Paternoster Resources plc

Financial Statements

for the year ended 31 December 2017

Company no: 269566

COMPANY INFORMATION

DIRECTORS :	N Lee (Chairman) A van Dyke A Nesbitt
SECRETARY :	M Nicholson
REGISTERED OFFICE :	30 Percy Street London W1T 2DB
COMPANY REGISTRATION NUMBER :	00269566
REGISTRAR AND TRANSFER OFFICE :	Share Registrars Limited The Courtyard 17 West Street Farnham Surrey GU9 7DR
BANKERS :	Barclays Bank Plc 77 Albion Street Leeds LS1 5AW
SOLICITORS :	Keystone Law Ltd 48 Chancery Lane London WC2A 1LF
INDEPENDENT AUDITOR :	Welbeck Associates Registered Auditors Chartered Accountants 30 Percy Street London W1T 2DB
NOMINATED ADVISOR:	Beaumont Cornish Limited 2nd Floor, Bowman House 29 Wilson Street London EC2M 2SJ
JOINT BROKER:	Peterhouse Corporate Finance Limited 3rd Floor New Liverpool House 15-17 Eldon Street London EC2M 7LD
JOINT BROKER:	Shard Capital Partners LLP 23rd Floor 20 Fenchurch Street London EC3M 3BY

CONTENTS

REPORTS

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

INTRODUCTION

During the year ended 31 December 2017, the Company has continued to trade as an investment company focused on investing in the natural resources sector.

FINANCIAL

During 2017, the Company made a loss from continuing operations of £1,135,685 (2016: profit of £486,048). The net asset value of the Company as at 31 December 2017 was £2,448,769 (2016: £3,584,454).

The Company's investment portfolio at 31 December 2017 is divided into the following categories:

Category	Principal investments	Cost or valuation (£)
Listed investments	Metal Tiger plc, MX Oil plc, Plutus Powergen plc, , Arc Minerals plc, , Pires Investments plc, I3 Energy plc, Cora Gold plc and Shumba Energy Limited	1,811,625
Cash resources		211,795
Listed investments and cash		**2,023,420**
Unlisted investments		440,748
Total		**2,464,168**

At 31 December 2017, the Company had cash balances amounting to £211,795 (2016: £648,165).

Since the year end, the company has raised new funds and on 1 May 2018, the Company released its First Quarter Update 2018 which showed that it had net assets, on an unaudited basis, of £3.1 million, the majority of which comprised listed investments of £1.8 million and cash of £1.1 million.

REVIEW OF THE YEAR

During the year, the share price of Plutus PowerGen plc ("Plutus"), one of the Company's principal investments reduced significantly, contributing to a reduction in the value of the investment portfolio. This is compared against a very strong performance of the Plutus share price during 2016 when it increased by some 110%. Furthermore, whilst Cradle Arc Investments plc (formerly Alecto Minerals plc) and Polemos plc which were both suspended during the year have come back to the market post year end, this has been at lower prices than was originally expected and so, prudently, these reduced valuations have been reflected in the 2017 year end portfolio valuation.

During 2017, the Company's investment in Glenwick translated into holdings in I3 Energy plc and Cora Gold plc and the share prices of both of these companies struggled towards the end of 2017. However, since the year end, the I3 Energy plc share price has increased by around 300%. Paternoster has realised some significant profits from this investment whilst still retaining a meaningful shareholding.

More details of the development of investments during the year and significant developments since the year end are set out in the Strategic Report.

OUTLOOK AND STRATEGY

On 18 January 2018, the Board of Paternoster Resources plc announced that it had entered into an arrangement with RiverFort Global Capital Ltd ("RiverFort"), the specialist provider of capital to junior companies whereby Paternoster would have the opportunity to invest in transactions arranged by RiverFort alongside other co-investors. At the same time, the Company raised £850,000 from both private and institutional investors.

RiverFort is a highly-respected provider of specialist financing, primarily to the natural resources sector, providing equity, convertible debt and senior project finance solutions. RiverFort is the investment director of Cuart Investments PCC Limited, a Gibraltar Experienced Investor Fund. Since its formation, RiverFort has been able to arrange attractive returns for its investors. In 2016, its first year of operation, Cuart Investments PCC Limited - Cuart Growth Capital Fund I achieved an increase in its audited NAV of over 15% between July and December 2016. The increase in NAV for 2017, on an unaudited basis, is expected to be over 20%. From the date of its formation to 31 March 2018, RiverFort, on behalf

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

of Cuart Growth Capital Fund I, its co-investors and other investment partners, has arranged over US$76 million of investments. The RiverFort team has an international footprint and a range of financial, entrepreneurial and industrial expertise. Riverfort is authorised and regulated by the Financial Conduct Authority.

On 21 February 2018, Andrew Nesbitt joined the board of Paternoster. Andrew is a qualified mining engineer and is a consultant to RiverFort. He holds a BSc (Eng) Mining and an MBA and has over 20 years of experience in the natural resources sector. He has held various production and technical roles with both De Beers and Goldfields and has carried out a number of feasibility studies across the world with the leading technical consulting group SRK. In addition, Andrew is also an experienced investor, having previously worked as a partner and portfolio manager for Craton Capital Pty Limited, a global precious metals fund with over US$400 million of assets under management.

On 20 April 2018, the Board announced that, as a first step in the development of its arrangement with RiverFort, it had agreed to invest around £250,000 in a portfolio of income-yielding investments arranged by RiverFort which comprise investments in the form of both senior and convertible debt. This portfolio represented, on average, around 2.8% of the total investment amounts originally arranged by RiverFort and therefore demonstrates the scope for Paternoster to scale-up the size of its investments as it develops its relationship with RiverFort. This should enable the Company to quickly grow its portfolio with investments that can generate both attractive cash returns whilst providing downside protection.

On 8 June 2018, Paternoster held a general meeting both to increase its share allotment authorities and to approve the entering into of an investment adviser agreement with RiverFort. All resolutions were passed with significant majoritiesGoing forward, the Company is now well placed to build its portfolio significantly and rapidly through making investments that can generate income and capital growth whilst offering downside protection.

Nicholas Lee
Chairman

25 June 2018

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present their Strategic Report on the Company for the year ended 31 December 2017.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

LISTED INVESTMENTS

PLUTUS POWERGEN PLC

Plutus PowerGen plc ("Plutus"), which is listed on AIM, is a power company focused on the development, construction and operation of flexible electricity and gas power generation in the UK.

In Q1 2017, the company's share price fell significantly as a result of the uncertainty surrounding the OFGEM statement regarding TRIAD payments to local embedded power generators. Given that Plutus benefits from multiple earnings streams, it believes that its business model going forward continues to be attractive. It also has a number of projects in the pipeline that are expected to deliver additional fees and revenues. The company is continuing to broaden its exposure to the UK energy sector which includes looking to develop battery energy storage projects. It has also received planning for two further renewable green diesel power generation sites and has recently signed a joint venture with a leading UK supplier of gas and diesel generators.

Plutus has commissioned two new 20MW flexible energy generation sites in Stowmarket, Suffolk and has energised two sites in Ipswich. The company now has 120MW of flexible energy generation sites in operation with a further three 20MW sites expected to come into operation in 2018. More generally, the company is focused on moving into gas powered energy generation, energy storage and hybrid generation sites during 2018. Gas powered sites offer significantly more attractive returns compared to diesel powered sites and hybrid sites allow power generation sites of various types to partner with storage technologies giving the company access to additional revenue streams.

MX OIL PLC

MX Oil plc ("MX Oil") holds an indirect investment in a Nigerian oil and gas licence, OML 113, which includes the Aje Field. During the year, the two wells in the Aje Field within block OML 113 have continued to produce notwithstanding an interruption in production at Aje 5 whilst some subsurface intervention was carried out.

As part of the oil production process, a significant quantity of new data about the underlying reservoir and related geology has been collected. Consequently, the partners in the licence commissioned the preparation of an updated Competent Persons Report ("CPR") in order to take into account this new data and to provide a more accurate update of the future potential of the field.

The revised CPR has now been completed which is an update to the CPR prepared previously in July 2014 and incorporates all the developments and new data generated by the project since that date. The level of reserves reported in this latest CPR represents a significant increase compared to the previous report and highlights the future potential of the Aje Field.

Now that the company has received the updated CPR, work is currently underway on modelling the potential for new oil wells in both the Turonian and Cenomanian. Subject to the outcome of this work, it expects to see further development drilling in 2019, with a view to progressing to a full scale oil and gas integrated project thereafter.

Also, during the year, shareholders approved the adoption of a revised investing policy by the company to include interesting opportunities in adjacent areas of oil services, energy, power and related technologies.

METAL TIGER PLC

Metal Tiger plc ("Metal Tiger") which is listed on AIM, is focused on investing in mineral projects with a precious metals and strategic metals focus. During the year, the company has continued to invest in MOD Resources Limited ("MOD") which is continuing to make good progress on its high-grade copper and silver deposit ("T3") in Botswana. The company is looking forward to the results of the next resource upgrade on this asset, the finalisation of the definitive feasibility study and further exploration work in this licence area.

The company has also progressed the IPO of its joint venture in Thailand, however, the timing of this has been postponed pending greater clarity of the Thailand Government's Mineral Management Master Plan.

The company also raised £4.85 million by way of a private placement and further funds through the exercise of warrants.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

SHUMBA ENERGY LIMITED

During the year Shumba Energy Limited has continued to develop its coal and energy interests in Botswana. It currently has three advanced stage projects and one earlier stage alternative energy project.

ARC MINERALS PLC (formerly ORTAC RESOURCES LIMITED)

The company has made significant progress during the year. It is now focused on its two high potential African mining assets namely: Casa Mining Limited ("CASA") a private company that holds prospective gold mining and exploration licences in the Democratic Republic of Congo; and Zamsort Limited ("Zamsort"), a company based in Zambia with interests in copper and cobalt. The company now owns some 90% of CASA having, during the year, made an offer to acquire the shares that it did not already own. It has also increased its ownership in Zamsort to 55%. During the period, the board of the company has also been restructured.

POLEMOS PLC

Polemos plc is an investment company listed on AIM with a specific focus on the natural resources sector. During the year, Polemos plc invested in Oyster Oil and Gas Limited ("Oyster"), a company already listed on the TSX-V. Oyster currently operates four blocks in the Republic of Djibouti (100% interest) of which three blocks are located onshore and one block offshore. It also operates a 100% working interest in a large onshore block in the Republic of Madagascar. In July 2017, Polemos raised around £500,000 for working capital purposes and to fund the seeking of investment opportunities.

In September 2017, Polemos announced the potential acquisition of a cyber security business SecurLinx Corporation, a US based cyber security company. As this would constitute a reverse takeover, its shares weresuspended pending the publication of an admission document. This transaction, however, could not be completed and so the company came back to the market on 9 March 2018 as an AIM Rule 15 cash shell which effectively means that it needs to secure an alternative reverse takeover transaction within six months of this date.

PIRES INVESTMENTS PLC

Pires Investments plc is an investment company listed on AIM with a specific focus on the natural resources sector. It is currently seeking interesting investment opportunities. The company's principal assets comprise cash and an investment in Eco (Atlantic) Oil and Gas Limited which, since the year end, has increased in value significantly. As a result, the company is now well placed to pursue exciting investment opportunities.

CORA GOLD LIMITED

Cora Gold Limited is a West African focused gold exploration company. The company's principal project is the Sanankoro gold discovery in southern Mali. The company listed on AIM in October 2017. Since then it has commenced drilling at Sanankoro which has yield some positive results. It has also commenced drilling at its Tekeledougou project in southern Mali which has also produced some good results. Consequently, the company's share price has increased by some 40% since the year end.

I3 ENERGY PLC

I3 Energy Limited ("I3 Energy") owns a 100% operated interest in the Liberator field, an oil discovery situated within Block 13/23d of the North Sea, immediately adjacent to the Blake field and situated 2 kilometres from Blake's producing drill centre. The company was introduced to AIM in July 2017.During Q1 2018, the companyraised additional funds and also announced that it was in advanced discussions with various possible partners regarding a potential joint venture relating to its 100% owned Liberator Oil Field and its 30th Offshore Licencing Round application. In May 2018, it announced that it had been awarded its sole 30th Offshore Licensing Round application target, Block 13/23c 123 km^2, on a 100% Interest basis.

Since the year end, I3 Energy's share price has increased by around 300%. Paternoster has realised some significant gains on this investment.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

UNLISTED INVESTMENTS

CRADLE ARC MINERALS PLC (formerly ALECTO MINERALS PLC)

In December 2016, the company announced the proposed acquisition of the Mowana Copper Mine in Botswana ("Mowana"). This acquisition constituted a reverse takeover under the AIM Rules for Companies and, as a result, the company's shares were suspended. Mowana is a former producing copper mine that has already been brought back into production. Unfortunately, the company was not able to complete the acquisition of Mowana prior to the company being delisted. However, since then, the company has worked hard to complete the acquisition and raise the appropriate level of funding such that it was able to come back to AIM in early 2018, albeit at a lower price than originally envisaged. Since then, it has announced a maiden JORC resource for Mowana and an increase in production at the mine.

GLENWICK PLC

In February 2017, Paternoster subscribed for new ordinary shares in Glenwick plc (“Glenwick”), principally to gain exposure to its pre-IPO investment in I3 Energy plc. During the year, I3 Energy plc (“I3 Energy”) was introduced to AIM and Paternoster received shares in I3 Energy. At the same time, Glenwick was progressing the acquisition of 100% of the share capital of Cora Gold Limited (“Cora Gold”). This transaction ultimately did not take place as Cora Gold completed its own IPO instead. However, in order to compensate Glenwick for costs incurred, it received a number of Cora Gold shares which were then distributed to Glenwick shareholders. Post period end, Glenwick is now in the process of being wound up and, whilst the share prices of I3 Energy and Cora Gold did not perform very well during 2017, post period end they have both improved, with I3 Energy increasing very significantly. As a result, Paternoster has made a very attractive return from its investment in Glenwick.

ERIDGE CAPITAL LIMITED (formerly NEW WORLD OIL AND GAS PLC)

Eridge Capital Limited is an investment company with net assets comprising cash and a convertible loan in Big Sofa Technologies plc (“Big Sofa”), a company listed on AIM. During the year, the company changed its name and has migrated to the British Virgin Islands as this was believed to be a more appropriate jurisdiction for an unlisted investment company compared to remaining in Jersey. The company is actively working on a revised strategy in order to deliver a return to shareholders. Post period end, the Company’s loan in Big Sofa has been repaid and part of the loan has been converted into shares.

ELEPHANT OIL LIMITED

Elephant Oil Limited, is an oil and gas exploration company focused on West Africa, which holds a 100% interest in Block B, onshore Benin, on the prolific West Africa Transform Margin. The company continues to look at options to develop its asset and presence in the region.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

KEY PERFORMANCE INDICATORS

The key performance indicators are set out below:

COMPANY STATISTICS	31 December 2017	31 December 2016	Change %
Net asset value	£2,448,769	£3,584,454	-31%
Net asset value – fully diluted per share	0.24p	0.35p	-31%
Closing share price	0.130p	0.180p	-28%
Share price discount to net asset value – fully diluted	(46%)	(49%)	
Market capitalisation	£1,322,000	£1,830,000	-28%

KEY RISKS AND UNCERTAINTIES

Early stage investments in the natural resources sector carry a high level of risk and uncertainty, although the rewards can be outstanding. At this stage there can be no certainty of outcome and, in addition, there is often a lack of liquidity in the Company's investments that are either unquoted or quoted on AIM, such that the Company may have difficulty in realising the full value in a forced sale. Accordingly, a commitment is only made after thorough research into both the management and the business of the target, both of which are closely monitored thereafter. Furthermore, the Company limits the amount of each commitment, both as to the absolute amount and percentage of the target company. Details of other financial risks and their management are given in Note 18 to the financial statements.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Details of the Company's financial risk management objectives and policies are set out in Note 18 to these financial statements.

GOING CONCERN

The Company's assets comprise mainly cash and quoted securities and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future. Therefore, the directors believe that as at the date of this report it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

ON BEHALF OF THE BOARD

Nicholas Lee
Chairman

25 June 2018

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present their annual report on the affairs of the Company, together with the audited financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company's principal activity is that of investment in the natural resources sector.

RESULTS AND DIVIDENDS

The Company made a loss after taxation of £1,135,685 (2016: profit of £486,048). The Directors do not propose a dividend (2016: £nil).

The key performance indicators are shown in the Strategic Report.

DIRECTORS

The Directors of the Company, together with their beneficial interests in the shares of the Company at the end of the year, are listed below. All served on the Board throughout the year, unless otherwise stated. There is a qualifying third party indemnity provision in force for the benefit of the Directors and officers of the Company.

	Percentage of issued share capital	31 December 2017	31 December 2016
N Lee	1.6%	16,014,706	16,014,706
Ms A van Dyke	–	–	–

On 21 February 2018, Andrew Nesbitt was appointed as a Director.

Details of the Directors' options and warrants are shown below:

Name of Director	Number outstanding at 31 December 2017	Exercise price	Vesting date	Expiry Date
OPTIONS:				
N Lee	28,000,000	0.32p	Various	26.10.2021
N Lee	14,000,000	0.48p	Various	13.03.2022
	42,000,000			

These options have been cancelled post year end. Refer to Note 9 for further information.

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2017

SUBSTANTIAL INTERESTS

The Company is aware that at 22 June 2018, the following, other than the Directors shown above, held in excess of 3% of the issued share capital of the Company:

	Number of ordinary shares	Percentage of issued share capital
Milton UK Microcap Trust plc	345,454,545	19.31%
GAEA Resources Limited	230,656,957	12.89%
RiverFort Global Capital Ltd	125,409,090	7.00%
Ronald Bruce Rowan	100,000,000	5.59%
James Lewis	89,954,545	5.03%
Mike Prentice	54,819,907	3.06%

CORPORATE GOVERNANCE

Although the Company is not required to comply with the principles of corporate governance, this report sets out how the Company does comply with the principles of good corporate governance.

BOARD OF DIRECTORS

The Company supports the concept of an effective Board leading and controlling the Company. The Board is responsible for approving Company policy and strategy. It meets regularly and has a schedule of matters specifically reserved to it for decision. Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professionals at the Company's expense. Training is available for new Directors and other Directors as necessary.

The Board currently consists of three directors, the chairman, Nicholas Lee and two non-executive directors, Amanda van Dyke and, Andrew Nesbitt who was appointed subsequent to the year end.

The Directors are subject to re-election every three years and, on appointment, at the first AGM after appointment.

Given the size of the Board, there is no separate nomination committee. All Director appointments are approved by the Board as a whole.

COMMUNICATIONS WITH SHAREHOLDERS

Communications with shareholders are given a high priority. In addition to the publication of an annual report and an interim report, there is regular dialogue with shareholders and analysts. The Annual General Meeting is viewed as a forum for communicating with shareholders, particularly private investors. Shareholders may question the Chairman and other members of the Board at the Annual General Meeting.

INTERNAL CONTROL

The Directors acknowledge they are responsible for the Company's system of internal control and for reviewing the effectiveness of these systems. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of the Company failing to achieve its strategic objectives. It should be recognised that such systems can only provide reasonable and not absolute assurance against material misstatement or loss. The Company has well established procedures which are considered adequate given the size of the business.

REMUNERATION

The remuneration of the directors has been fixed by the Board as a whole. The Board seeks to provide appropriate reward for the skill and time commitment required so as to retain the right calibre of director at a cost to the Company which reflects current market rates.

Details of directors' fees and of payments made for professional services rendered are set out in Note 7 to the financial statements and details of the directors' share options are set out in Note 9.

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the report of the directors and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have also elected to prepare the financial statements in accordance with IFRS as adopted by the EU. 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 and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable IFRSs 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 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.

In the case of each person who was a director at the time this report was approved:

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

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.

POST YEAR END EVENTS

On 18 January 2018, the Company announced that it had entered into an arrangement with RiverFort Global Capital Ltd ("RiverFort"), the specialist provider of capital to junior companies whereby Paternoster would have the opportunity to invest in transactions arranged by RiverFort alongside other co-investors. At the same time, the Company raised £850,000 from both private and institutional investors as a result of a placing of 772,727,270 new ordinary shares at 0.11p per share.

On 20 April 2018, the Board announced that it had agreed to invest around £250,000 in a portfolio of income-yielding investments arranged by RiverFort which comprise investments in the form of both senior and convertible debt.

On 8 June 2018, Paternoster held a general meeting both to increase its share allotment authorities and to approve the entering into of an investment adviser agreement with RiverFort. All resolutions were passed with significant majorities.

AUDITORS

Welbeck Associates, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the Company receives notice under section 488(1) of the Companies Act 2006.

ON BEHALF OF THE BOARD

M Nicholson
Secretary

25 June 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PATERNOSTER RESOURCES PLC

FOR THE YEAR ENDED 31 DECEMBER 2017

Opinion

We have audited the financial statements of Paternoster Resources Plc (the 'Company') for the year ended 31 December 2017 which comprise the income statement, the statement of comprehensive income, the Company statements of changes in equity, the Company statements of financial position, the 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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 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 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 opinion is not modified in this respect.

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 we addressed it
Accounting Estimates	
Are prepared on a reasonable and consistent basis and are disclosed adequately in the financial statements.	We have considered the basis of the accounting estimates you have applied when preparing the financial statements and consider your responses to audit questions with professional scepticism.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PATERNOSTER RESOURCES PLC
FOR THE YEAR ENDED 31 DECEMBER 2017

Related Parties	
We are required to consider if the disclosures made in the financial statements are complete and accurate and the processes for identifying related parties and related party transactions.	We have assessed the Company's procedures for identifying related parties and ensuring the completeness of the disclosures that are included in the audit planning pack.
Management override	
We are required to consider how management biases could affect the results of the company	We have considered the controls in place, remained alert for material and unusual items and tested a sample of journals to assess the risk.
Investments	
We consider the disclosure of the investment net book value, the realised and unrealised gains, the acquisitions and disposals.	We have performed a test of details through agreement to bank statements and the contracts, together with a review of the client calculations and valuations. We have tested valuations of the listed investments through agreement to London Stock Exchange prices at the year end.

Our application of materiality

Materiality for the Company financial statements as a whole was set at £ 75,000 (2016: £ 110,000).

This has been calculated as 3% of the benchmark of Gross Assets (2016: 3% of the benchmark of Gross Assets), which we have determined, in our professional judgment, to be one of the principal benchmarks within the financial statements relevant to members of the Company in assessing financial performance.

We report to the director's all corrected and uncorrected misstatements we identified through our audit with a value in excess of £ £3,750 (2016: £5,500), in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit is risk based and is designed to focus our efforts on the areas at greatest risk of material misstatement, aspects subject to significant management judgement as well as greatest complexity, risk and size.

The investments balance is highly material and two of the investments are unlisted. Additionally, profit/loss on the sale of investments is also highly material. As such testing was detailed, through agreement to bank statements, contracts and LSE prices, together with a review of the client calculations and valuations. Specifically, there is a high risk with regard to valuation, as part of the valuation relates to Elephant Oil Ltd and Eridge Capital Ltd, which are unquoted. The cost of these unquoted investments are subjective figures, determined by management.

We consider management override and related parties to be qualitatively material. Although it is not the responsibility of the auditor to discover fraud, clearly any instances of fraud which we detect are material to the users of the financial statements. We have tested manual and automated journal entries, with a focus on those journal entries at year end. In addition, as part of our audit procedures to address this fraud risk, we assessed the overall control environment and reviewed whether there had been any reported actual or alleged instances of fraudulent activity during the year. For Related Parties, we have inquired with the client as the relevant related parties. We have also assessed the Company's procedures regarding related parties.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PATERNOSTER RESOURCES PLC
FOR THE YEAR ENDED 31 DECEMBER 2017

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 company and its 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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 Auditors' 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.

Jonathan Bradley-Hoare (Senior statutory auditor)
for and on behalf of Welbeck Associates
Chartered Accountants and Statutory Auditor
London, United Kingdom

25 June 2018

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £	2016 £
CONTINUING OPERATIONS:			
Net (loss)/gain on investments	4	(811,467)	770,086
Investment income	5	11,934	15,090
TOTAL INCOME		(799,533)	785,176
Administrative expenses		(336,152)	(299,128)
(LOSS)/PROFIT BEFORE TAXATION		(1,135,685)	486,048
Taxation	10	–	–
(LOSS)/PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME		(1,135,685)	486,048
EARNINGS PER SHARE	11		
Basic and fully diluted (loss)/earnings per share		(0.112p)	0.051p

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £	2016 £
NON-CURRENT ASSETS			
Investments held for trading	12	**2,252,373**	2,949,517
		2,252,373	2,949,517
CURRENT ASSETS			
Trade and other receivables	13	**37,863**	29,142
Cash and cash equivalents	14	**211,795**	648,165
		249,658	677,307
TOTAL ASSETS		**2,502,031**	3,626,824
CURRENT LIABILITIES			
Trade and other payables	15	**53,262**	42,370
		53,262	42,370
NET ASSETS		**2,448,769**	3,584,454
EQUITY			
Share capital	16	**4,269,546**	4,269,546
Share premium account	16	**3,191,257**	3,191,257
Capital redemption reserve	17	**27,000**	27,000
Share option reserve	17	**73,150**	73,150
Retained losses		**(5,112,184)**	(3,976,499)
TOTAL EQUITY		**2,448,769**	3,584,454

These Financial Statements were approved by the Board of Directors on 25 June 2018 and were signed on its behalf by:

N Lee
Director

Company number: 269566

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital £	Share premium £	Other reserves (Note 17)	Retained losses £	Total equity £
BALANCE AT 1 JANUARY 2016	4,175,796	3,135,007	119,407	(4,481,804)	2,948,406
Profit for the year and total comprehensive income	–	–	–	486,048	486,048
Share issue	93,750	56,250	–	–	150,000
Transfer on cancellation of options	–	–	(19,257)	19,257	–
Transactions with owners	93,750	56,250	(19,257)	19,257	150,000
BALANCE AT 31 DECEMBER 2016	4,269,546	3,191,257	100,150	(3,976,499)	3,584,454
Loss for the year and total comprehensive expense	–	–	–	(1,135,685)	(1,135,685)
BALANCE AT 31 DECEMBER 2017	4,269,546	3,191,257	100,150	(5,112,184)	2,448,769

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £	2016 £
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax - continuing operations		(1,135,685)	486,048
Share based payment expense		-	-
Investment income		(11,934)	(15,090)
Net losses/(gains) on investments		811,467	(770,086)
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL		(336,152)	(299,128)
(Increase) in trade and other receivables		(8,721)	(16,296)
Increase/(decrease) in trade and other payables		10,892	(44,299)
NET CASH USED BY OPERATING ACTIVITIES		(333,981)	(359,723)
INVESTING ACTIVITIES			
Purchase of investments		(321,167)	(527,351)
Disposal of investments		206,844	1,055,579
Investment income received		11,934	15,090
NET CASH USED IN INVESTING ACTIVITIES		(102,389)	543,318
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(436,370)	183,595
Cash and cash equivalents at the beginning of the year		648,165	464,570
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	211,795	648,165

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1 GENERAL INFORMATION

Paternoster Resources plc is a public limited company incorporated in the United Kingdom. The shares of the Company are listed on the AIM stock exchange. The address of its registered office is 30 Percy Street, London W1T 2DB. The Company's principal activities are described in the Directors' Report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied throughout all periods presented in the financial statements.

As in prior periods, the Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The financial statements are presented in pounds sterling (£) which is the functional currency of the Company. The comparative figures are for the year ended 31 December 2016.

An overview of standards, amendments and interpretations to IFRSs issued but not yet effective, and which have not been adopted early by the Company are presented below under 'Statement of Compliance'.

GOING CONCERN

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. These estimates and assumptions are based upon management's knowledge and experience of the amounts, events or actions. Actual results may differ from such estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In certain circumstances, where fair value cannot be readily established, the Company is required to make judgements over carrying value impairment, and evaluate the size of any impairment required.

SHARE BASED PAYMENTS

The calculation of the fair value of equity-settled share based awards and the resulting charge to the statement of comprehensive income requires assumptions to be made regarding future events and market conditions. These assumptions include the future volatility of the Company's share price. These assumptions are then applied to a recognised valuation model in order to calculate the fair value of the awards.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company holds investments that have been designated as held for trading on initial recognition. Where practicable the Company determines the fair value of these financial instruments that are not quoted (Level 3), using the most recent bid price at which a transaction has been carried out. These techniques are significantly affected by certain key assumptions, such as market liquidity. Other valuation methodologies such as discounted cash flow analysis assess estimates of future cash flows and it is important to recognise that in that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately.

STATEMENT OF COMPLIANCE

The financial statements comply with IFRS as adopted by the European Union. The following new and revised Standards and Interpretations have been adopted in the current period by the Company for the first time and do not have a material impact on the group.

IFRS 12 - Disclosures of interests in other entities

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and not early adopted. None of these are expected to have a significant effect on the financial statements of the Company.

REVENUE RECOGNITION

INVESTMENT INCOME

Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income on an ex-dividend basis. Interest on fixed interest debt securities is recognised using the effective interest rate method. Bank deposit interest is recognised on an accruals basis.

CURRENT TAX

Current taxation is the taxation currently payable on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Temporary differences include those associated with shares in subsidiaries and joint ventures and are only not recognised if the Company controls the reversal of the difference and it is not expected for the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DEFERRED TAX

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the statement of financial position date. Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited to equity in which case the related deferred tax is also charged or credited directly to equity.

SEGMENTAL REPORTING

The accounting policy for identifying segments is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker, which is identified as the Board of Directors.

In identifying its operating segments, management generally follows the Company's service lines which represent the main products and services provided by the Company. The Directors believe that the Company's continuing investment operations comprise one segment.

FINANCIAL ASSETS

The Company's financial assets comprise investments held for trading, associated undertakings, cash and cash equivalents and loans and receivables, and are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

INVESTMENTS HELD FOR TRADING

All investments determined upon initial recognition as held at fair value through profit or loss were designated as investments held for trading. Investment transactions are accounted for on a trade date basis. Assets are de-recognised at the trade date of the disposal. Assets are sold at their fair value, which comprises the proceeds of sale less any transaction cost. The fair value of the financial instruments in the balance sheet is based on the quoted bid price at the balance sheet date, with no deduction for any estimated future selling cost. Unquoted investments are valued by the directors using primary valuation techniques such as recent transactions, last price and net asset value. Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the consolidated statement of comprehensive income as "Net gains on investments". Investments are initially measured at fair value plus incidental acquisition costs. Subsequently, they are measured at fair value in accordance with IAS 39. This is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

ASSOCIATED UNDERTAKINGS

Associated undertakings are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Company's investment portfolio are carried in the statement of financial position at fair value even though the Company may have significant influence over those companies. This treatment is permitted by IAS 28 "Investment in Associates", which requires investments held by a company as a venture capital provider to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the statement of comprehensive income in the period of the change. The Company has no interests in associates through which it carries on its business.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

LOANS AND RECEIVABLES

Loans and receivables from third parties are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

A provision for impairment is made when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. Impaired debts are derecognised when they are assessed as uncollectible.

FINANCIAL LIABILITIES

The Company's financial liabilities comprise trade payables. Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company becomes a party to the contractual provisions of the instruments.

TRADE PAYABLES

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

SHARE-BASED PAYMENTS

All share based payments are accounted for in accordance with IFRS 2 – "Share-based payments". The Company issues equity-settled share based payments in the form of share options to certain directors and employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Fair value is estimated using the Black-Scholes valuation model. The expected life used in the model has been adjusted, on the basis of management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to retained earnings.

DIVIDENDS

Dividend distributions payable to equity shareholders are included in "current financial liabilities" when the dividends are approved in general meeting prior to the statement of financial position date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EQUITY

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Capital redemption reserve" represents the nominal value of shares repurchased or redeemed by the Company.
- "Option reserve" represents the cumulative cost of share based payments.
- "Retained losses" represents retained losses.

3 SEGMENTAL INFORMATION

The Company is organised around business class and the results are reported to the Chief Operating Decision Maker according to this class. There is one continuing class of business, being the investment in the natural resources sector.

Given that there is only one continuing class of business, operating within the UK no further segmental information has been provided.

4 NET GAIN/(LOSS) ON INVESTMENTS

	2017	2016
	£	£
Net realised gains/(losses) on disposal of investments	**92,473**	468,239
Movement in fair value of investments	**(903,940)**	301,847
Net (loss)/gain on investments	**(811,467)**	770,086

5 INVESTMENT INCOME

	2017	2016
	£	£
Dividends from investments	–	412
Deposit interest receivable	**1,871**	–
Other interest receivable	**10,063**	14,678
	11,934	15,090

6 PROFIT/(LOSS) FOR THE YEAR

	2017 £	2016 £
Profit for the year has been arrived at after charging:		
Wages and salaries	**131,329**	141,227

AUDITOR'S REMUNERATION

During the year the Company obtained the following services from the Company's auditor:

	2017 £	2016 £
Fees payable to the Company's auditor for the audit of the parent company and the Company financial statements	**12,000**	12,000
Fees payable to the Company's auditor and its associates for other services:		
Other services relating to taxation	**2,100**	600
	14,100	12,600

7 DIRECTORS' EMOLUMENTS

	2017 £	2016 £
Aggregate emoluments	**120,000**	141,749
Social security costs	**11,329**	8,478
	131,329	150,227

Name of director	Fees £	Benefits £	Total 2017 £	Total 2016 £
N Lee	84,000	–	**84,000**	72,000
A van Dyke	36,000	–	**36,000**	20,333
G Haselden	–	–	–	8,500
M Lofgran	–	–	–	40,916
	120,00	_	**120,00**	141,749

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

8 EMPLOYEE INFORMATION

	2017 £	2016 £
Wages and salaries	**120,000**	141,749
Social security costs	**11,329**	8,478
	131,329	150,227

Average number of persons employed:

	2017 Number	2016 Number
Office and management	**2**	2

COMPENSATION OF KEY MANAGEMENT PERSONNEL

There are no key management personnel other than the Directors of the Company.

9 SHARE BASED PAYMENTS

EQUITY-SETTLED SHARE OPTION SCHEME

The Company operates share-based payment arrangements to remunerate directors and key employees in the form of a share option scheme. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

On 26 October 2011, Nicholas Lee was granted options to subscribe for 28,000,000 new ordinary shares in the Company at an exercise price of 0.32p per share. The options are exercisable for a period of ten years from the date of grant, with one third becoming exercisable on the first, second and third anniversaries of the date of grant respectively.

On 13 March 2012, Nicholas Lee was granted options to subscribe for 14,000,000 new ordinary shares in the Company at an exercise price of 0.48p per share. The options are exercisable for a period of ten years from the date of grant, with one third becoming exercisable on the first, second and third anniversaries of the date of grant respectively. The fair value of these options was determined using the Black-Scholes option pricing model and was £0.22p per option.

On 17 September 2014, Matt Lofgran was granted options to subscribe for 20,000,000 new ordinary shares in the Company at an exercise price of 0.26p per share. These options were cancelled in 2016.

All remaining options were cancelled subsequent to the year end.

9 SHARE BASED PAYMENTS (continued)

EQUITY-SETTLED SHARE OPTION SCHEME

The significant inputs to the model in respect of the options granted in 2014, 2012 and 2011 were as follows:

	2014	2012	2011
Grant date share price	0.26p	0.48p	0.32p
Exercise share price	0.26p	0.48p	0.32p
No. of share options	20,000,000	14,000,000	28,000,000
Risk free rate	2.5%	3%	3%
Expected volatility	50%	40%	40%
Option life	10 years	10 years	10 years
Calculated fair value per share	0.14p	0.22p	0.15p

The total share-based payment expense recognised in the income statement for the year ended 31 December 2017 in respect of the share options granted was £Nil (2016: £Nil).

Number of options at 1 Jan 2017	Granted in the year	Exercised in the year	Cancelled in the year	Number of options at 31 Dec 2017	Exercise price	Vesting Date	Expiry date
9,333,334	–	–	–	9,333,334	0.32p	26.10.2012	26.10.2021
4,666,667	–	–	–	4,666,667	0.48p	13.03.2013	13.03.2022
9,333,333	–	–	–	9,333,333	0.32p	26.10.2013	26.10.2021
4,666,667	–	–	–	4,666,667	0.48p	13.03.2014	13.03.2022
9,333,333	–	–	–	9,333,333	0.32p	26.10.2014	26.10.2021
4,666,667	–	–	–	4,666,666	0.48p	13.03.2015	13.03.2022
42,000,000	–	–	–	42,000,000	0.37p		

10 INCOME TAX EXPENSE

	2017	2016
	£	£
Current tax – continuing operations	–	–

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average rate applicable to profits of the Consolidated entities as follows:

	2017	2016
	£	£
Profit/(loss) before tax from continuing operations	**(1,135,685)**	486,048
Profit/(loss) before tax multiplied by rate of corporation tax in the UK of 19.25% (2016: 20%)	**(218,619)**	97,210
Expenses not deductible for tax purposes	**2,728**	3,034
Offset against tax losses brought forward	–	(100,244)
Unrelieved tax losses carried forward	**215,891**	–
Total tax	–	–

Unrelieved tax losses of £4,485,000 (2016: £3,366,000) remain available to offset against future taxable trading profits. No deferred tax asset has been recognised in respect of the losses as recoverability is uncertain.

11 EARNINGS PER SHARE

The basic earnings per share is based on the loss for the year divided by the weighted average number of shares in issue during the year. The weighted average number of ordinary shares for the year assumes that all shares have been included in the computation based on the weighted average number of days since issue.

	2017	2016
	£	£
Profit/(loss) attributable to equity holders of the Company:		
Profit/(loss) from continuing operations	(1,135,685)	486,048
Profit/(loss) for the year attributable to equity holders of the Company	(1,135,685)	486,048
Weighted average number of ordinary shares in issue for basic and fully diluted earnings*	1,016,607,956	959,230,907
EARNINGS/(LOSS) PER SHARE		
BASIC AND FULLY DILUTED:		
- Basic (loss)/earnings per share from continuing and total operations	(0.112p)	0.051p
- Fully diluted (loss)/earnings per share from continuing and total operations	(0.112p)	0.051p

*No adjustment to earnings per share for fully diluted earnings has been made as the exercise of options would be anti-dilutive.

12 INVESTMENTS HELD FOR TRADING

	2017	2016
	£	£
At 1 January – fair value	2,949,517	2,557,659
Acquisitions	321,167	677,351
Disposal proceeds	(206,844)	(1,055,579)
Net gain/(loss) on disposal of investments	92,473	468,239
Movement in fair value of investments	(903,940)	301,847
.At 31 December – fair value	2,252,373	2,949,517
Categorised as:		
Level 1 – Quoted investments	1,811,625	2,557,368
Level 2 – Unquoted investments	263,513	–
Level 3 – Unquoted investments	177,235	392,149
	2,252,373	2,949,517

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

12 INVESTMENTS HELD FOR TRADING (continued)

The table of investments sets out the fair value measurements using the IFRS 7 fair value hierarchy. Categorisation within the hierarchy has been determined on the basis of the lowest level of input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in active markets for identical assets.

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the company are explained in the accounting policy note, “Investments held for trading”.

LEVEL 2 FINANCIAL ASSETS

Level 2 financial assets comprise a convertible loan note valued by reference to its nominal value, and two equity investments whose shares were suspended at the year-end which have been valued at the bid price of the shares on lifting of the suspension subsequent to the year-end.

LEVEL 3 FINANCIAL ASSETS

Reconciliation of Level 3 fair value measurement of financial assets

	2017	2016
	£	£
Brought forward	**392,149**	947,221
Reclassified from Level 1	–	293,295
Reclassified to Level 1	–	(390,320)
Disposal proceeds	–	(170,698)
Loss on disposals	–	(154,095)
Movement in fair value	**(214,914)**	(133,254)
Carried forward	**177,235**	392,149

Level 3 valuation techniques used by the Company are explained on page 22 (Fair value of financial instruments)

In line with the investment strategy adopted by the Company, Nicholas Lee is on the boards of the following investee companies:

	%age holding	
	2017	2016
Pires Investments plc	**24.8%**	24.8%
MX Oil plc	**0.9%**	0.9%
Eridge Capital Limited	**7.7%**	7.7%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

13 TRADE AND OTHER RECEIVABLES

	2017	2016
	£	£
Other receivables	**20,816**	20,894
Prepayments and accrued income	**17,047**	8,248
	37,863	29,142

The Directors consider that the carrying amount of other receivables is approximately equal to their fair value.

14 CASH AND CASH EQUIVALENTS

	2017	2016
	£	£
Cash and cash equivalents	**211,795**	648,165

The Directors consider the carrying amount of cash and cash equivalents approximates to their fair value.

15 TRADE AND OTHER PAYABLES

	2017	2016
	£	£
Trade payables	**22,067**	16,920
Accrued expenses	**31,195**	25,450
	53,262	42,370

The Directors consider that the carrying amount of trade payables approximates to their fair value.

16 SHARE CAPITAL

	Number of shares		Share capital		Share
	Deferred	Ordinary	Deferred	Ordinary	premium
			£	£	£
ISSUED AND FULLY PAID:					
At 1 January 2016:					
Deferred shares of 9.9p each	32,857,956		3,252,938		
Ordinary shares of 0.1p each		922,857,956		922,858	3,135,007
At 1 January 2016	32,857,956	922,857,956	3,252,938	922,858	3,135,007
Issue of shares		93,750,000		93,750	56,250
At 31 December 2016 and 2017	32,857,956	1,016,607,956	3,252,938	1,016,608	3,191,257

17 OTHER RESERVES

	Capital redemption reserve £	Share option reserve £	Total Other reserves £
Balance at 1 January 2016	27,000	92,407	119,407
Transfer to Profit and loss on cancellation of options	–	(19,257)	(19,257)
Balance at 31 December 2016 and 2017	27,000	73,150	100,150

18 RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is coordinated by the Board of Directors and focuses on actively securing the Company's short to medium term cash flows by minimising the exposure to financial markets.

The main risks the Company is exposed to through its financial instruments are credit risk, foreign currency risk, liquidity risk and market price risk.

CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it continues to provide returns and benefits for shareholders;
- to support the Company's growth; and
- to provide capital for the purpose of strengthening the Company's risk management capability.

The Company actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Company and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Management regards total equity as capital and reserves, for capital management purposes. The Company is not subject to externally imposed capital requirements.

CREDIT RISK

The Company's financial instruments that are subject to credit risk are cash and cash equivalents and loans and receivables. The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable financial institutions. The credit risk for loans and receivables is mainly in respect of short term loans, made on market terms, which are monitored regularly by the Board.

The Company's maximum exposure to credit risk is £232,611 (2016: £728,165) comprising cash and cash equivalents and loans and receivables.

The ageing profile of trade and other receivables was:

	2017 Total book value £	2016 Total book value £
Current	**20,816**	20,894
Overdue for less than one year	–	–
	20,816	20,894

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18 RISK MANAGEMENT OBJECTIVES AND POLICIES continued

LIQUIDITY RISK

Liquidity risk arises from the possibility that the Company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Company manages this risk through maintaining a positive cash balance and controlling expenses and commitments. The Directors are confident that adequate resources exist to finance current operations.

FOREIGN CURRENCY RISK

The Directors do not consider the Company has significant exposure to movements in foreign currency in respect of its monetary assets.

MARKET PRICE RISK

The Company's exposure to market price risk mainly arises from potential movements in the fair value of its investments. The Company manages this price risk within its long-term investment strategy to manage a diversified exposure to the market. If each of the Company's equity investments were to experience a rise or fall of 10% in their fair value, this would result in the Company's net asset value and statement of comprehensive income increasing or decreasing by £225,000 (2016: £295,000).

19 FINANCIAL INSTRUMENTS

The Company uses financial instruments, other than derivatives, comprising cash to provide funding for the Company's operations.

CATEGORIES OF FINANCIAL INSTRUMENTS

The IAS 39 categories of financial asset included in the statement of financial position and the headings in which they are included are as follows:

	2017	2016
	£	£
FINANCIAL ASSETS:		
Cash and cash equivalents	**211,795**	648,165
Loans and receivables	**20,816**	20,894
Investments held for trading	**2,252,373**	2,949,517

FINANCIAL LIABILITIES AT AMORTISED COST:

The IAS 39 categories of financial liabilities included in the statement of financial position and the headings in which they are included are as follows:

	2017	2016
	£	£
Trade and other payables	**22,067**	16,920

20 RELATED PARTY TRANSACTIONS

The compensation payable to Key Management personnel comprised £120,000 (2016: £141,749) paid by the Company to the Directors in respect of services to the Company. Full details of the compensation for each Director are provided in Note 7.

Nicholas Lee's directorships of companies in which Paternoster has an investment are detailed in Note 12.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

21 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities or capital commitments at 31 December 2017 or 31 December 2016.

22 POST YEAR END EVENTS

On 18 January 2018, the Company announced that it had entered into an arrangement with RiverFort Global Capital Ltd ("RiverFort"), the specialist provider of capital to junior companies whereby Paternoster would have the opportunity to invest in transactions arranged by RiverFort alongside other co-investors. At the same time, the Company raised £850,000 from both private and institutional investors as a result of a placing of 772,727,270 new ordinary shares at 0.11p per share.

On 20 April 2018, the Board announced that it had agreed to invest around £250,000 in a portfolio of income-yielding investments arranged by RiverFort which comprise investments in the form of both senior and convertible debt.

On 8 June 2018, Paternoster held a general meeting both to increase its share allotment authorities and to approve the entering into of an investment adviser agreement with RiverFort. All resolutions were passed.

23 ULTIMATE CONTROLLING PARTY

The Directors do not consider there to be a single ultimate controlling party.

Perivan Financial Print 250579