coro energy
EXPLORATION & PRODUCTION PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2017

'With operating capability, people and capital in place, the next step of the journey is to South East Asia, where highly attractive market fundamentals and a rich opportunity set are available.

The team's well developed network, skills and experience will be put to work on behalf of our shareholders, in creating value by playing a much-needed role in the regional oil & gas sector.'

CONTENTS

Highlights 1
Our History / Journey So Far 2
Our Asset Portfolio 4
Market Review & Strategy 8
Chairman & Chief Executive Officer's Statement 10
Financial Report 13
Health, Safety and Environment 20
Directors' Remuneration Report 25
Report Of The Directors 27
Statement Of Directors' Responsibilities 29
Report Of The Independent Auditor 30
Statement Of Financial Position 35
Statement Of Profit Or Loss And Other Comprehensive Income 37
Group Statement Of Changes In Equity 38
Company Statement Of Changes In Equity 39
Statement Of Cash Flows 40
Notes To The Consolidated Financial Statements 41
Company Information 63

HIGHLIGHTS

- Completed a **transformational transaction** with Sound Energy creating a full cycle E&P portfolio in Italy
- **£14 million in funding secured** via two new cornerstone investors and several other committed institutional investors
- **Strengthened** Board and Senior Executive team
- Initiated **international growth strategy** focused on South East Asia
- Completed development and secured first gas and commercial production from the Bezzecca gas field
- Maintained **strong safety record**
- Continued preparation for next gas field development, Sant'Alberto

OUR HISTORY / JOURNEY SO FAR

Following its Initial Public Offering under the name Saffron Energy in February 2017 as an Italian gas producer, Coro Energy Plc is now positioned as an exciting growth focused pan Euro Asian gas explorer.

Since its IPO, Coro made solid operational progress, extending the Shell offtake agreement in Italy and securing first gas and commercial production at Bezzecca in addition to operating its existing production concession Sillaro. The Company also advanced its Sant' Alberto licence with the granting of a production concession in October 2017 whilst benefitting from very strong Mediterranean gas prices.

Following the signature of heads of terms in October 2017, the Company formally changed its name from Saffron to Coro Energy Plc following approval from shareholders at the GM held in March 2018, secured £14M in institutional funding, upgraded its Board and announced a two pronged strategy: Italian consolidation and expansion and transformational growth in South East Asia.

Building upon the expertise and connectivity of its new team, Saffron has therefore initiated its international growth strategy with the aim to become a mid-tiered South East Asian focused E&P Company.

To facilitate its growth strategy, the Company will use its key advantages, including network, capabilities and experience in rapidly establishing a South East Asian portfolio which will be ably led by Coro Energy's Chief Executive Officer, Mr. James Menzies.

The opportunity to join an ambitious, well supported Company and guide it on its way to becoming an established South East Asian E&P player was simply too good to pass up.

I've had many years of experience in developing an oil & gas business in the region and look forward to working with the Board in achieving their goals for the Company. Coro already has established a solid platform in Italy, but the time is right to expand into the South East Asian region, where we see strong macro economics and a rich opportunity set.

The journey will continue into its next exciting phase, I'm delighted to be part of it.

OUR JOURNEY SO FAR

1997 (20+YEARS)

20 year history in production and development

- Drilled 12 wells
- Developed 8 oil and gas fields
- Operated 6 production wells
- Purchased/acquired 372 km2 2D and 3D seismic
- Total invested capital to date $135M

FEBRUARY 2017

Initial Public Offering on the AIM

APRIL TO SEPTEMBER 2017

Solid operational progress

- extending the Shell offtake agreement
- securing first gas and commercial production at Bezzecca
- advanced its Sant' Alberto licence with the granting of a production concession

OCTOBER 2017

Signature of heads of terms with Sound Energy

DECEMBER 2017

Upgraded its Board and announced new strategy expansion and transformational growth in South East Asia.

MARCH 2018

Changed its name to Coro Energy and secured £14M in institutional funding

MAY 2018

Appointment of James Menzies as Chief Executive Officer

Building upon the expertise and connectivity of its new team, Coro Energy has therefore initiated its international growth strategy with the aim to become a mid-tiered South East Asian focused E&P Company.

OUR ASSET PORTFOLIO

1. BEZZECCA
2. SANTA ALBERTO
3. SILLARO
4. SAN LORENZO
5. RAPAGNANO
6. SANTA MARIA GORETTI
7. LAURA
8. TORRE DEL FERRO

TEAM FOCUS

GIORGIO BERTUZZI

LEAD EXPLORATIONIST, ITALY

Mr Bertuzzi has over 30 years of international exploration management experience both in Italy and abroad. From 1993 to 2001 Giorgio was Exploration Project Manager for Eni in the Po Valley area where the main activities were prospects selection and exploratory drilling aimed also at the evaluation of residual hydrocarbon potential in Exploitation Concessions (30 wells, several of them gas and oil discoveries).

Mr Bertuzzi led the "Eni Exclusive Area Liberalization" project which consisted of a thorough evaluation of the general Po Valley basin which was carried out to select the acreage deemed potentially suitable for Eni's Exploration and Exploitation applications. The final results in 1998 was the awarding to Eni of 38 Exploration Permits and 49 Exploitation Concessions and the building of a considerable prospects portfolio.

From 2001 to 2003 Giorgio carried out PM Prefeasibility Studies related to exploration discoveries and reassessment of existing gas fields in northern, central and southern Italy and in the Adriatic offshore (Gaggiano, Miglianico, Samperi, Giulia, Fausta, etc.) In the international context Mr Bertuzzi has worked extensively abroad: he was assigned two years in Norway, five years in Tunisia and two years in Australia. From the head office he coordinated exploration activities in West Africa (Congo, Gabon, Senegal) and carried out the evaluation (both technical and economical) of the exploration activity of the Chinguetti oil field in Mauritania. As OCM representative for Eni in the JV led by Woodside (operator) he has been coordinating the final assessment/study that outlined the low potential and risk of the venture. Mr Bertuzzi has also been OCM representative for the exploration activity in Area 4 Block offshore Mozambique (Eni operator). From 2010 to present Mr Bertuzzi is the Exploration and New Ventures manager in Northsun Italia Spa, Italian subsidiary of Coro Energy, coordinating and managing exploration activity, technical/economic evaluation and preparation for farmin/farmout of selected assets, evaluation of potential of new areas in Italy and abroad, technical assistance for the appraisal and development of the production assets.

RICCARDO MASETTI

HSE MANAGER, ITALY

Riccardo has covered roles of responsibility first in Rosetti Marino S.p.A., as Health, Safety and Environment Manager of the BU O&G, then in Techint Engineering & Construction, as HSSE Director of the EMEA Area, and in Sound Energy Plc, as Corporate Health, Safety and Environment Manager. In 2016 he was appointed Health, Safety and Environment & Procurement Manager in Apennine Energy S.p.A. Graduated in Environmental Engineering at University of Bologna, he successfully completed a Master in Energy & Utilities Management, followed in 2018 by an Executive Master in Business Administration (EMBA) at MIP, the Business School of "Politecnico di Milano".

OUR ASSET PORTFOLIO

BEZZECCA

The Bezzecca gas field is located 35km east of Milan within the Cascina Castello Licence. The Bezzecca Field was awarded production concession status in July 2014 through the enlargement of the existing Cascina Castello Licence.

This field started production in July 2017 and it is currently producing at around 16,000 scm / day (¬550 Mcf / day).

SILLARO

The Sillaro gas field is within the Sillaro Licence and is located in the Emilia Romagna region, 30km east of Bologna, in northern Italy. With production beginning in May 2010 from two wells (one dual completion, one single completion).

The current daily production of gas from the Sillaro Field is around 9,000 scm / day (¬318 Mcf / day). A production increase is envisaged through a workover on one of the existing wells, which will be sidetracked.

RAPAGNANO

The Rapagnano gas field is located onshore Italy in the Fermo Province, in the Marche region. Currently producing around 8,000 scm/day.

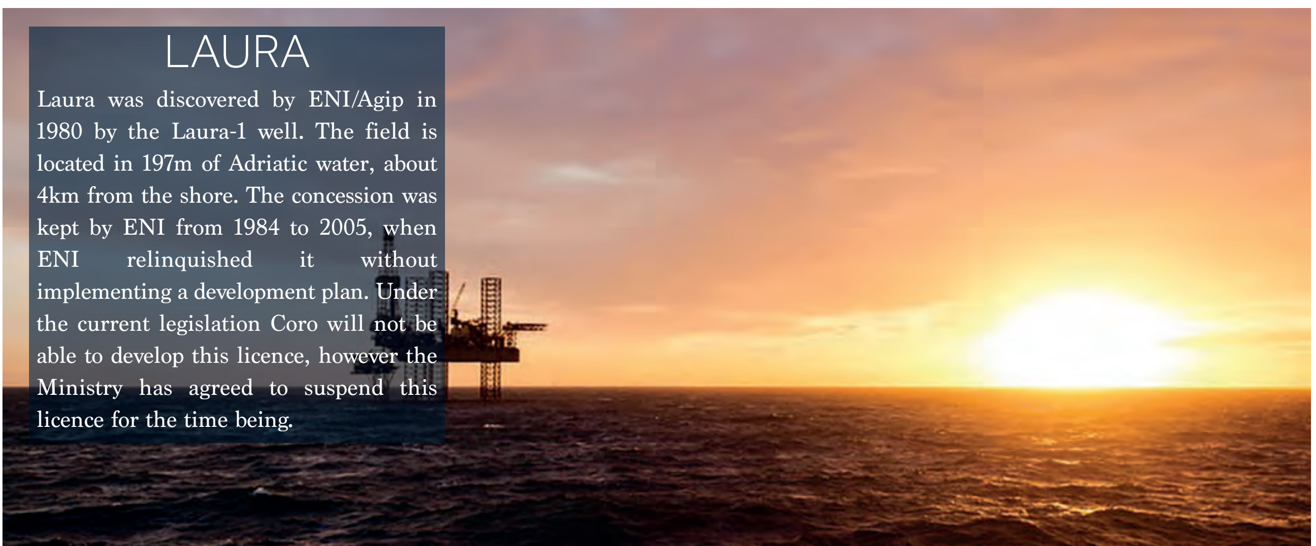
OUR ASSET PORTFOLIO

SANT'ALBERTO

The Sant'Alberto field is located in the "San Vincenzo" permit in the Emilia-Romagna region. A production concession was awarded in October 2017. The current development plan is to have the first year's production delivered via a low-pressure connection at about 260m from the well head.

SANTA MARIA GORETTI

Santa Maria Goretti is located in Ascoli Piceno (Marche) in central Italy. The area falls within the Marche-Abruzzo region – a foredeep trough of the Central Apennines. The main plays are gas hosted in both Pleisto-Pliocene clastics and Mesozoic carbonates.



LAURA

Laura was discovered by ENI/Agip in 1980 by the Laura-1 well. The field is located in 197m of Adriatic water, about 4km from the shore. The concession was kept by ENI from 1984 to 2005, when ENI relinquished it without implementing a development plan. Under the current legislation Coro will not be able to develop this licence, however the Ministry has agreed to suspend this licence for the time being.

OUR ASSET PORTFOLIO

RESERVES AND RESOURCES

Asset	2P (MMscm)	2C (MMscm)	Total (MMscm)
Sillaro	61.5	31.3	92.8
Bezzecca	65.7	71.1	136.8
Sant'Alberto	58.9		58.9
Rapagnano	18.0		18.0
Casa Tiberi	1.0	30.7	31.7
Sant Andrea		54.7	54.7
Laura		401.6	401.6
Marciano		70.8	70.8
Total	205.1	660.2	865.3

The reserves and resources presented in the table above were certified by CGG Services (UK) Limited (CGG) in February 2018. CGG is a geological and petroleum reservoir consultancy that provides a specialist service in field development and the assessment and valuation of upstream petroleum assets. CGG has provided consultancy services to the oil and gas industry for over 50 years. A complete Competent Persons Report (CPR) is available on the Company's web site.

Reserves and resources associated with these fields have been evaluated in accordance with PRMS (2007) and are presented above in net terms.

In estimating petroleum in place and recoverable, CGG have used the standard techniques of petroleum engineering. The petroleum reserves and resources definitions used are those published by the Society of Petroleum Engineers and World Petroleum Congress in 1998, supplemented with guidelines for their evaluation, published by the Society of Petroleum Engineers in 2001 and 2007.

MARKET REVIEW & STRATEGY

A compelling case for South East Asian Gas

South East Asia has some of the fastest developing economies in the world which combined with increasing regional gas shortages and recent underinvestment in exploration present a compelling investment proposition at this point in the cycle.

The general consensus that there are substantial gas volumes yet to be commercialised, together with significant undiscovered resources in the region, only strengthen the investment case. The attractive gas market fundamentals accounts for premium pricing, ie. the supply-demand gap has driven up gas prices considerably in the last decade.

With large populations and a growing middle class, the regional demographics underpin the forecast growth. Power demand growth per capita in South East Asia's developing nations is expected to far outstrip that of developed countries.

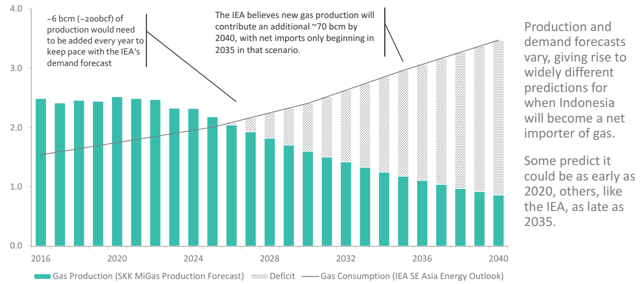
The region has a long history of investment by the upstream oil & gas industry, with a well developed service sector and supportive government initiatives being clearly orientated towards promoting foreign investment.

Within the South East Asian geography, Indonesia represents a potential point of entry, given the country's significant gas residual reserves and undiscovered resources. Production and demand forecasts vary, but all conclude that Indonesia will become a net importer of gas, most likely at some point during the 2020's.

Coro's criteria focusses on targeting high-graded discoveries that require commercialisation with exploration upside, with a preference for gas over oil. We are also evaluating exploration-stage assets where value can be added through technical de-risking and the drill-bit and appraisal stage assets with low technical risks and where smart, low cost development options can be implemented.

South East Asia – Supply Side Restrictions

With no new gas production, Indonesia would become a net importer of gas in the mid 2020's



Source: Southeast Asia Energy Outlook 2017, IEA; SKK MiGas Annual Report 2016

South East Asia's Energy Market

Demand underpinned by strong current & forecast GDP growth rates

Source: World Bank, Global Prospects, January 2018

MARKET REVIEW & STRATEGY

Our Overall Aim

To become an established mid-tier, South East Asian-focussed E&P player

Recognising Opportunity

The attractions of South East Asia as an investment destination are well documented – a buoyant energy market underpinned by strong regional GDP growth rates. The oil & gas industry is well established in the region but is seeing a period of change – as larger players move out, leaving space for new players to establish themselves.

As the industry emerges from a period of low commodity prices, consolidation and cost cutting, there is a marked lack of well financed, smaller E&P niche operators. This creates the opportunity for Coro: to capture upstream opportunities and position itself for growth in this dynamic region.

Coro's Key Strengths

- Network – well connected in the South East Asian region, with upstream players, service providers, governments and regulators
- People – proven track record in creating exceptional shareholder value, balance of technical, commercial and financial skills & a track record of building and realising value from South East Asian E&P assets
- Platform – Italian portfolio with reserves, production and cash flow; staff with strong technical and operating credentials

Steps In Building The Portfolio

Coro is taking bot an organic and A&D approach to building its portfolio.

- License Round and Joint Study Applications are ongoing
- Continuous screening, ranking and evaluation of farm-in and acquisition opportunities are underway
- Attractive risk – reward dynamics, strategic fit and ability to execute are key

CHAIRMAN & CHIEF EXECUTIVE OFFICER'S STATEMENT

JAMES PARSONS
NON-EXECUTIVE CHAIRMAN

SARA EDMONSON
DEPUTY CHIEF EXECUTIVE OFFICER

Following its Initial Public Offering in February 2017 as an Italian gas producer, Saffron Energy plc is now positioned as an exciting growth focused pan Euro Asian gas explorer.

Since its IPO, Saffron made solid operational progress, extending the Shell offtake agreement in Italy and securing first gas and commercial production at Bezzecca in addition to operating its existing production concession Sillaro. The Company also advanced its Sant' Alberto licence with the granting of a production concession in October 2017 whilst benefitting from very strong Mediterranean gas prices (achieving an average gas sales price of €19.62 per megawatt hour during 2017). Full year revenues came in at €1.389M.

Following the signature of heads of terms in October 2017, the Company will change its name to Coro Energy Plc following approval by the shareholders at the AGM, secured £14M institutional funding, upgraded its Board and announced a two pronged strategy:

(i) Italian consolidation and expansion

The SEHIL Acquisition will substantially increase the Company's hydrocarbon asset base and will create a balanced portfolio of production, development and exploration stage assets, along with the associated fixed plant infrastructure. The combined Italian portfolio will contain total 2P (Proved and Probable) gas reserves of approximately 205.10 MMscm and 2C (Contingent) gas resources of approximately 660.20 MMscm and total 2C oil resources of 2.40 MMbbls. The Directors believe that Italy remains an attractive market with gas and oil of high quality, an accessible and low-cost transportation network and a pricing environment that has been stable and higher than other comparable European countries.

(ii) South East Asian exploration

South East Asia has some of the fastest developing economies in the world which combined with increasing regional gas shortages and recent underinvestment in exploration present a compelling investment proposition at this point in the cycle.

Building upon the expertise and connectivity of its new team, Saffron has therefore initiated an international growth strategy focused on multi Tcf (trillion cubic feet), low cost, onshore gas piped to high value, in growing South East Asian markets.

To facilitate its growth strategy, the Company has introduced a series of high profile Director and Management appointments including:

- Mr James Parsons was appointed to the Board as Non-Executive Chairman. James is currently CEO of Sound Energy Plc and Non-Executive Chairman of Echo Energy Plc. He has over 20 years' experience in the oil and gas industry having started his career with the Royal Dutch Shell Group in 1994.
- Mrs Fiona MacAulay was appointed to the Board as Non-Executive Director. Fiona is a Chartered Geologist and is currently CEO of Echo Energy Plc and brings with her over 30 years of experience in the oil and gas industry including prior roles as Chief Operating Officer and Technical Director. She is also the European President of the American Association of Petroleum Geologists.

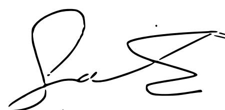
CHAIRMAN & CHIEF EXECUTIVE OFFICER'S STATEMENT

- Mr Marco Fumagalli was appointed to the Board as Non-Executive Director. Marco is also a Non-Executive Director of Sound Energy Plc, Echo Energy Plc and CIP Merchant Capital Limited, the former of which supported the company with a cornerstone investment of £6M post period end.
- Mr Ilham Habibie was appointed to the Board post period end. Ilham is Indonesian and has been the CEO and President of a number of aerospace and other companies which he founded as well as being a Non-Executive Director of Sound Oil Plc (now known as Sound Energy Plc).
- Mr James Menzies. James is a qualified geologist with over 30 years' experience in the oil and gas industry. He is a specialist South East Asian explorer who founded Salamander Energy Plc, serving as CEO for 10 years before selling to Ophir Energy Plc in 2015 in a transaction that valued the business at $850M.
- Mrs Sara Edmonson stepped up to CEO from Non-Executive Director to lead the Company through the acquisition of SEHIL and post period end will take the position of Deputy CEO following the introduction of Mr James Menzies as CEO effective as of 1 May 2018. Sara was previously CEO of ASX listed Po Valley Energy Ltd.

James Parsons

Non-Executive Chairman

28 March 2018



Sara Edmonson

Deputy Chief Executive Officer

OPERATIONS REPORT

Production Assets

Production for the period was from the Company's Sillaro and Bezzecca gas fields. Bezzecca commenced commercial production in the second quarter of the year and in July increased further following the installation of a downhole choke.

Total Production for the year amounted to 7 million standard cubic metres of gas (circa 247 million standard cubic feet). Production in 2016 for the same period was 4.4 million standard cubic metres (circa 156 million standard cubic feet).

The development and tie in of the Bezzecca gas field was completed and commissioned in Q2 with first gas flows on 18 April and full commercial production commencing at a steady state from the Level A interval in mid-May 2017. Layer R was not put on production due to unexpected water production even at limited rates. Over the first two weeks of July, layer S was added to production and produced in commingle with layer A. Well production rates and pressure were adjusted in order to allow for increased aggregate production from both levels. During 4Q 2017, the Bezzecca 1 well began to show signs of early water cuts in the reservoir. In order to prevent field production decline and increase overall production, the decision was made to perform a water shut off operation to open level R, which represented approximately 70% of the original total 2P reserves. Level R is circa 16 meters thick and was perforated at 4 different intervals with a relatively thick clay seal between the top two and bottom two perforations. The water shut off operation which targeted the bottom two perforations and the associated tests was deemed successful. Production restarted with layer R initially with at a rate of 18,000 scm/day with limited water production. Bezzecca-1 is currently producing from layer A at an average of 15,000 scm/day with limited water production.

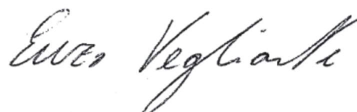
Sillaro production from the current C0 level has exceeded the 3P estimates published at the time of the February 2017 IPO of Saffron Energy Plc. This level is near depletion and is expected to be fully depleted within June 2018. Increased production at Sillaro will be driven by a planned deviation well from Sillaro 1dir to access remaining reserves and contingent resources in the Miocene and Pliocene levels.

Development Assets

In Q3, the Company secured a full production concession for the gas field Sant'Alberto. The Sant' Alberto licence covers an area of 19.51km2 and is located very close to the Sillaro field. It requires a simple development, involving the installation of a modular gas processing facility and connection of this gas processing facility to the Italian national grid. The processing facility will comprise a separation and hydration system, nitrogen generation and a tank/vent. Completion of this development is expected within 2018.

2018. The Sant' Alberto production concession has 2P Reserves of 2.0 bcf (59.5 MMscm) and production capability is expected to peak at 29,500 scm / day.

Post period end, CGG has completed an evaluation of Saffron's reserves and associated value. As at 16 February 2018, the Company's ownership in its three existing Italian licenses had 2P reserves of 186.1 MMscm (6.5 Bcf) and resources of 102.4 MMscm (3.6 Bcf).



Enzo Vegliante

Production and Development Manager

28 March 2018

FINANCIAL REPORT

ANDREW DENNAN
CHIEF FINANCIAL OFFICER

During the 12 months to 31 December 2017, net production generated revenues of €1.389M. These revenue numbers were strengthened with the commercialisation of gas being produced from Bezzecca in the second quarter of the year. The Group's direct operating expenses were €1.117M, allowing the Group to make a small operating profit for the financial year in review.

Property, plant and equipment (comprising producing properties) as at end December 2017 stood at €2.148M while resource property costs, including exploration phase and production phase, stood at €1.904M. Non-cash impairments to the carrying value of the Group's assets have been provided for in the results for the year ended 31 December 2017 totalling €3.595M. Of this total impairment, €654k is against Sillaro and €2.941M against Bezzecca which is largely attributable to the sub-surface issues realised in the fourth quarter, which now appear to be resolved.

During the year, the Company raised total gross proceeds of £3,750,000. The Company raised £2,500,000 as it admitted to trading on AIM in February 2017. These funds were to be applied towards the development of the Company's two production licences and one near-term production concession. In September the Company raised a further gross amount of £1,250,000 with these proceeds being applied towards advancement and evaluation of new corporate growth opportunities as well as advancing initiatives to increase production at Sillaro and Bezzecca. A total of 85,907,500 new ordinary shares in the Company were issued over the period.

The Company continues to make repayment of vendor financing relating to the pipeline tie in for Bezzecca. This remains at a modest amount which is currently more than covered from production revenues and is paid monthly in equal instalments.

Post period end and in support of the proposed merger, new Board and launch of international growth strategy the Company announced it had secured conditional funding of £14,000,000. This was corner-stoned by new investor CIP Merchant Capital Limited. The Company closed a firm placing raising £561,138 with CIP in January 2018 and the balance of £13,438,862 was conditional on shareholder approval which was received contemporaneously with the approval for the proposed merger at the General Meeting of the 29 March 2018 with Admission crystallising on the 9 April 2018.

Post period end and in support of the proposed merger, new Board and launch of international growth strategy the Company announced it had secured conditional funding of £14,000,000. This was corner-stoned by new investor CIP Merchant Capital Limited. The Company closed a firm placing raising £561,138 with CIP in January 2018 and the balance of £13,438,862 remains conditional only subject to shareholder approval which is being sought contemporaneously with the approval for the proposed merger at the General Meeting scheduled for 29 March 2018.

Andrew Dennan

Chief Financial Officer

28 March 2018

STRATEGIC REPORT

The Directors of the Company and its subsidiary undertaking (which together comprise "the Group") present their Strategic Report on the Group for the year ended 31 December 2017.

Organisation Review

The Board is responsible for providing strategic direction for the Group. This incorporates setting out objectives, management policies and performance criteria. The Board assesses its performance against these on a monthly basis.

Composition of the Board at 31 December 2017 was one Executive Director and three Non-Executive Directors and a Non-Executive Chairman. Following the period in review two additional Non-Executive Directors has been appointed to the Board. The Board believes that the present composition provides an appropriate mix to conduct the Group's affairs.

During 2017, the Saffron board had been in discussions with Sound Energy and PVE to combine their interests in Italy as a way to develop a materially larger and well-funded natural gas and oil company with critical mass through a balanced portfolio of high quality assets. Post period end, the acquisition of PVO was mutually terminated and the Company proceeds to acquire SEHIL only. The assets of Saffron's existing subsidiary Northsun Italia S.p.A ('NSI') and SEHIL are described below:

NSI

NSI, since 24 February 2017 the Company's wholly owned subsidiary, has a 100 per cent. interest in, and is the operator of, the Sillaro Licence and the Sant' Alberto Licence. It also has a 90 per cent. interest in and is the operator of the Cascina Castello Production Licence, where the Bezzecca Field is currently being operated. Sillaro, Bezzecca and Sant'Alberto are all located in the Po Valley region of Northern Italy. Sillaro, Bezzecca and Sant'Alberto cover a combined area of approximately 65.5km2 and together provide 2P (Proved and Probable) reserves attributable to the Group of 186.1 MMscm and 2C (contingent) resources of 102.4 MMscm. The Sillaro Field has been producing gas since 2010 and has further development potential, the Bezzecca Field has been producing since April 2017 and the Sant'Alberto Field is expected to commence production in the first half of 2019. (Source: pages 13-14, 28, 32, 39 and 48-49 of the Competent Person's Report).

SEHIL

SEHIL owns 100 per cent. of Apennine Energy SpA ('APN'), through which it holds its Italian assets. APN has a 100 per cent. interest in, and is the operator of, the Rapagnano gas field. This field was first discovered in 1952 and had a cumulative historical production of 124.2 MMscm (as at 31 October 2017). APN also has a 100 per cent. working interest and, subject to registration of a transfer to it of the remaining 25 per cent., a 100 per cent. legal interest in and is the operator of San Lorenzo. APN also has a 100 per cent. interest in Carità, D.R74.AP,

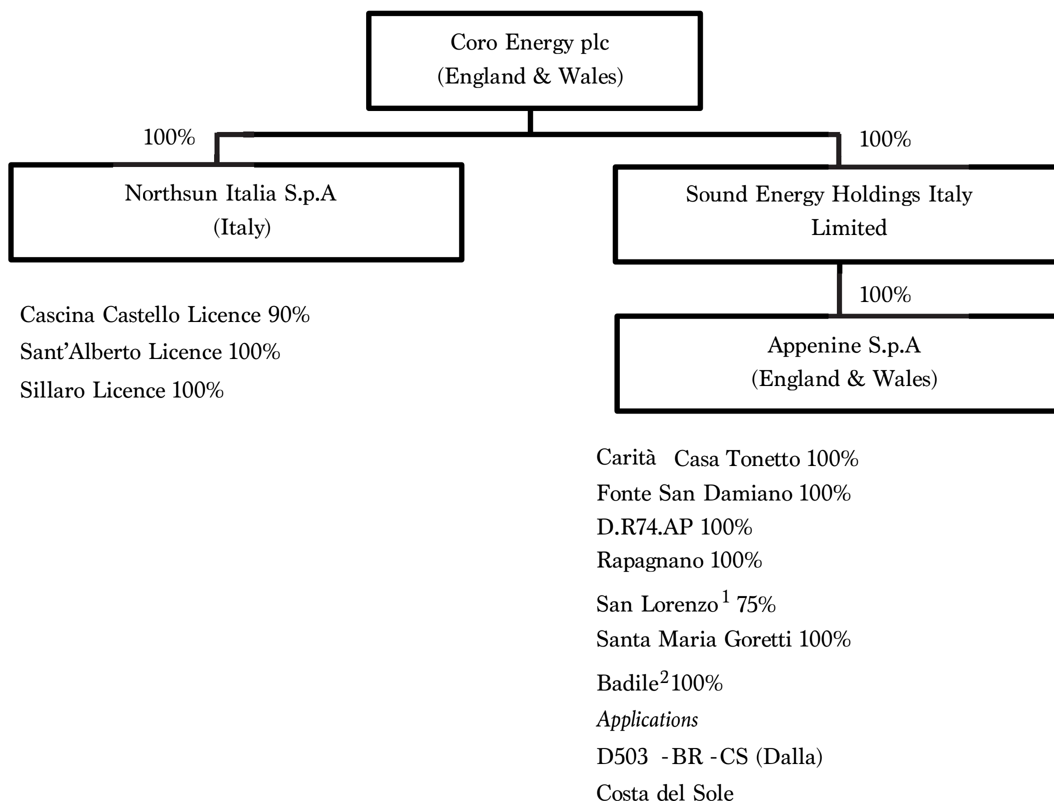
Fonte San Damiano, Santa Maria Goretti, and Badile (which was considered to be non-commercial and is to be restored at Sound Energy's cost as further described in paragraph 15.13 of Part 6 of this document). SEHIL has also submitted applications in respect of D503- BR-CS (Dalla) and Costa Del Sole. All of APN's assets are situated along the east coast of Italy, other than Costa Del Sole, which is located on the South West coast of Sicily and Badile, which is located in North West Italy. Together, they provide 2P (proved and probable) reserves of 19.0 MMscm and 2C (contingent) gas resources attributable to SEHIL of 557.8 MMscm of gas and 2.4 MMbbls of oil. (Source: pages 15-18, 20, 53 and 57 of the Competent Person's Report).

Following the SEHIL Acquisition, in aggregate, the Company will own 2P (proved and probable) gas reserves of 205.10 MMscm, 2C (contingent) gas resources of 660.20 MMscm, and 2C oil resources of 2.40 MMbbls. (Source: page 16 of the Competent Person's Report).

The SEHIL Acquisition Agreement is conditional on (amongst other things): (i) completion of a new equity issue; (ii) shareholder approval; (iii) approval by the shareholders of Sound Energy of the Sound Capital Reduction (which was obtained, subject to court approval, on 8 February 2018); and (iv) Admission on the enlarged entity to trading on AIM. Under the terms of the SEHIL Acquisition Agreement, Sound Energy will retain: (i) its economic rights to receive the proceeds of any future sale of the land comprising Badile (the "**Badile Land**"), which had an unaudited carrying value of £1.6 million as at 30 June 2017; and (ii) the benefit of expected SEHIL Italian VAT receivables totalling €4.0 million linked to Badile drilling costs. Under the Proposed SEHIL Transaction, the Company has undertaken to remit the net proceeds of the Badile Land sale and the VAT rebate to Sound Energy on receipt by SEHIL. Furthermore the Company has agreed to grant Sound an overriding royalty of 5 per cent. on all revenue that may be derived from any wells drilled in D.R74.AP. A more detailed summary of the terms of the SEHIL Acquisition Agreement is set out in the Supplementary Admission document published by the Company on the 7 March 2018.

STRATEGIC REPORT

As a result of the acquisition the group structure and assets held therein is depicted as follows;



1. 75% legal interest held pending registration of transfer of legal interest; 100% working interest held

2. The Badile drill site is to be restored at the cost of Sound.

Strategic Approach

The Board's strategic intent is to maximise shareholder value through the development of a portfolio of production licenses in Italy and the execution of new acquisitions in Europe and South East Asia.

Saffron provides shareholders with exposure to the high growth associated with the junior oil and gas sector.

Key Performance Indicators

The Board monitors the overall performance of the Group by reference to Key Performance Indicators ("KPIs"). KPIs for the year, are presented below:

	2017	2016
Revenue	€1,389,000	€701,000
Gross profit margin (excluding depreciation)	19.6%	37.2%
Earnings per Share	€ (0.046)	€ (162.18)

Risks and Uncertainties

The Group's activities expose it to a variety of risks and uncertainties.

External Risks:

Macroeconomic risk

Any economic downturn either globally or locally in any area in which the Group operates may have an adverse effect on the demand for the Group's products and services. A more prolonged economic downturn may lead to an overall decline in the volume of the Group's sales, restricting the Group's ability to realise a profit. The markets in which the Enlarged Group offers its products and services are directly affected by many national and international factors that are beyond the Group's control.

Market perception

Market perception of junior exploration and extraction companies, in particular those operating in energy markets, as well as all oil and gas companies in general, may change in a way which could impact adversely the value of investors' holdings and the ability of the Company or the Group to raise further funds through the issue of further Ordinary Shares or otherwise.

Gas Pricing

The Group operates in an international market for hydrocarbons and is exposed to risk arising from variations in the demand for and price of the hydrocarbons. Oil and gas prices historically have fluctuated widely and are affected by numerous factors over which the Group does not have any control, including world production levels, international economic trends, currency exchange fluctuations, inflation, speculative activity, consumption patterns and global or regional political events.

Changes to law, regulations or Government policy

Changes in law and regulations or government policy may adversely affect Saffron's business. Examples include changes to land access or the introduction of legislation that restricts or inhibits exploration and production. Similarly changes to direct or indirect tax legislation may have an adverse impact on the Group's profitability, net assets and cash flow.

The Group's strategy is to expand further into locations in South East Asia. These locations include Indonesia, a developing nation with a large number of ethnic and indigenous groups, whose fiscal and monetary controls, laws, policies and regulatory processes in many areas are less established than in developed nations, and where there is a wide range of policies, ideologies and attitudes between the numerous different political parties and candidates. Since the downfall of President Suharto in 1998, there have been five Presidents. The current President, Joko Widode, has been in power since October 2014.

The Group is exposed to the resultant risk of being adversely affected by possible political or economic instability in Indonesia through civil war, war, terrorism, military repression, expropriation, changes in mining or investment policies, laws and regulations, extreme fluctuations in currency exchange rates and high rates of inflation. The Group's operations are exposed to the political, economic, legal, regulatory and social risks of countries in which it operates or intends to operate. These risks potentially include expropriation (including "creeping" expropriation) and nationalisation of property, instability in political, economic or financial systems, uncertainty arising from undeveloped legal and regulatory systems, changes to legislation, corruption, civil strife or labour unrest, acts of war, armed conflict, terrorism, outbreaks of infectious diseases, prohibitions, limitations or price controls on hydrocarbon exports and limitations or the imposition of duties on imports of certain goods.

Some of the countries in which the Group may have opportunities to acquire exploration licences have transportation, telecommunications and financial services infrastructures that may present logistical challenges not associated with doing business in more developed locales. Furthermore, the Group may have difficulty ascertaining its legal obligations and enforcing any rights it may have. Certain governments in other countries have in the past expropriated or nationalised property of hydrocarbon production companies operating within their jurisdictions. Sovereign or regional governments could require the Group to grant to them larger shares of hydrocarbons or revenues than previously agreed to. Once the Group has established hydrocarbon exploration and/or production operations in a particular country, it may be expensive and logistically burdensome to discontinue such operations should economic, political, physical, or other conditions subsequently deteriorate. All of these factors could materially adversely affect the Group's business, results of operations, financial condition or prospects.

Uncertainty of timing of regulatory approvals

Delays in the regulatory process could hinder the Group's ability to pursue operational activities in a timely manner including drilling exploration and development wells, to install infrastructure, and to produce oil or gas. In particular, oil and gas operations in Italy are subject to both Regional and Federal approvals.

Operating Risks:

Exploration, development and production

On non-operated interests, the Group, in most instances, will depend on operators to initiate and supervise the drilling and operation of such wells. As such the Group cannot always accurately predict the timing of the cash flows associated with the drilling of these wells. If the Group is unable or unwilling to comply with its payment obligations, it would seek to negotiate a farm-out with some sort of back-in upon pay-out or sell down a portion of its leasehold interests and participate with a smaller interest. This could reduce the Group's future revenues and earnings.

Oil and gas exploration and production risks

The future value of Saffron will depend on its ability to find, develop, and produce oil and gas that is economically recoverable. The ultimate success or otherwise of such ventures requires successful exploration, establishment of commercial reserves, establishment and successful effective production and processing facilities, transport and marketing of the end product. Through this process, the business is exposed to a wide variety of risks, including failure to locate hydrocarbons, changes to reserve estimates or production volumes, variable quality of hydrocarbons, weather impacts, facility malfunctions, lack of access to appropriate skills or equipment and cost overruns.

Estimation of Reserves

The estimation of oil and natural gas reserves involves subjective judgments and determinations based on geological, technical, contractual and economic information. It is not an exact calculation. The estimate may change because of new information from production or drilling activities.

Health, Safety and Environmental matters

Exploration, development and production of oil and gas involves risks which may impact the health and safety of personnel, the community and the environment. Industry operating risks include fire, explosions, blow outs, pipe failures, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures, or discharge of toxic gases. Failure to manage these risks could result in injury or loss of life, damage or destruction of property and damage to the environment. Losses or liabilities arising from such incidents could significantly impact the Group's financial results.

Licences and title

The leases in which the Group has or is seeking to have an interest will be subject to termination after the primary term of such leases unless there is current production of oil and/or gas in commercial quantities. If a lease is not extended after the primary term, the Group may lose the opportunity to develop and discover any hydrocarbon resources on that lease area. In taking an assignment of an oil and/or gas lease, the Group would, in accordance with industry practice, rely on the warranty provisions.

SEHIL Acquisition

Completion of the SEHIL Acquisition is conditional upon, amongst other things: (a) the approval of the SEHIL Acquisition by Shareholders at the General Meeting; (b) court approval of the Sound Energy Capital Reduction (received 8th February 2018); © various other standard conditions including receipt of any required regulatory approvals; and (d) Admission occurring. There can be no guarantee that all of these conditions will be satisfied, or that all other completion requirements will be met, and therefore no guarantee that the SEHIL Acquisition will complete. If the SEHIL Acquisition does not complete, the Company would nonetheless incur expenses, including advisory fees, in connection with the SEHIL Acquisition. In addition, in the event that the SEHIL Acquisition does not proceed the Company would expect or be required to seek confirmation from Subscribers (and Turner Pope would be required to seek confirmation from Placees) that they wish to maintain their respective commitments as regards the Subscription and the Placing (as relevant). There can be no assurance that such confirmation would be given by Placees and Subscribers in any such circumstance.

Dependence on key executives and personnel

The future performance of the Group will to a significant extent be dependent on its ability to retain the services and personal connections or contacts of key executives and to attract, recruit, motivate and retain other suitably skilled, qualified and industry experienced personnel to form a high calibre management team. Such key executives are expected to play an important role in the development and growth of the Group, in particular by maintaining good business relationships with regulatory and governmental departments and essential partners, contractors and suppliers.

There is a risk that the Group will struggle to recruit the key personnel required to run an exploration and appraisal programme. Shortages of labour, or of skilled workers, may cause delays or other stoppages during exploration and appraisal activities. Many of the Group's competitors are larger, have greater financial and technical resources, as well as staff and facilities, and have been operating in a market-based competitive economic environment for much longer than the Group. There can be no assurance that the Group will retain the services of any key executives, advisers or personnel who have entered, or will subject to Admission enter, into service agreements or letters of appointment with the Group. The loss of the services of any of the key executives, advisers or personnel may have a material adverse effect on the business, operations, relationships and/or prospects of the Group. The Group currently has no key-man insurance policy in place and, therefore, there is a risk that the unexpected departure or loss of a key individual could have a material adverse effect on the business, financial condition and results of operations of the Group and there can be no assurance that the Group will be able to attract or retain a suitable replacement.

Risks associated with the need to maintain an effective system of internal controls

The Group's future growth and prospects will depend on its ability to manage growth and to continue to maintain, expand and improve operational, financial and management information systems on a timely basis, whilst at the same time maintaining effective cost controls. Any damage to, failure of or inability to maintain, expand and upgrade effective operational, financial and management information systems and internal controls in line with the Group's growth could have a material adverse effect on the Group's business, financial condition and results of operations.

Funding risks

The Group may in the future need to raise additional funds to implement its strategy. There can be no assurance that the required funding will be available at an acceptable price or at all. If the Company opts to raise finance through the issue of Ordinary Shares or other equity securities, Shareholders could suffer a dilution in their interest in the Company. Failure to raise the required funds could have a material adverse effect on the Group's business, operating results and financial condition.

Foreign subsidiaries

The Company conducts and expects to conduct its operations through various subsidiaries including SEHIL, APN and NSI. Therefore, the success of the Group in the near term will be dependent on distributions from such subsidiaries to the Group in order that it may meet its obligations. The ability of such subsidiaries to make payments to the Company may be constrained by, among other things, the level of taxation, particularly in relation to corporate profits and withholding taxes, and the introduction of exchange controls or repatriation restrictions or the availability of hard currency to be repatriated.

Tax risks

The Group is subject to taxation and in a number of jurisdictions the application of such taxes may change over time due to changes in laws, regulations or interpretations by the relevant tax authorities. Any such changes may have a material adverse effect on the Group's financial condition and results of operations.

Insurance coverage and uninsured risks

While the Board will determine appropriate insurance coverage, it may elect not to have insurance for certain risks due to the high premium costs associated with insuring those risks or for other reasons, including an assessment in some cases that the risks are remote or that cover is not available. No assurance can be given that the Group will be able to obtain insurance coverage at reasonable rates (or at all), or that any coverage it or the relevant operator obtains and proceeds of insurance will be adequate and available to cover any claims arising. The Group may become subject to liability for pollution, blow-outs or other hazards against which it has not insured or cannot insure, including those in respect of past activities for which it was not responsible. The Group intends to exercise due care in the conduct of its business and obtain insurance prior to commencing operations in accordance with industry standards to cover certain of these risks and hazards. However, insurance is subject to limitations on liability and, as a result, may not be sufficient to cover all of the Group's losses. The occurrence of a significant event against which the Group is not fully insured, or the insolvency of the insurer of such event, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. Any indemnities the Group may receive from such parties may be difficult to enforce including if such sub-contractors, operators or joint venture partners lack adequate resources. In the event that insurance coverage is not available or the Group's insurance is insufficient to fully cover any losses, claims and/or liabilities incurred, or indemnities are difficult to enforce, the Group's business and operations, financial results or financial position may be disrupted and adversely affected. Further, even where the Group is insured, its contractors may themselves be insufficiently insured, or uninsured, in respect of damage they may cause to the Group's property or

operations. In such cases, the Group may be required to incur additional costs to extend its cover to its contractors, from whom it may be unsuccessful in recovering such costs in full or at all. The payment by the Group's insurers of any insurance claims may result in increases in the premiums payable by the Company for its insurance cover and adversely affect the Group's financial performance. In the future, some or all of the Group's insurance coverage may become unavailable or prohibitively expensive.

Future litigation

From time to time, the Group may be subject, directly or indirectly, to litigation arising out of its operations. Damages claimed under such litigation may be material or may be indeterminate, and the outcome of such litigation may materially impact the Group's business, results of operations or financial condition. While the Group assesses the merits of each lawsuit and defends itself accordingly, it may be required to incur significant expenses or devote significant resources to defending itself against such.

This report was approved by the Board on 28 March 2018 and signed on its behalf:

James Parsons

Non-Executive Chairman

HEALTH, SAFETY AND ENVIRONMENT

Paramount to Coro Energy's ability to pursue its strategic priorities is a safe workplace and a culture of safety first. The Company regards Environmental awareness and Sustainability as key strengths in planning and carrying out business activities.

Coro's daily operations are conducted in a way that adheres to these principles and management are committed to their continuous improvement. Whilst growing from exploration roots, the Company has strived to continually improve underlying safety performance. The Company has adopted an Health, Safety and Environment Management System which provides for a series of procedures and routine checks (including periodical audits) to ensure compliance with all legal and regulatory requirements and best practices in this area.

In 2017, Coro maintained its outstanding occupational health safety and environmental track record with no incidents or near misses to report during the total man hours 2017 = 23,902, total man hours APE = 9,802, company man hours = 14,100 man-hours worked at the well sites and in the administrative offices. There were zero LTIs in 2017.

Some of the key activities carried out in 2017 include:

- Construction of the pipeline for the Bezzecca gas field
- Plant modification and tie in to the Vitalba gas plant
- Ongoing production sites support

One of the benefits to the consolidation of the Italian portfolio is the strengthening of the Italian technical team including professionals dedicated to health, safety and the environment.

LEADERSHIP

JAMES PARSONS
NON-EXECUTIVE CHAIRMAN

Chief Executive Officer at Sound Energy Plc and Non-Executive Chairman at Echo Energy Plc, James has over 20 years' experience in the fields of strategy, management, finance and corporate development in the energy industry. He started his career with the Royal Dutch Shell group in 1994 and spent 12 years with Shell working in Brazil the Dominican Republic, Scandinavia, the Netherlands and London. James is a qualified accountant and has a BA Honours in Business Economics.

JAMES MENZIES
CHIEF EXECUTIVE OFFICER

James was the co-founder and CEO of South East Asia focused Salamander Energy Plc from 2005 to 2015 when it was acquired by Ophir Energy Plc for $850 million. He is a qualified geologist with over 30 years' industry experience, having held senior technical and commercial roles at Lasmo in the UK, Vietnam and Indonesia. James subsequently worked for boutique M&A house Lambert Energy in London before founding Salamander. James is a Non-Executive Director of Trinity Exploration and Production Plc.

SARA EDMONSON
DEPUTY CHIEF EXECUTIVE OFFICER

Sara joined as Chief Executive Officer of Coro Energy Plc (formally Saffron Energy Plc) on 1 November 2017 and prior to that was a Non-Executive Director of Saffron following its IPO Admission in February 2017. Sara was previously Chief Executive Officer of PO Valley Energy Plc having joined PO Valley in July 2010 as Chief Financial Officer. She is fluent in Italian, having previously worked both in Italy and internationally for Ernst & Young Transaction Advisory Services. During her tenure at EY Sara advised numerous blue chip corporate clients on transactions in Russia, Romania, Turkey and the US including the US$5 billion acquisition of DRS Technologies by Finmeccanica in 2008. She holds a BA from St John's University in New York City.

FIONA MACAULAY
NON-EXECUTIVE DIRECTOR

Fiona has over 30 years of experience in the oil and gas industry and is currently the CEO of Echo Energy Plc. Former Chief Operating Officer and Technical Director of Rockhopper Exploration plc, Fiona, a Chartered Geologist, started her career with Mobil North Sea Limited in 1985 and has subsequently held senior roles in a number of leading oil and gas firms, including Amerada Hess and BG. She is European President of the American Association of Petroleum Geologists.

MARCO FUMAGALLI
NON-EXECUTIVE DIRECTOR

Marco Fumagalli is Managing Partner at Continental Investment Partners SA, a Swiss-based fund and cornerstone shareholder in Sound Energy Plc and Echo Energy Plc. Marco is a well-known Italian businessman who was previously a Group Partner at 3i. Marco is a qualified accountant and holds a degree in Business Administration from Bocconi University in Milan. He is a Non-Executive Director at Sound Energy Plc and Echo Energy Plc.

ILHAM AKBAR HABIBIE
INDEPENDENT NON-EXECUTIVE DIRECTOR

Ilham is a qualified engineer and holds a PhD in aeronautical engineering from the Technical University of Munich and an MBA from the University of Chicago.

Ilham has been the Chief Executive Officer and President of a number of aerospace and other companies which he founded and has served as a scientist and lecturer at the Technical University of Munich. Ilham has held senior positions at a number of Indonesian companies in the private sector, including Chief Executive Officer and President Director of PT. Ilthabi Rekatama and Commissioner of PT Citra Tubindo tbk. Ilham served as a Non-executive Director at Sound Oil Plc (now known as Sound Energy plc) and has been an Independent Commissioner of PT Intermedia Capital Tbk. Ilham has served as a Non-executive Director of Hichens, Harrison (Asia) Ltd and serves as a Member of the Board of Commissioners at PT Malacca Trust Wuwungan Insurance and as a Director of PT Ilthabi Bara Utama.

LEADERSHIP

Management team

ANDREW DENNAN
CHIEF FINANCIAL OFFICER

Andrew has many years' experience unlocking growth across AIM listed companies as a corporate financier and investment manager. Throughout his career he has been involved in stockbroking and asset management in prominent roles, leading proprietary investment decisions, capital raising, risk oversight and portfolio management. He has worked closely for many years with key members of the newly appointed Board.

Andrew brings a wealth of capital markets and corporate transaction experience to the team and is currently a Non-Executive Director of Alpha Growth plc.

DR. LEONARDO SALVADORI
MANAGING DIRECTOR ITALY

Dr Salvadori has over 30 years of international exploration, business development and general management experience.

Dr Salvadori has worked in Libya and Norway as an explorationist and in Italy with exploration and new ventures roles, focusing on international asset evaluations, portfolio development and corporate acquisitions, with a specific focus on the Middle East, Africa, Asia and North Sea.

From 2001 to 2006 Dr Salvadori headed up large exploration departments operated by Eni in Indonesia and Egypt, in both of which he was responsible for several significant successes, including new concessions acquisitions and several discoveries from onshore to deep water. In 2006, he left ENI to join Dana Gas Egypt, where he worked for 9 years covering top managerial roles in exploration, business development and general management delivering outstanding results with 13 discoveries and the acquisition of 3 prolific new exploration blocks in combination with production records and world class asset Integrity management. In November 2015 Dr Salvadori joined Sound Energy, where he achieved a successful new venture activity in Italy and Morocco as Business Development Director and drilled a deep HP well in northern Italy as Managing Director of the Sound Energy Italian business unit.

DR. PIERRE ELIET
BUSINESS DEVELOPMENT

Dr. Pierre Eliet is an oil & gas executive with over 20 years of experience in the oil industry with a proven track record in organic and inorganic growth projects and business development. Extensive South East Asian and South Asian career experience. Dr Eliet worked with Roc Oil and Lundin Petroleum in senior leadership roles based in Kuala Lumpur, Malaysia. At both Roc Oil and Lundin Dr Eliet had oversight of subsurface projects and growth across both group's Asian portfolio of assets. Dr Eliet previously worked at TOTAL and Cairn Energy in the United Kingdom and India across a wide variety of assets including the North Sea and Atlantic margin as well as new venture projects.

From June 2015 to December 2016 he served as Technical and Business Development Director, SE Asia for Lundin Petroleum and from September 2012 to May 2015 as GM - Exploration, Geoscience & Business Development for Roc Oil & Director ROC Oil Malaysia.

While at Cairn Energy he was closely associated with the Cairn Energy flagship and transformational oil discoveries of Mangala, Aishwaryia and Bhagyam in India. Dr Eliet holds a BA in Earth Science from Trinity College in Dublin, Ireland and a PhD in Geology from Manchester University, U.K. Dr Eliet is a Fellow of the Geological Society, London (FGS).

ACCOUNTABILITY

CORPORATE GOVERNANCE STATEMENT

The Board of Directors fully recognises and endorses it's responsibility of sound corporate governance and is committed to maintaining a high standard of corporate governance commensurate with the size and nature of the Company and the interests of its Shareholders. The Company seeks to apply fully as far as possible with the principles and recommendations of the Corporate Governance Code for Small and Mid-Size Quoted Companies published by the Quoted Company Alliance (the 'Code'). Whilst is it not currently compulsory for companies whose shares are traded on the AIM market to adhere to the Code the Board applies those principles of the Code to the extent that it considers is reasonable and practical given the size, nature and stage of development of the Company. The Company is aware of the new Corporate Governance Code and the recommendations for companies whose shares are traded on the AIM market.

It has been a transformational year for the Company, with its admission to trading on the AIM market and acquisition of Sound Energy Holdings Italy Limited (now Coro Europe Limited). The Company is continuously developing appropriate corporate governance procedures relevant to the size and stage of development of the Company. The Directors will develop the policies of the Code and the procedures will be monitored on a regular basis.

Matters Reserved for the Board

The Directors adopted a schedule of those matters that should be reserved for the Board, which shall be reviewed on an annual basis. Those matters include:

- approval of the Company's forecast and budget;
- major capital expenditure;
- risk management policies; and
- the approval of the financial statements.

The Board and its Committees

The Company's (previously Saffron Energy plc) composition of the Board changed in the latter part of 2017 and in early 2018 with the appointment of James Parsons, non-Executive Chairman in December 2017 at which time, both Fiona MacAulay and Marco Fumagalli joined the Board as non-Executive Directors. More recently, Ilham Habibie joined the Board in February 2018 as independent non-Executive Director and James Menzies as the new Chief Executive Officer in May 2018. Sara Edmonson has stepped down to deputy Chief Executive Officer and remains on the Board continuing to bring a wealth of knowledge and experience. The non-Executive Directors are independent in character and judgement and have the range of experience and calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Company. The roles of the Chairman and Chief Executive Officer are split in accordance with best practice. James Parsons, the Chairman has the responsibility of ensuring that the Board discharges its responsibilities and leading the Board to achieve the strategy and objectives of the business. James Menzies, Chief Executive Officer, leads the business and ensures the strategic objectives of the business are delivered.

The Board retains full and effective control over the Company but delegates certain responsibilities to the Board committees which have clearly defined terms of reference. The Company holds regular scheduled Board meetings, as well ad hoc ones as and when the demands of the business requires. Formal agendas, papers and reports are sent to the Directors in a timely manner, prior to Board meetings.

Individual Directors may engage outside advisors at the expense of the Company upon approval by the Board in appropriate circumstances.

The Board has established an Audit Committee, a Nominations and Remuneration Committee and a HSE/Technical Committee.

ACCOUNTABILITY

Audit Committee

The Audit Committee comprises of Marco Fumagalli (who holds the position of chairman of the Audit Committee) and Fiona MacAulay. Generally the Audit Committee will meet three times a year; to review the audit plan received from the auditor prior to their year-end audit, and then meetings to review the half year and full year results prior to Board approval. The main functions include:

- Monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance and reviewing significant financial reporting judgements contained in them;
- Reviewing and monitoring internal financial control systems and risk management systems on which the Company is reliant,
- Considering annual and interim accounts and audit reports,
- Making recommendations to the Board in relation to the appointment and remuneration of the Company's auditors and monitoring and reviewing annually their independence, objectivity, effectiveness and qualifications.

Remuneration Committee

The Remuneration Committee comprises of the non-Executive Directors, James Parsons (Chairman), Fiona MacAulay and Marco Fumagalli. The Committee generally meets twice a year and is responsible for making recommendations to the Board of Directors, on senior Executives' remuneration. Non-Executives Directors' remuneration and conditions of engagement were considered and agreed by the Board. Financial packages for Executive Directors are established by reference to prevailing market conditions.

HSE/Technical Committee

The HSE/Technical Committee comprises of Fiona MacAulay and Sara Edmonson with Fiona MacAulay appointed as chairperson of the HSE/Technical Committee.

The Company is dedicated to pursuing the highest health and safety standards in the workplace and regards environmental sustainability as an integral part of its business in strategy and corporate citizenship.

DIRECTORS' REMUNERATION REPORT

Directors Remuneration Report

Following the announcement in late 2017, the Company successfully completed a re-financing of the business and acquired Sound Energy Holdings Italy Limited ('SEHIL') (renamed Coro Europe Limited). The Company has built a new Board of directors and is currently developing an executive and wider team to build the business. The Company remains in the early stages of its new phase of development and together with this is building the resources within the business to pursue its strategy.

Remuneration Committee

The Remuneration Committee, which consists of the non-executive Chairman and two non-executive directors, along with the Board as a whole recognise the importance of attracting, retaining and motivating talent within the Boardroom and the wider Executive Team to ensure the success of the Company.

The Remuneration Committee is responsible for determining and reviewing compensation arrangements for all Directors and Senior Executives. The Remuneration Committee considers the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and senior executive team.

As the business continues to grow and the Board and Executive Team embeds within the business the Remuneration Committee will work to ensure that the policies and framework is in place to reward staff for achievements and targets met, which in turn creates value for stakeholders.

Remuneration package

The Company offers a fixed remuneration package of salary, pension and certain benefits. In addition, there is a discretionary bonus award and a company share option plan. As the business grows it may consider implementing a performance related LTIP for senior executives and executive directors.

The quantum of the bonus and option awards are presented to the Remuneration Committee by the Chief Executive Officer for approval. The bonus awards are made to individuals taking account of their own performance and the Company's performance as a whole over the previous year. Members of the Executive Team have their level of bonus reviewed in line with their individual scorecards that are agreed at the beginning of the financial year. The amount of bonus and options awarded is set within a pre-agreed range for each level of staff.

The Chief Executive Officer's scorecard, bonus award and options granted are agreed by the Remuneration Committee.

Chairman and non-executive director's fees

The fees paid to the Chairman and Non-Executive Directors are set at a level both in line with the market and to appropriately reward and retain individuals of a high calibre. The fees paid reflects the level of commitment and contribution to the Company.

Fees are paid monthly in cash and are inclusive of all Committee roles and responsibilities.

DIRECTORS' REMUNERATION REPORT

Remuneration of directors

The following remuneration table comprises Directors' salaries and benefits in kind that were payable to Directors who held office during the year ended 31 December 2017:

	Salary (€)	Benefits in kind (€)	Bonus award (€)	Total 2017/2018 (£)
Executive Director				
James Menzies (1)	–	–	–	–
Sara Edmonson (2)	157,674	–	57,500	215,174
Michael Masterson (3)	67,394	–	–	67,394
Non-Executive Directors and Chairman				
James Parsons (4)	2,280	–	–	2,280 (2018)
Fiona MacAulay (5)	1,322	–	–	1,322 (2018)
Marco Fumagalli (6)	1,322	–	–	1,322 (2018)
Ilham Habibie (7)	–	–	–	–
Christopher Johannnsen (8)	13,092	–	1,482	13,574
David Garland (9)	13,092	4,300	17,100	43,284
Kevin Bailey (10)	13,092	–	–	13,092

1. James Menzies joined the Company on 1 May 2018.
2. Sara Edmonson joined the Company on 10 November 2016.
3. Michael Masterson left the Company on 12 December 2017.
4. James Parsons joined the Company on 12 December 2017.
5. Fiona MacAulay joined the Company on 12 December 2017.
6. Marco Fumagalli joined the Company on 12 December 2017.
7. Ilham Habibie joined the Company on 15 February 2018.
8. Christopher Johannnsen left the Company on 31 December 2017 .
9. David Garland left the Company on 9 April 2018.
10. Kevin Bailey left the Company on 12 December 2017.

Directors' shareholdings and Interests in Shares

Directors and connected persons	No of Shares at 31 December 2017
Sara Edmonson (1)	1,000,000
James Parsons (2)	–
Marco Fumagalli (3)	–
Fiona MacAulay	–
James Menzies	–
Ilham Habibie	–

1. Sara Edmonson is interested in 2,966,406 shares in Po Valley Energy Limited, representing a 0.50% interest in that company. If the Po Valley Energy Capital Reduction is proposed by PVE to its shareholders and completes (with Po Valley Energy distributing its entire holding of Ordinary Shares to its shareholders), Sara Edmonson will receive 500,018 Ordinary Shares, resulting in a total holding of 1,500,018 Ordinary Shares. The figures in the table above do not seek to reflect the results of the Po Valley Energy Capital Reduction.
2. James Parsons, by virtue of his holding in Sound Energy plc, was awarded 584,150 Consideration Shares pursuant to the SEHIL Acquisition.
3. Marco Fumagalli holds no Ordinary Shares directly. Mr Fumagalli holds a 25 per cent, interest in Continental Investment Partners S.A ('Continental'), which has a 6.64 per cent. interest in Sound Energy plc. By virtue of Continentals' holding in Sound Energy plc, it was awarded 12,336,561 Ordinary Shares representing a 1.35 per cent. In addition, Mr Fumagalli is a director of and holds a 1.82 per cent interest in CIP Merchant Capital Limited.

This Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 28 March 2018 and signed on its behalf by:

James Parsons
Chairman

28 March 2018

REPORT OF THE DIRECTORS

The directors submit their report and accounts for the financial period ended 31 December 2017.

Principal activities

Coro Energy plc is a listed PIc centric, mid-tier international gas explorer in the making.

Following the announcement in late 2017, the Company successfully completed a re-financing of the business and acquired Sound Energy Holdings Italy Limited ('SEHIL'). The Company announced its admission to trading on the AIM market of London Stock Exchange of its entire issued share capital in 2018.

The Company has built a new Board of Directors and Executive Team.

The Company's asset portfolio is situated on the East coast and in the PO Valley region of Italy. Italy remains an attractive market with gas and oil of high quality, an accessible and low-cost transportation network and pricing environment that has been stable and higher than other comparable European countries. The Company has a 20 year operating history in the region.

The Company has an ambitious growth strategy in South East Asia and plans to acquire a number of assets in the region. The Company is now positioned as a growth focused pan Euro Asian gas explorer.

Results and dividends

For the period ended 31 December 2017, net production generated revenues of €1.389M. The Group's direct operating expenses were €1.117, allowing the Group to make a small operating profit for the financial year in review.

Property, plant and equipment (comprising producing properties) as at end December 2017 stood at €2.148M while resource property costs, including exploration phase and production phase, stood at €1.904M. Non-cash impairments to the carrying value of the Group's assets have been provided for in the results for the period ended 31 December 2017 totalling €3.595M.

During the period, the Company raised total gross proceeds of £3,750,000. The Company raised £2,500,000 as it admitted to trading on AIM. These funds were to be applied towards the development of the Company's two production licences and one near-term production concession. In September 2017, the Company raised a further gross amount of £1,250,000 with these proceeds being applied towards advancement and evaluation of new corporate growth opportunities as well as advancing initiatives to increase production at Sillaro and Bezzecca. A total of 85,907,500 new ordinary shares in the Company were issued over the period.

The directors have not declared any dividend in respect of the period ended 31 December 2017 (2016: £nil).

Directors

The directors who served during the period were as follows:

Kevin Bailey (resigned on 31 December 2017)
Sara Edmonson (appointed 10 November 2016)
David Garland (resigned 9 April 2018)
Ilham Habibie (appointed 15 February 2018)
Christopher Johannnsen (resigned 31 December 2017)
Marco Fumagalli (appointed 12 December 2017)
Fiona MacAulay (appointed 12 December 2017)
Michael Masterson (resigned 12 December 2017)
James Parsons (appointed 12 December 2017)
James Menzies (appointed CEO 1 May 2018 and Sara Edmonson assumed role of Deputy CEO)

REPORT OF THE DIRECTORS

Directors' insurance

The Company has taken out an insurance policy to indemnify the directors and officers of the company against liability when acting for the company.

Auditors

Each person who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to reappoint the auditors, PKF Littlejohn LLP will be proposed at the Annual General Meeting.

Subsequent events

Events which have occurred since 31 December 2017 are included in Note 28 to the attached financial statements.

Going concern

The financial information for the period to 31 December 2017 has been prepared assuming the group will continue as a going concern.

Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations.

As at the 31st December the Company had cash on hand of € 365,000.

An assessment has been made based of the Group's anticipated activities which have been included in the financial forecast for the years 2018 and 2019, based on this assessment the directors have reached a judgement at the time of approving these results that there is a reasonable expectation that the group will have adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing these annual results.

James Parson

Chairman Non-Executive

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the consolidated financial statements, Article 4 of the IAS Regulation and applicable law. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This report was approved by the board on 28 March 2018 and signed on its behalf:

James Parsons

Non-Executive Chairman

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SAFFRON ENERGY PLC

Opinion

We have audited the financial statements of Saffron Energy Plc (the 'parent company') and its subsidiaries (the 'group') for the period ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements 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 their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's and parent company's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 and parent company 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our application of materiality

The scope of our audit was influenced by our application of materiality. The quantitative and qualitative thresholds for materiality determine the scope of our audit and the nature, timing and extent of our audit procedures. Group materiality was EUR74,000 based on a blend of revenue, results before tax and net assets. For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality.

An overview of the scope of our audit

As part of designing our audit we determined materiality, as above, and assessed the risk of material misstatement in the Financial Statements. In particular, we looked at areas requiring the directors to make subjective judgements, for example in respect of significant accounting estimates including the carrying value of assets, and considered future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SAFFRON ENERGY PLC

A full scope audit was performed on the complete financial information of the Group's operating components located in United Kingdom and Italy, with the Group's key accounting function for all being based in Italy.

The Italian component was audited by a non-PKF network firm operating under our instruction. There was regular interaction with the component auditor during all stages of the audit, and we were responsible for the scope and direction of the audit process. The component auditor also provided their findings to us which were reviewed and challenged accordingly. This, in conjunction with additional procedures performed, gave us sufficient appropriate evidence for our opinion on the consolidated financial statements.

Key audit matters

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.

Key Audit Matter	How the scope of our audit responded to the key audit matter
Carrying value of investments in subsidiaries	
Investments in subsidiaries total EUR 5.6 million and represent the largest asset within the Company's own financial statements. Recoverability is dependent on the future performance of the Company's subsidiaries which is in turn dependent on the successful recoverability of the resources. There is the risk that these investments may be impaired.	We have performed an impairment review of the carrying value of the Group's interest in its subsidiaries. Out work included; • Reviewing the impairment indicators listed in IFRS including specific consideration of the economic viability of the assets held; • Obtaining and reviewing key external reports; • Obtaining support for ownership; and • Discussing with management the basis for non-impairment or impairment of the investment in subsidiaries. Based on the audit work performed we do not consider the carrying value of the Group's investment in its subsidiaries to be materially misstated.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SAFFRON ENERGY PLC

Key Audit Matter	How the scope of our audit responded to the key audit matter
Carrying value of resource property costs	
The Group holds Resource Property assets of EUR 1.9 million. Support for the carrying values of these assets requires significant judgement and estimate by management of the Group's ability and intention to be able to commercially develop the assets held. There is the risk that these capitalised property costs should be impaired.	We performed an impairment review of resource property costs which included; • Obtaining title to said assets to ensure validity of ownership of the sites; • Considering the Group's future plans for the various sites and the future activity levels planned thereon and the timeframe for such activity; • Considering whether there were any indicators that the carrying values were impaired including the results of any third party documents prepared for management; and • Considering the competency of any third party expert contracted to prepare a Competent Persons Report ("CPR"). The "CPR" was prepared for the purposes of the proposed transaction. The finding of the CPR resulted in an impairment of EUR 4.3m to the carrying value of these amounts from EUR 6.2 million to EUR 1.9 million. Based on the audit work performed we do not consider the carrying value of resource property costs to be materially misstated within the financial statements
Carrying value of production assets	
The carrying value of the production assets of EUR 2.2 million requires significant estimates and judgements by Management of the Group's ability to recover the assets value through use. The assets are key to the Group's strategy and there is the risk that they are impaired.	We discussed the various plans for assets owner by the Group with management. We reviewed the underlying economic models and challenged the key assumptions therein including: • Comparison of price assumptions to future prices: • Ensuring that the models were prepared by personnel with the relevant expertise to perform their work to the appropriate level of skill; • Challenging key inputs into the models including the discount rates used and benchmarking them where appropriate; and • Assessing carrying values by considering the range of valuations indicated by the differing scenarios. Based on the audit work performed we do not consider the carrying value of production assets to be materially misstated within the financial statements.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SAFFRON ENERGY PLC

Key Audit Matter	How the scope of our audit responded to the key audit matter
Valuation of the site rehabilitation provision	
The rehabilitation provision of EUR 5 million is the Group's largest liability. Management uses its judgement and experience to provide for and amortise the estimated costs for decommissioning and site rehabilitation over the life of the site. The ultimate cost of decommissioning and site rehabilitation are uncertain and can vary significantly depending on the duration of the site life and the quantity of resources to be extracted from the site. There is the risk that the value of this provision is misstated.	We obtained the calculation of the provision and: • Verified its mathematical accuracy; • Verified estimates to supporting documents where possible; • Challenged the estimate made; • Ensured all required rehabilitation obligations were included therein; and • Ensured that appropriate disclosures were made.. Based on our audit procedures we consider that there are no matters on which to report in respect of the rehabilitation provision.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the group and parent company 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CORO ENERGY PLC

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the group and parent company 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 group and parent company 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: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Joseph Archer (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

March 2018

1 Westferry Circus
Canary Wharf
London E14 4HD

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	NOTES	Group 31 December 2017 €'000	 31 December 2016 €'000	Company 31 December 2017 €'000
Non-Current Assets				
Inventory		**252**	733	–
Loans to subsidiary	25	–	–	**3,124**
Investments	20	–	–	**5,637**
Deferred tax assets	12	**1,995**	1,995	–
Property, plant & equipment				
Resource property costs	15	**2,148**	2,337	–
	16	**1,904**	5,602	–
Other assets		**72**	138	–
Total non-current assets		**6,371**	10,805	**8,761**
Current Assets				
Cash and cash equivalents		**365**	107	**262**
Trade and other receivables	17	**664**	241	**87**
Total current assets		**1,029**	348	**349**
Total assets		**7,400**	11,153	**9,110**
Liability and equity				
Current Liabilities				
Trade and other payables	18	**2,100**	1,627	**383**
Borrowings	26	–	346	–
Provisions	19	**38**	52	–
Total current liabilities		**2,138**	2,025	**383**
Non-Current Liabilities				
Long term borrowings		–	1,446	–
Provisions	19	**4,802**	4,962	–
Total non-current liabilities		**4,802**	6,408	–
Total Liabilities		**6,940**	8,433	**383**

Company Registration number 10472005

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	NOTE	Group 31 December 2017 €'000	Group 31 December 2016 €'000	Company 31 December 2017 €'000
Equity				
Share capital	20	**217**	19,128	**217**
Share premium	20	**13,748**	–	**13,748**
Merger reserve	21	**9,128**	–	–
Accumulated losses		**(22,633)**	(16,408)	**(5,238)**
Total equity		**460**	2,720	**8,727**
Total equity and liabilities		**7,400**	11,153	**9,110**

The Accounting Policies and Notes on pages 41 to 62 form part of these financial statements.

The financial statements were approved by the Board of Directors on 28 March 2018.

James Parsons

Non-Executive Chairman

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

		Group	
	NOTE	31 December 2017 €'000	31 December 2016 €'000
Revenue	5	**1,389**	701
Operating costs		**(1,117)**	(440)
Depreciation and amortisation expense	6	**(256)**	(591)
Gross profit/(loss)		**16**	(330)
Other income		**36**	170
Employee benefits – corporate	8	**(774)**	(723)
Depreciation expense	6	**(6)**	(10)
Corporate overheads	7	**(1,199)**	(606)
Exploration costs expensed		**(4)**	(287)
Impairment losses	9	**(4,844)**	(4,615)
Loss from operating activities		**(6,775)**	(6,401)
Finance income		–	–
Finance expense		**(252)**	(71)
Net finance cost	10	**(252)**	(71)
Loss before income tax expense		**(7,027)**	(6,472)
Income tax expense	12		506
Loss for the period		**(7,027)**	(5,966)
Other comprehensive income		–	–
Total comprehensive loss for the period		**(7,027)**	(5,966)
Loss attributable to:			
Owners of the Company		**(7,027)**	(5,966)
Non-controlling interests		–	–
Loss for the period		**(7,027)**	(5,966)
Total comprehensive loss attributable to:			
Owners of the Company		**(7,027)**	(5,966)
Non-controlling interests	–	–	
Total comprehensive loss for the period		**(7,027)**	(5,966)
Basic and diluted earnings per share (€)	13	**(0.046)**	(0.85)

As permitted by s408 of Companies Act 2006, the Company has not presented its own income statement. The Company loss for the 14-month period to 31 December 2017 was €5,238k.

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to equity shareholders of the Parent				
	Share capital €'000	Share Premium €'000	Merger Reserve €'000	Accumulated Losses €'000	Total €'000
Balance at 1 January 2016	10,000	–	–	(16,202)	(6,201)
Total comprehensive loss for the period:					
Loss for the period	–	–	–	(5,966)	(5,966)
Other comprehensive income	–	–	–	–	–
Total comprehensive income for the period	–	–	–	(5,966)	(5,966)
Contributions by owners	–	–	–	5,245	5,245
Issue of share capital	9,128	–	–	–	9,128
Balance at 31 December 2016	**19,128**	–	–	**(16,408)**	**2,720**
Balance at 1 January 2017	**19,128**	–	–	**(16,408)**	**2,720**
Total comprehensive loss for the period:					
Loss for the period	–	–	–	(7,027)	(7,027)
Other comprehensive income	–	–	–	–	–
Total comprehensive income for the period	–	–	–	(7,027)	(7,027)
Transactions with owners recorded directly in equity:					
Contributions by owners	–	–	–	802	802
Group reorganisation (refer note 21)	(19,128)	–	9,128	–	(10,000)
Issue of share capital	212	14,212	–	–	14,424
Share based payments for services rendered (non-cash)	5	251	–	–	256
Transaction costs relating to issue of shares	–	(715)	–	–	(715)
Balance at 31 December 2017	**217**	**13,748**	**9,128**	**(22,633)**	**460**

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE 14 MONTHS ENDED 31 DECEMBER 2017

	Attributable to equity Shareholders			
	Share capital €'000	Share Premium €'000	Accumulated Losses €'000	Total €'000
Total comprehensive loss for the period:				
Loss for the period	–	–	(5,238)	(7,174)
Other comprehensive income	–	–	–	–
Total comprehensive income for the period	–	–	(5,238)	(7,174)
Transactions with owners recorded directly in equity:				
Issue of share capital	154	4,270	–	4,424
Share based payments for services rendered (non-cash)	5	251	–	256
Share based payments for acquisition of subsidiary (non-cash)	58	9,942	–	10,000
Transaction costs relating to issue of shares	–	(714)	–	(714)
Balance at 31 December 2017	**217**	**13,748**	**(5,238)**	**8,727**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	Group 31 December 2017 €'000	Group 31 December 2016 €'000	Company 14 months ended 31 December 2017 €'000
Cash flows from operating activities				
Receipts from customers		**1,352**	1,103	–
Payments to suppliers and employees		**(3,191)**	(2,610)	**(362)**
Interest paid		**(47)**	(1)	–
Net cash used in operating activities	9	**(1,886)**	(1,508)	**(362)**
Cash flows from investing activities				
Receipts for resource property costs from joint operations partners		**128**	522	–
Payments for resource property costs and production plant and equipment		**(741)**	(765)	–
Net cash used in investing activities		**(613)**	(243)	–
Cash flows from financing activities				
Proceeds from issues of shares		**4,326**	–	**4,326**
Transaction costs relating to issue of shares		**(578)**	–	**(578)**
Proceeds from borrowings	25	**678**	1,746	–
Repayment of borrowings	25	**(1,669)**	(2,297)	–
Loans to subsidiary undertaking		–	–	**(3,124)**
Net cash provided by/(used in) financing activities		**2,757**	(551)	**624**
Net increase/(decrease) in cash and cash equivalents		**258**	(2,302)	**262**
Cash and cash equivalents at the beginning of the year		**107**	2,409	–
Cash and cash equivalents at the end of the year		**365**	107	**262**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: CORPORATE INFORMATION

Saffron Energy Plc ("the Company") is a company incorporated in England in November 2016. The consolidated financial statements for the year ended 31 December 2017 comprises the Company and its interests in its 100% owned subsidiary and jointly controlled operations (together referred to as the "Group").

The Group is primarily involved in the exploration, appraisal, development of and production from gas properties in the Po Valley region in Italy.

NOTE 2: BASIS OF PREPARATION

(a) STATEMENT OF COMPLIANCE

The financial Statements are prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

(b) BASIS OF MEASUREMENT

These financial statements have been prepared on the basis of historical cost.

(c) GOING CONCERN

The financial statements have been prepared assuming that the Group will continue as a going concern. Under the going concern assumption, the entity is ordinarily viewed as continuing its business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations.

The assessment has been made based on the Group's economic prospects, which included those of the proposed enlarged group, which have been included in the forecast, in particular for 12 months from the date of approval of the financial statements.

Consideration has also been given in respect of development of the proposed fundraising. Based on the available information the Directors continue to adopt the going concern basis in the preparation of the financial statements.

(d) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Euro, rounded to the nearest €1,000 (€'000), which is the Company's and the Group entities functional currency.

Foreign currency transactions

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

Non-monetary assets and liabilities denominated in foreign currencies are translated at the date of transaction.

(e) USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Group. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on complex or subjective judgments and past experience of other assumptions deemed reasonable in consideration of the information available at the time and are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The estimates and judgements 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

Reserve estimates

Estimation of reported recoverable quantities of Proven and Probable reserves include estimates regarding commodity prices, exchange rates, discount rates, and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. The Group reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the reserve and suitable production techniques and recovery rates.

A change in any, or a combination of, the key assumptions used to determine the reserve estimates could have a material impact on the carrying value of the project via depreciation rates or impairment assessments. The reserve estimates are reviewed at each reporting date and any changes to the estimated reserves are recognized prospectively to depreciation and amortisation. Any impact of the change in the reserves is considered on asset carrying values and impairment losses, if any, are immediately recognized in the profit or loss.

Rehabilitation provisions

Costs relating to rehabilitation are many years in the future and the precise requirements this will have to be met when the removal event occurs are uncertain. Technologies and costs are constantly changing, as well as political, environmental, safety and public expectations.

The value of these provisions represents the discounted value of the present obligations to restore, dismantle and rehabilitate each well site. Significant estimation is required in determining the provisions for rehabilitation and closure as there are many transactions and other factors that will affect ultimate costs necessary to rehabilitate the sites. The discounted value reflects a combination of management's best estimate of the cost of performing the work required, the timing of the cash flows and the discount rate.

A change in any, or a combination of, the key assumptions used to determine the provisions could have a material impact on the carrying value of the provisions. The provision recognised for each site is reviewed at each reporting date and updated based on the facts and circumstances available at that time. Changes to the estimated future costs for operating sites are recognised in the statement of financial position by adjusting both the restoration and rehabilitation asset and provision.

Impairment of non-current assets

Assets are impaired when there are events or changes in circumstances that indicate the carrying values of the assets are not recoverable. The ultimate recoupment of the value of resource property costs and property plant and equipment is dependent on successful development and commercial exploitation, or alternatively, sale, of the underlying properties, all of which are subject to numerous variables. The Group undertakes at least on an annual basis, a comprehensive review for indicators of impairment of these assets. Should an impairment indicator exist, the Cash Generating Unit is tested for impairment. There is significant estimation involved in determining the inputs and assumptions used in determining the recoverability amounts.

The key areas of estimation involved in determining recoverable amounts include:

- Recent drilling results and reserves and resources estimates
- Environmental issues that may impact the underlying licences
- The estimated market value of assets at the review date
- Fundamental economic factors such as the gas price and current and anticipated operating costs in the industry
- Future production rates and sales prices

The estimated value in use is based on the present values of expected future cash flows net of disposal costs. The expected future cash flows used for impairment analyses are based on judgmental assessments of future production volumes, prices and costs, considering available information at the date of review and are discounted by using a rate that considers the risks specific to the asset.

The pre-tax discount rate used for impairment purposes is 10.0% and which reflects the current market valuation of the time value of money and of the specific risks of the asset not reflected in the estimate of the future cash flows. Further details are in note 16.

Recoverability of deferred tax asset

The recoverability of deferred tax assets is dependent on the availability of profits in future years. The Group undertakes a forecasting exercise at each reporting date to assess its expected utilisation of these losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

The key areas of estimation involved in determining the forecasts include:

- Future production rates
- Economic factors such as the gas price and current and anticipated operating costs in the industry
- Capital expenditure expected to be incurred in the future

A change in any, or a combination of, the key assumptions used to determine the estimates could have a material impact on the carrying value of the deferred tax asset. Changes to estimates are recognised in the period in which they arise.

Carrying value of inventory

Historically inventory has been recorded at cost. In preparation of the year-end accounts, Management commissioned an independent appraisal of the Company's inventory. As a direct result, at 31 December 2017 the inventory balance represents the market value.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the accounting policies set out in notes below to all periods presented in the financial statements. The Company's figures are for 14 months being the first reporting period for the Company from incorporation to 31 December 2017. See note 3a) for the explanation as to their being comparatives for the group.

All new and amended accounting standards and Interpretations effective from 1 January 2017 have been adopted.

(a) PRINCIPLES OF CONSOLIDATION

(i) Group reorganisation

In November 2016 a new parent company, Saffron Energy Plc, was introduced for the purposes of acquiring Northsun Italia S.p.A (the subsidiary) from the groups ultimate controlling entity Po Valley Energy Ltd.

The introduction of a new holding company constitutes a Group reconstruction and has been accounted for using merger accounting principles. Therefore, although the Group reconstruction become effective in January 2017, the consolidated financial statements of Saffron Energy Plc are presented as if Saffron Energy Plc had always been part of the same Group. Accordingly, the results of the Group for the entire year ended 31 December 2017 are shown in the consolidated financial statements and the comparative figures for the year ended 31 December 2016 are also prepared on this basis.

The consolidated financial statements include the results of Saffron Energy Plc and its subsidiary undertaking made up to the same accounting date. All intra-Group balances, transactions, income and expenses are eliminated in full on consolidation.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Investments in subsidiaries are carried at cost less any impairment losses.

(iii) Joint arrangements

The Group classifies its interests in joint arrangements as either joint operations or joint ventures (see below) depending on the Group's rights to the assets and obligation for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Joint operation – when the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

(iv) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) TAXATION

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the date of the statement of financial position, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted at the date of the statement of financial position.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Judgement is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgement is also required to determine whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

(c) IMPAIRMENT

(i) Financial assets (including receivables)

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost that are debt securities, the reversal is recognised in profit or loss.

(ii) Non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset (or CGU) may be impaired. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and value in use (VIU). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount.

The Group bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecasts generally cover the forecasted life of the CGUs. VIU does not reflect future cash flows associated with improving or enhancing an asset's performance.

Impairment losses of continuing operations, including impairment of inventories, are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets/CGUs, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset/CGU does not exceed either its recoverable amount, or the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset/CGU in prior years. Such a reversal is recognised in the statement of profit or loss and other comprehensive income.

(d) PROPERTY PLANT & EQUIPMENT

(i) Recognition and measurement

Items of property, plant and equipment are recorded at cost less accumulated depreciation, accumulated impairment losses and pre-commissioning revenue and expenses.

The cost of plant and equipment used in the process of gas extraction are accounted for separately and are stated at cost less accumulated depreciation and impairment costs.

Cost includes expenditure that is directly attributable to acquisition of the asset.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised within "other income" in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with expenditure will flow to the Group.

(iii) Depreciation

Gas producing assets

When the gas plant and equipment is installed ready for use, cost carried forward will be depreciated on a unit-of -production basis over the life of the economically recoverable reserve. The depreciation rate of gas plant and equipment incurred in the period for each project in production phase is as follows:

	2017	2016
Bezecca	**3.40%**	–
Sillaro	**5.23%**	11.29%

Oil and gas properties are depreciated using the UOP method over total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field.

The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation/amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change.

Changes to proven reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on proved reserves of differences between actual commodity prices and commodity price assumptions
- Unforeseen operational issues.

Other property, plant and equipment

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The depreciation will commence when the asset is installed ready for use.

The estimated useful lives of each class of asset fall within the following ranges:

Office furniture & equipment 3 – 5 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at each reporting date.

(e) FINANCIAL INSTRUMENTS

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially as fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligation specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Share Capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(f) RESOURCE PROPERTY COSTS

Resource property costs are accumulated in respect of each separate area of interest.

(i) Exploration properties

Exploration properties are carried at date of statement of financial position at cost less accumulated impairment losses. Exploration properties include the cost of acquiring resource properties, mineral rights and exploration, evaluation expenditure incurred subsequent to acquisition of an area of interest.

Exploration properties are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technically feasibility and commercial viability or facts and circumstances suggest that the carrying value amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of the exploration license in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for an evaluation of mineral resources in the specific area are not budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specific area; or
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Areas of interest which no longer satisfy the above policy are considered to be impaired and are measured at their recoverable amount, with any subsequent impairment loss recognised in the profit and loss.

(ii) Production properties

Production properties are carried at balance sheet date at cost less accumulated amortisation and accumulated impairment losses. Production properties represent the accumulation of all exploration, evaluation and development and acquisition costs in relation to areas of interest in which production licences have been granted and the related project has moved to the production phase.

Amortisation of costs is provided on the unit-of-production basis, separate calculations being performed for each area of interest. The unit-of-production base results in an amortisation charge proportional to the depletion of economically recoverable reserves. The amortisation rate incurred in the period for each project in production phase is as follows:

	2017	**2016**
Bezecca	**3.40%**	–
Sillaro	**5.23%**	11.29%

Amortisation of resource properties commences from the date when commercial production commences.

When the value of the exploitable production property has diminished below cost, the asset is written down to its recoverable amount.

The Group reviews the recoverable amount of resource property costs at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

(g) RESTORATION PROVISIONS

Long term environmental obligations are based on the Group's environmental and rehabilitation plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbances that have occurred up to the date of the statement of financial position and abandonment of well sites and production fields. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and recorded in resource property costs, and amortised over the remaining useful lives of the areas of interest. The net present value is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability.

Annual increases in the provision relating to the unwind of the discount rate are accounted for in the statement of profit or loss as finance expense.

The estimated costs of rehabilitation are reviewed annually and adjusted against the relevant rehabilitation asset, as appropriate for changes in legislation, technology or other circumstances including drilling activity and are accounted for on a prospective basis. Cost estimates are not reduced by potential proceeds from the sale of assets.

(h) EMPLOYEE BENEFITS

(i) Long-term service benefits

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including on-costs and expected settlement dates and is discounted using the rates attached to the Government bonds at the balance sheet date which have maturity dates approximating to the terms of the Group's obligations.

(ii) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iii) Superannuation

The Group contributes to defined contribution superannuation plans. Contributions are recognised as an expense as they are due.

(i) REVENUE

Revenues is measured at fair value of the consideration received or receivable, net of the amount of value added tax ("VAT") payable to the taxation authority. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing management involved with the goods, and the amount of revenue can be measured reliably.

Gas sales revenue is recognised when control of the gas passes at the delivery point. Proceeds received in advance of control passing are recognised as unearned revenue.

(j) INVENTORY – WELL EQUIPMENT

Inventory is comprised of well equipment expected to be utilised in future development of known wells with specific characteristics. Inventory is carried at cost less impairment. Any impairment on value is taken to profit and loss.

(k) CHANGES TO ACCOUNTING POLICIES, DISCLOSURES, STANDARDS AND INTERPRETATIONS

International Financial Reporting Standards and Interpretations issued but not effective for the reporting period ending 31 December 2017 which are relevant to the Group are outlined below:

Reference	Title	Summary	Application date of standard	Impact on financial statements	Application date for Group
IFRS9	Financial Instruments	*Classification and measurement* In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but the provision of comparative information is not compulsory. The main changes to the Group accounting policy are described below: • Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.	1 January 2018	The application of this new standard will not have a material impact on the financial report, as the classification of the debt instruments will not change.	1 January 2018

Reference	Title	Summary	Application date of standard	Impact on financial statements	Application date for Group
IFRS 9	Financial Instruments	*Financial liabilities* Changes introduced by this standard in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows: – The change attributable to changes credit risk are presented in other comprehensive income (OCI) – The remaining change is presented in profit or loss The Standard also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount. *Impairment* The standard introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.	1 January 2018	The application of this new standard will not have a material impact on the financial report as the Group does not hold FVPL liabilities.	1 January 2018
IFRS 15	Revenue from contracts with customers	The Standard replaces IAS 18 and specifies the accounting treatment for revenue arising from contracts with customers.The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation	1 January 2018	The application of this Standard will not have a material impact on the financial report as the transaction price and performance obligations for the Group's revenue from contracts as determined under IFRS15 criteria will be the same as under the current standard IAS18.	1 January 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(l) SHARE-BASED PAYMENTS

Share based payments relate to transactions where the Group receives services and the terms of the arrangements include payment of a part or whole of consideration by issuing shares to the counterparty. The Group measures the services received from non-employees, and the corresponding increase in equity, at the fair value of the goods or services received. When the transactions are with the employees, the fair value is measured by reference to the fair value of the shares issued.

NOTE 4: FINANCIAL REPORTING BY SEGMENTS

The Group reportable segments as described below are the Group's strategic business units. The strategic business units are classified according to field licence areas which are managed separately. All strategic business units are in Italy. For each strategic business unit, the CEO reviews internal management reports on a monthly basis. Exploration, Development and Production gas and oil are the operating segments identified for the Group.

	Exploration		Development and Production		Total	
	31 December 2017 €'000	31 December 2016 €'000	31 December 2017 €'000	31 December 2016 €'000	31 December 2017 €'000	31 December 2016 €'000
External revenues	–	–	**1,389**	701	**1,389**	701
Segment loss before tax	**(775)**	(287)	**(4,060)**	(4,945)	**(4,835)**	(5,232)
Depreciation and amortisation	–	–	**(256)**	(591)	**(256)**	(591)
Impairment on resource property costs	**(771)**	(287)	**(4,075)**	(4,615)	**(4,847)**	(4,902)

	31 December 2017 €'000	31 December 2016 €'000	31 December 2017 €'000	31 December 2016 €'000	31 December 2017 €'000	31 December 2016 €'000
Reportable segment assets:						
Resource property costs	**1,745**	5,003	**159**	599	**1,904**	5,602
Property, Plant & Equipment	–	–	**2,141**	2,325	**2,141**	2,325
Receivables	–	–	**267**	145	**267**	145
Inventory	–	–	**252**	732	**242**	732
Capital expenditure	**165**	179	**783**	64	**948**	243
(Decrease)/increase in rehabilitation assets	**(131)**	49	**(86)**	47	**(217)**	96
Reportable segment liabilities	**(1,156)**	(2,214)	**(4,897)**	(3,938)	**(6,054)**	(6,152)

Reconciliation of reportable segment profit or loss, assets and liabilities	31 December 2017 €'000	31 December 2016 €'000
Profit or loss:		
Total profit loss for reportable segments	**(4,835)**	(5,232)
Unallocated amounts:		
Net finance income/(expense)	**(248)**	(71)
Corporate expenses	**(1,944)**	(1,169)
Loss before income tax	**(7,027)**	(6,472)
Assets:		
Total assets for reportable segments	**4,564**	8,828
Other assets	**2,836**	2,325
Total assets	**7,400**	11,153
Liabilities:		
Total liabilities for reportable segments	**(6,054)**	(6,152)
Other liabilities	**(886)**	(2,281)
Total liabilities	**(6,940)**	(8,433)

Geographical Information

All of the Group's revenue is currently attributed to gas sales in Italy through an off-take agreement with Shell Italia. For the current year, the Group's only customer contributed the entire revenue.

NOTE 5: REVENUE

	Group	
	31 December 2017 €'000	31 December 2016 €'000
Sales Revenue – Gas	**1,389**	701

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 6: DEPRECIATION AND AMORTISATION

	Group	
	31 December 2017 €'000	31 December 2016 €'000
Sillaro:		
Depreciation of production property, plant & Equipment	**(115)**	(194)
Amortisation of Resource Property Costs	**(31)**	(397)
Bezzecca:		
Depreciation of production property, plant & Equipment	**(5)**	–
Amortisation of Resource Property Costs	**(105)**	–
Corporate:		
Other property, plant & equipment	**(6)**	(10)
Total Depreciation and Amortisation	**(262)**	(601)

NOTE 7: CORPORATE OVERHEADS

	Group	
	31 December 2017 €'000	31 December 2016 €'000
Company administration and compliance	**197**	117
Professional fees	**679**	118
Office costs	**146**	120
Travel and entertainment	**75**	41
Other expenses	**102**	210
	1,199	606

NOTE 8: EMPLOYEES AND DIRECTORS

	Group	
	31 December 2017 €'000	31 December 2016 €'000
Wages and salaries	**525**	591
Contributions to defined contribution superannuation plans and social security costs	**61**	132
Directors remuneration	**131**	–
Share based payments	**57**	–
Total employee benefits	**774**	723
Average number of employees	**5**	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 9: IMPAIRMENT LOSSES

	Group		Company
	31 December 2017 €'000	31 December 2016 €'000	31 December 2017 €'000
Inventory written down	**481**	–	–
Production property, plant and equipment (Note 15)	**71**	–	–
Resource property costs – exploration (Note 16)	**768**	–	–
Resource property costs – production (Note 16)	**3,524**	4,615	–
Impairment of investments in subsidiary	–	–	**4,363**
	4,844	4,615	**4,363**

NOTE 10: NET FINANCE COSTS

	Group	
	31 December 2017 €'000	31 December 2016 €'000
Interest expense	**47**	2
Unwinding of discount on restoration provision	**58**	69
Foreign exchange losses (net)	**147**	–
Net finance costs	**252**	71

NOTE 11: AUDITORS' REMUNERATION

Services provided by the Group's auditor and its associates

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates:

	31 December 2017 €'000	31 December 2016 €'000
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated financial statements	**15**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 12: INCOME TAX

12.1 INCOME TAX EXPENSE

Numerical reconciliation between aggregate tax expense recognised in the statement of profit or loss and other comprehensive income and tax expenses calculated per the statutory income tax rate

	Group	
	31 December 2017 €'000	31 December 2016 €'000
Loss for the year before tax	**(7,027)**	(6,472)
Income tax benefit using the Group tax rate of 24%	**1,686**	1,553
Current year losses and temporary differences for which no deferred tax asset was recognised	**(613)**	(204)
Changes in temporary differences	**(154)**	(393)
Other non-deductible expenses	**(919)**	(450)
Income tax expense/(benefit)	–	506

12.2 DEFERRED TAX ASSETS

Deferred tax assets have been recognised in respect of tax losses and temporary differences based on management assessment that future taxable profit will be available against which the Group can utilise the benefits therefrom. Deferred tax assets amounting to €1,994,913 have been recognised in relation to the Italian subsidiary's available tax losses and temporary differences.

NOTE 13: EARNINGS PER SHARE

	31 December 2017	31 December 2016
Basic loss per share (€)	**(0.046)**	(0.85)
Diluted loss per share (€)	**(0.046)**	(0.85)

The calculation of basic loss per share was based on the loss attributable to shareholders of €7,027,000 (2016: €5,966,000) and a weighted average number of ordinary shares outstanding during the year of 152,665,466 (2016: 6,998,872).

On 7 March 2018, the Company announced GBP13.4 million share subscription was fully subscribed. The issue of shares as a result will impact the loss per share by dilution.

NOTE 14: TRADE AND OTHER RECEIVABLES

	Group		Company
	31 December 2017 €'000	31 December 2016 €'000	31 December 2017 €'000
Trade receivables from gas sales customers	**126**	69	–
Accrued revenue for gas sales	**159**	76	–
Non-profit taxes receivable	**315**	64	**27**
Other receivables	**64**	32	**60**
	664	241	**87**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 15: PROPERTY, PLANT & EQUIPMENT

	Group	
	31 December 2017 €'000	**31 December 2016 €'000**
Office Furniture & Equipment:		
At cost	**202**	200
Accumulated depreciation	**(195)**	(189)
	7	11
Gas producing plant and equipment		
At cost	**7,673**	7,667
Accumulated depreciation	**(5,532)**	(5,341)
	2,141	2,326
	2,148	2,337

	Group	
	31 December 2017 €'000	**31 December 2016 €'000**
Reconciliations:		
Reconciliation of the carrying amounts for each class of Plant & equipment are set out below:		
Office Furniture & Equipment:		
Carrying amount at beginning of period	**11**	21
Acquisition of assets	**2**	–
Depreciation expense	**(6)**	(10)
Carrying amount at end of period	**7**	11
Gas Producing plant and equipment:		
Carrying amount at beginning of period	**2,325**	1,903
Acquisition of assets	–	633
Additions	**6**	–
Depreciation expense	**(119)**	(210)
Impairment loss	**(71)**	–
Carrying amount at end of period	**2,141**	2,326
	2,148	2,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 16: RESOURCE PROPERTY COSTS

	Group	
	31 December 2017 €'000	31 December 2016 €'000
Resource Property costs		
Exploration	**1,745**	5,003
Production	**159**	599
	1,904	5,602

Reconciliation of carrying amount of resource properties:

	Group	
Exploration Phase	31 December 2017 €'000	31 December 2016 €'000
Carrying amount at beginning of period	**5,003**	3,535
Acquisition of assets	**–**	268
Exploration expenditure	**165**	1,454
Transfer to Production phase	**(2,524)**	33
Change in estimate of rehabilitation assets	**(131)**	–
Impairment losses	**(768)**	(287)
Carrying amount at end of period	**1,745**	5,003

Resource property costs in the exploration and evaluation phase have not yet reached a stage which permits a reasonable assessment of the existence of, or otherwise, economically recoverable reserves. The ultimate recoupment of resource property costs in the exploration phase is dependent upon the successful development and exploitation, or alternatively sale, of the respective areas of interest at an amount greater than or equal to the carrying value.

During the period, the Group completed the development of the Bezzecca field. Accumulated costs relating to this field were transferred to production phase assets as production commenced in the second quarter of the year.

The Group reviewed the carrying value of its assets and cash generating units using a Value in Use CGU; in particular a valuation on Sant' Alberto was calculated by CGG Services (UK) Limited for the purposes of the Admission Document used for the restoration of trading of Saffron Energy Plc on the AIM Board of the LSE. As a result of this assessment, the recoverable value of Sant' Alberto at 31 December 2017 was €1.7 million resulting in an impairment of €768k being recognised.

	Group	
Production Phase	31 December 2017 €'000	31 December 2016 €'000
Carrying amount at beginning of period	**599**	3,350
Additions	**782**	64
Transfer from exploration	**2,524**	–
Acquisition of interest from related party	**–**	2,151
Change in estimate of rehabilitation assets	**(86)**	30
Amortisation of producing assets	**(136)**	(381)
Impairment loss	**(3,524)**	(4,615)
Carrying amount at end of period	**159**	599

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

The Group reviewed the carrying value of its assets and cash generating units using a Value in Use CGU valuation. A valuation on Sillaro and Bezzecca fields was calculated by CGG Services (UK) Limited for the purposes of the Admission Document used for the restoration of trading of Saffron Energy Plc on the AIM Board of the LSE.

The parameters used in the valuation model were as follows:

The discount rate applied was 10% post tax (10% at 31 December 2016). As per price assumptions, a price deck provided by specialist advisors CGG Services (UK Limited) for the Competent Persons Report used for the Admission Document referred above. The complete Competent Persons Report is available in the Admission Document of Saffron Energy Plc which can be downloaded on the Company's web site www.saffronenergy.co.uk.

As a result of the revised assessment, the recoverable amounts of the cash generating units (which includes production plant and equipment) of Sillaro was €2.0 million and of Bezzecca was €0.3 million resulting in impairment of €3,595k being recognised in the Financial Statements (€71k of this amount was recognised against the production property, plant and equipment of Sillaro – Note 15).)

NOTE 17: TRADE AND OTHER RECEIVABLES

	Group		Company
	31 December 2017 €'000	31 December 2016 €'000	31 December 2017 €'000
Trade receivables	**285**	156	–
VAT and other taxes	**314**	78	**27**
Other receivables	**65**	7	**60**
	664	241	**87**

NOTE 18: TRADE AND OTHER PAYABLES

	Group		Company
	31 December 2017 €'000	31 December 2016 €'000	31 December 2017 €'000
Trade payables	**1,152**	1,181	**137**
Wages payable and related taxes	**40**	23	–
Other payables	**205**	213	–
Accrued expenses	**703**	210	**244**
	2,100	1,627	**382**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 19: PROVISIONS

	Group	
	31 December 2017 €'000	31 December 2016 €'000
Current:		
Employee leave entitlements	**38**	31
Other provisions	–	20
	38	51
Non-Current:		
Restoration provision	**4,802**	4,962
Reconciliation of restoration provision:		
Opening balance	**4,962**	3,616
Increase in provision by acquisition of interest from related party	–	1,214
Increase in provision from unwind of discount rate	**57**	63
Changes in provision due to revised estimates (Note 16)	**(217)**	69
Closing balance	**4,802**	4,962

NOTE 20: SHARE CAPITAL AND SHARE PREMIUM

	31 December 2017 Number 000's	Share Capital €'000	Share Premium €'000	31 December 2017 Total €'000
At 31 December 2015	**19,231**	**10,000**	–	**10,000**
Issued following conversion of liabilities	12,025	6,253		6,253
Issued for acquisition of assets	5,529	2,875		2,875
At 31 December 2016*	**36,785**	**19,128**	–	**19,128**
Issued on incorporation (i)	50,000	60	–	60
Issued for the acquisition of subsidiary	50,000	58	9,942	10,000
Group restructure (Note 21)	(36,785)	(19,128)	–	(19,128)
Issued for services rendered	3,720	4	210	214
Issued for cash on subscription on AIM listing	50,000	59	2,884	2,943
Issued for services rendered	938	1	42	43
Issued for cash on private placement	31,250	35	1,384	1,419
Share issue costs	–	(714)	(714)	
Closing balance – 31 December 2017	**185,908**	**217**	**13,748**	**13,965**

(i) 50,000 shares were issued for cash on 10 November 2016 and on 9 December 2016, the total shares on issue were subdivided into 50,000,000 shares.

All ordinary shares are fully paid and carry one vote per share and the right to dividends. In the event of winding up the Company, ordinary shareholders rank after creditors. Ordinary shares have a par value of £0.001 per share.

Share premium reserve

The company has nominal share price of 0.1 pence per share. Share Premium Reserve represents value of securities above nominal value.

No dividends were paid or declared during the current period.

NOTE 21: INVESTMENTS IN SUBSIDIARIES

	Company 2017 €'000
Cost	**10,000**
Impairment	**(4,363)**
Net carrying value	**5,637**

The Company's investments in subsidiaries include:

Name	Registered office	Nature of business	Class of shares held	% held
Northsun Italia S.p.A	Italy	Exploration	Ordinary	100%

Group reorganisation

Po Valley Energy in 2016 initiated a capital re-structuring in order to separate its existing production and near-term production assets from its longer-term development assets, with the existing production and near-term production assets being transferred to the Group via the reorganisation of the ownership of Northsun Italia S.p.A.

In January 2017, the Company acquired 100 percent of the shares in Northsun Italia S.p.A from Po Valley Energy Ltd. Consideration of €10,000,000 for the acquisition was settled by the issue of 50,000,000 ordinary shares at £0.0175 each. The transaction resulted in the recognition of a merger reserve of €9,128,000 for the group being the difference between the value of shares issued and the nominal value of the subsidiary's shares received.

NOTE 22: FINANCIAL INSTRUMENTS

Carrying amount versus fair values

The fair values of financial assets and financial liabilities, together with the carrying amounts in the consolidated statement of financial position, are as follows.

31 December 2017	Carrying amount €'000	Fair value €'000
Current financial assets		
Trade and other receivables	664	664
Cash and cash equivalents	365	365
Current financial liabilities		
Trade and other payables	2,100	2,100

31 December 2016	Carrying amount €'000	Fair value €'000
Current financial assets		
Trade and other receivables	240	240
Cash and cash equivalents	107	107
Current financial liabilities		
Trade and other payables	1,627	1,627
Short term borrowings	802	346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

Determination of fair values

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximate their fair value.

The Group does not have any other financial instruments.

Financial risk management

Exposure to credit, market and liquidity risks arise in the normal course of the Group's business.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

Risk recognition and management are viewed as integral to the Group's objectives of creating and maintaining shareholder value, and the successful execution of the Group's strategies in gas exploration and development. The Board as a whole is responsible for oversight of the processes by which risk is considered for both ongoing operations and prospective actions. In specific areas, it is assisted by the Parent's Audit and Risk Committee.

Management is responsible for establishing procedures which provide assurance that major business risks are identified, consistently assessed and appropriately addressed.

(i) Credit risk

The Group is not exposed to significant credit risk. Credit risk with respect to cash is held with recognised financial intermediaries with acceptable credit ratings.

The Group has limited its credit risk in relation to its gas sales in that all sales transactions fall under an offtake agreement with Shell Italia which expires in October 2018. Shell currently has an option to extend the contract a second Gas Year from October 2018 to September 2019.

The Group has a concentration of credit risk exposure to its one customer (Shell Italia). Payment terms are 35 days and the customer has an investment grade credit rating.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset as shown in the table above.

(ii) Market Risk

Interest rate risk

The Group is primarily exposed to interest rate risk arising from cash and cash equivalents that are interest-bearing.

Currency risk

The Group is exposed to currency risk in respect to monetary assets and liabilities held in currencies other than Euro. The currency giving rise to this risk is primarily Pound Sterling.

Amounts receivable/(payable) in foreign currency other than functional currency:	Group 2017 €'000	2016 €'000
Cash	**262**	–
Current – Payables	**(137)**	–
Net Exposure	**125**	–

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
Pound Sterling (£)	**1.142**	–	**1.126**	–

Sensitivity Analysis

A 5 percent strengthening of the Pound Sterling (£) against the Euro (€) at 31 December would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. There were no material balances in 2016 that would impact on the currency risk.

	Group	
31 December 2017	**Profit or loss €'000**	**Equity €'000**
Pound Sterling (£) to Euro (€)	6	–

A 5 percent weakening of the Pound Sterling (£) against the Euro (€) at 31 December would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Capital Management

The Group's policy is to maintain a strong capital base so as to maintain creditor confidence and to sustain future development of the business, safeguard the Group's ability to continue as a going concern and provide returns for shareholders. The Group currently does not hold any debt instruments. Capital is maintained from issue of new shares (note 20).

The Group is not subject to externally imposed capital requirements.

(iv) Liquidity Risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

Refer to the Going Concern note 2© for further commentary.

NOTE 23: COMMITMENTS

The Italian oil and gas industry operates under a "drill or drop" regime whereby companies are obligated to carry out a work program filed and agreed with the Italian Ministry of Economic Development. The work program can only be carried out however when environmental (and other permitting) approval is received for the various activities. There are no mandatory work requirements for 2018 (the same as was the case for 2017).

NOTE 24: SHARE BASED PAYMENTS

The company issued the following shares in lieu of payments for services rendered:

	No of shares '000s	**Value of service €'000**
Recognised in profit and loss and other comprehensive income:		
Sara Edmondson – bonus for completion of AIM listing	1,000	57
Spencer Davey – consultant to the Company	1,000	57
Cassiopeia – for services provided	720	41
	2,720	155
Recognised as share issue costs in equity:		
Turner Pope – broker remuneration for completion of AIM listing	1,000	57
Turner Pope – for broker fees	938	42
	1,938	99

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 25: JOINT OPERATIONS

The Group's interests in joint arrangements at 31 December 2017 are as follows:

Joint Operation	Principal place of business	Manager	Group's Interest	Principal Activity (Exploration)
Cascina Castello Production licence	Italy	Northsun Italian S.p.A	90%	Gas

The Group has a farm-out agreement with Petrorep Italiana S.p.A ('Petrorep') which permits Petrorep to earn a 10% interest in the Cascina Castello Production licence. In exchange for a 10% economic interest, Petrorep will commit to the first €600,000 (plus VAT) in capital expenditure for the development of the Bezecca field (located in within the above licence). Contributions of €128,314 have been made by Petrorep for the year to 31 December 2017 (2016: $521,741) in respect of this commitment

NOTE 26: RELATED PARTY DISCLOSURES

Directors' remuneration is disclosed on page 26.

The loan of €3,124,000 advanced from the Company to NSI is unsecured, interest free and does not have fixed terms of repayment.

The Group had received short term funding from third parties related to its ultimate controlling party (Po Valley Energy Ltd) during the year. Loans were on normal commercial terms with interest charged at 10% p.a. There were no amounts payable as at 31 December 2017 (2016: €346,000). Interest paid during the period amounted to €47,228.

All Group's borrowing were from the ultimate controlling party. The movement in liabilities reconciles to cash flows arising from financing activities as follows:

	1-Jan-17	Cash flows	Non-cash changes		31-Dec-17
			Foreign exchange movements	Contribution to equity	
	€'000s	€'000s	€'000s	€'000s	€'000s
Long-term borrowings	1,446	(645)	–	(802)	–
Short-term borrowings	346	(347)	1	–	–
Total	**1,792**	**(991)**	**1**	**(802)**	–

NOTE 27: ULTIMATE CONTROLLING PARTY

The Group's ultimate controlling party at 31 December 2017 is Po Valley Energy Ltd, an Australian public company listed on the Australian Securities Exchange which holds 50% of the Company's shares.

NOTE 28: SUBSEQUENT EVENTS

Post period end and in support of the proposed merger, new Board and launch of international growth strategy the Company announced it had secured conditional funding of £14,000,000. This was corner-stoned by new investor CIP Merchant Capital Limited. The Company has closed a firm placing raising £561,137.74 with CIP in January 2018 and the balance of £13,438,862.30 remains conditional only subject to shareholder approval which is being sought contemporaneously with the approval for the proposed merger.

Other than matters already disclosed in the financial statements, there were no other events between the end of the half-year and the date of this report that, in the opinion of the Directors, affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

COMPANY INFORMATION

DIRECTORS:	James Menzies	Chief Executive Officer (appointed on 01.05.18)
	Sara Edmonson	Deputy Chief Executive Officer (appointed on 10.11.16)
	James Parsons	Non-Executive Chairman (appointed on 12.12.17)
	David Garland	Non-Executive Director (appointed on 17.01.17)
	Fiona MacAulay	Non-Executive Director (appointed on 12.12.17)
	Marco Fumagalli	Non-Executive Director (appointed on 12.12.17)
	Ilham Akbar Habibie	Non-Executive Director (appointed on 16.02.18)
OFFICERS:	Andrew Dennan	Chief Financial Officer
SECRETARY:	AMBA Secretaries Limited	
REGISTERED OFFICE:	The Junction, Station Road Watford WD17 1EU	
REGISTRATION NUMBER:	10472005 (England and Wales)	
NOMINATED ADVISOR:	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU	
BROKER:	Turner Pope Investments (TPI) Ltd 6th Floor, Becket House 36 Old Jewry London EC2R 8DD	
UK LEGAL ADVISOR:	Watson Farley & Williams LLP 15 Appold Street London EC2A 2HB	
ITALIAN LEGAL ADVISOR:	Studio Legale Associate a Watson Farley & Williams 49 Piazza Navona 2nd Floor int 2/3 00186 Rome Italy	
AUDITORS:	PKF Littlejohn LLP Statutory Auditor 1 Westferry Circus Canary Wharf London E14 4HD	
REGISTRARS:	Share Registrars Limited 27-18 East Castle Street London W1W 8DH	

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