behalf of the Company: Citibank N.A -Kshs. 95,000,000 (2015: Kshs.132,000,000) and Bid Bond - BPS - NIL (2015: Kshs. 306,934,200 (USD 3,000,000))
- ii) Letters of Credit - Citi Bank - Kshs. 1,015,019,876 (USD 9,904,005) (2015 : Kshs. 1,044,344,195 (USD 10,207,506))

Gapco Tanzania Limited

- i) Standard Chartered Bank - Performance Guarantee - Tshs. 1,422,200,000 (2015: Tshs. 1,403,350,000)
- ii) Letter of Credit - Standard Chartered Bank - TZS 25,474,839,365 (2015: Tshs. 28,121,080,964)
- iii) Indemnity bonds issued to statutory authorities Tshs. 25,020,000,000 (2015: Tshs. 25,020,000,000)
- iv) Claims against the Company not acknowledged - Tshs. 34,000,000 (2015: Tshs. 236,749,463)

Gapco Uganda Limited

- i) Claims against the Company not acknowledged - Ugx 7,200,000,000 (2015: Ugx. 9,300,000,000)

The Group's subsidiaries are currently involved in a number of legal cases; however, no provision has been made in these financial statements because, in the directors' assessment, the possibility of material liabilities arising from these matters is remote.

27. COMMITMENTS

- (i) Capital commitments

The Group has capital commitments amounting to USD 213,000 (2015: USD 1,252,396).

- (ii) Operating lease commitments

Operating lease relates to leases of property. The Group does not have an option to purchase the leased land at the expiry of the lease period. However in some of the cases there is renewal clause based on mutual agreement of both of the parties.

The future minimum lease payments under operating leases are as follows:

	Group	
	2016	2015
	US \$ '000	US \$ '000
Not later than 1 year	53	57
Later than 1 year and not later than 5 years	772	921
	825	978

28. COUNTRY OF INCORPORATION

Gulf Africa Petroleum Corporation is incorporated in Mauritius under the Mauritian Companies Act 2001 as a private limited liability company and is domiciled in Mauritius. The Company holds a category 1 Global Business Licence under the Financial Services Act 2007.

29. PRESENTATION CURRENCY

The consolidated financial statements are presented in United States Dollars (US\$ 000s).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30. PARENT COMPANY AND ULTIMATE HOLDING COMPANY

The Parent company is Reliance Exploration and Production DMCC registered in Dubai, United Arab Emirates and the Ultimate Holding company is Reliance Industries Limited registered in India.

31. OTHER EVENTS

A. SUBSEQUENT EVENTS

Subsequent to the year-end, the Group and the Company had the following subsequent events:

- On 1 February 2017, the subsidiary, Gapco Tanzania Limited (GTL), has proposed interim dividends for 2017 of Tshs 51.30 billion on its ordinary shares.
- The loan owed by the Company to Gapco Tanzania Limited (GTL) of USD 43,873,841 as on 31 December 2016 was repaid post the year end
- On 11 March 2017, the Company's subsidiary, Gapco Tanzania Limited divested its subsidiary, Gapoil Zanzibar Limited.

B. OTHER EVENTS

- The majority shareholder, Reliance Exploration and Production DMCC (REPDMCC), Dubai, along with the minority shareholder, Fortune Oil Corporation, Mauritius, executed an agreement with Total Outre Mer S.A on 30 May 2016 for the sale of their entire interest in the Company, Gulf Africa Petroleum Corporation, to Total Outre Mer S.A. The proposed sale is subject to regulatory approvals and other closing conditions that are customary to similar transactions. This sale has taken effect on 28 March 2017 as the various conditions were met.