

Gapco Uganda Limited

Independent Auditors' Report

TO THE MEMBERS OF GAPCO UGANDA LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of GAPCO Uganda Limited (the Company), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Company at 31 December 2016 and of its financial position and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Uganda Companies Act 2012.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibility 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 Institute of Certified Public Accountants of Uganda Code of ethics (ICPAU Code of Ethics), and other ethical requirements that are relevant to our audit of the financial statements in Uganda. The ICPAU code is consistent with the International Ethics Standards Board for Accountants Code for Ethics for Professional Accountants (Part A and B).

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.

Directors' responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Uganda Companies Act 2012 and for such internal control as the directors determines 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, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Independent Auditors' Report (Continued)

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

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 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.

Report on Other Legal and Regulatory Requirements

The Uganda Companies Act, 2012 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- The Company's statement of financial position (balance sheet) and statement of comprehensive income (profit and loss) are in agreement with the books of account.

Certified Public Accountants (Uganda)

21st March, 2017

Kampala

Statement of Profit or Loss and other Comprehensive Income for the year ended 31 December, 2016

	Notes	2016 Ushs'000	2015 Ushs'000
Turnover	5	135,914,343	203,241,373
Cost Of Sales	6	(128,057,981)	(186,480,226)
Gross Profit		7,856,362	16,761,147
Other Income	7	2,500,656	4,096,434
Selling And Distribution Expenses	8	(6,491)	(10,139)
Administrative Expenses	9	(5,829,149)	(5,247,453)
Other Operating Expenses	10	(3,800,227)	(2,865,230)
Finance Income	11	3,723,529	8,518,077
Profit Before Taxation	13	4,444,680	21,252,836
Taxation Charge	14(a)	(371,092)	(6,297,107)
Profit For The Year		4,073,588	14,955,729
Other Comprehensive Income		-	-
Total Comprehensive Income		4,073,588	14,955,729
Earnings Per Share		9.31	34.18

Statement of Financial Position as at 31 December, 2016

	Note	2016 Ushs'000	2015 Ushs'000
ASSETS			
Non-current assets			
Property and equipment	15	22,105,377	22,908,607
Operating lease prepayments	16	1,107,484	1,144,396
		<u>23,212,861</u>	<u>24,053,003</u>
Current assets			
Inventories	17	4,328,668	6,184,843
Trade and other receivables	18	959,696	1,660,617
Due from related parties	19 (a)	12,546,095	55,478,800
Tax receivable	23	626,330	-
Bank and cash balances	20	50,052,386	3,892,954
		<u>68,513,175</u>	<u>67,217,214</u>
Total assets		<u><u>91,726,036</u></u>	<u><u>91,270,217</u></u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	8,750,100	8,750,100
Revaluation reserve		3,547,702	3,811,537
Retained earnings		67,609,444	63,272,021
Shareholders' funds		<u>79,907,246</u>	<u>75,833,658</u>
Non-current liabilities			
Deferred taxation liability	14(d)	3,433,973	5,683,103
Gratuity obligation	23	688,955	664,295
		<u>4,122,928</u>	<u>6,347,398</u>
Current liabilities			
Trade and other payables	22	5,626,546	6,058,796
Due to related parties	19(b)	2,069,316	2,966,482
Income tax payable	14(c)	-	63,883
		<u>7,695,862</u>	<u>9,089,161</u>
Total equity and liabilities		<u><u>91,726,036</u></u>	<u><u>91,270,217</u></u>

The financial statements were authorized and approved for issue by the board of directors on 10th March, 2017 and signed on its behalf by:

Director

Director

Statement of Changes in Equity for the year ended 31 December, 2016

	Share Capital UShs '000	Revaluation Reserve UShs '000	Retained earnings UShs '000	Total UShs '000
At 1 January 2015	8,750,100	4,075,372	48,052,457	60,877,929
Transfer of excess depreciation on property and equipment	-	(376,907)	376,907	-
Deferred tax on excess depreciation on property and equipment	-	113,072	(113,072)	-
Profit for the year	-	-	14,955,729	14,955,729
At 31 December 2015	<u>8,750,100</u>	<u>3,811,537</u>	<u>63,272,021</u>	<u>75,833,658</u>
At 1 January 2016	8,750,100	3,811,537	63,272,021	75,833,658
Transfer of excess depreciation on property and equipment	-	(376,907)	376,907	-
Deferred tax on excess depreciation on property and equipment	-	113,072	(113,072)	-
Profit for the year	-	-	4,073,588	4,073,588
At 31 December 2016	<u>8,750,100</u>	<u>3,547,702</u>	<u>67,609,444</u>	<u>79,907,246</u>

Statement of Cash Flows for the year ended 31 December, 2016

	Notes	2016 UShs '000	2015 UShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		4,444,680	21,252,836
Adjustments for:			
Depreciation	15	1,826,655	1,336,147
Amortization	16	36,912	36,913
Operating cash flows before movement in working capital		6,308,247	22,625,896
Decrease / (increase) in inventory		1,856,175	(3,015,705)
Decrease in trade and other receivables		700,921	3,214,514
Decrease in trade and other payables		(432,250)	(1,016,060)
Net movement in related party balances		42,035,539	(13,641,866)
Increase in retirement benefit obligations		24,660	37,130
Cash generated from operations		50,493,292	8,203,909
Prior year under provision		-	(799,236)
Current year taxation paid		(3,310,435)	(5,878,175)
Net cash generated from operations		47,182,857	1,526,498
INVESTING ACTIVITIES			
Purchase of property and equipment		(1,023,425)	(168,957)
Net cash used in investing activities		(1,023,425)	(168,957)
INCREASE IN CASH AND CASH EQUIVALENTS			
		46,159,432	1,357,541
CASH AND CASH EQUIVALENTS AT 1 JANUARY			
		3,892,954	2,535,413
CASH AND CASH EQUIVALENTS AT 31 DECEMBER			
		50,052,386	3,892,954
REPRESENTED BY:			
Bank and cash balances		50,052,386	3,892,954

Notes to the Financial Statements for the year ended 31 December, 2016

1 REPORTING ENTITY

GAPCO Uganda Limited is a limited liability company incorporated in accordance with the laws and regulations of Uganda. The company is wholly owned by Gulf Africa Petroleum Corporation, a company incorporated in Mauritius.

For purposes of the Ugandan Companies Act, the balance sheet is equivalent to the statement of financial position while the profit and loss account is represented by the statement of profit or loss and other comprehensive income.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS's)

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016.

2.1 Amendments to IFRS's and the interpretation that are mandatorily effective for the year ended 31 December 2016

The following amendments to IFRSs became mandatorily effective in the current year.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value.

The amendments further clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Moreover, the amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries.

Lastly, clarification is also made that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by IFRS 12 Disclosures of Interests in Other Entities.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue. For example, an entity could acquire a concession to explore and extract gold from a gold mine. The expiry of the contract might be based on a fixed amount of total revenue to be generated from the extraction (for example, a contract may allow the extraction of gold from the mine until total cumulative revenue from the sale of gold reaches CU2 billion) and not be based on time or on the amount of gold extracted. Provided that the contract specifies a fixed total amount of revenue to be generated on which amortisation is to be determined, the revenue that is to be generated might be an appropriate basis for amortising the intangible asset; or
- b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to IAS 1 Disclosure Initiative

The amendments were a response to comments that there were difficulties in applying the concept of materiality in practice as the wording of some of the requirements in IAS 1 had in some cases been read to prevent the use of judgment.

Notes to the Financial Statements for the year ended 31 December, 2016

2.2 Amendments to IFRS's and the interpretation that are in issue but not yet effective for the year ended 31 December 2016 but not effected (continued).

Annual Improvements to IFRSs 2012 – 2014 Cycle

The Annual Improvements include amendments to a number of IFRSs, which have been summarised below.

Standard	Subject of amendment	Details
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Changes in methods of disposal	The amendments introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held for distribution accounting is discontinued.
IFRS 7 <i>Financial Instruments: Disclosures</i> (with consequential amendments to IFRS 1)	Servicing contracts Applicability of the amendments to IFRS 7 on offsetting disclosure to condensed interim financial statements	The amendments (i) provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets; and (ii) clarify that the offsetting disclosures are not explicitly required for all interim periods. However, the disclosures may need to be included in the condensed interim financial statements to company with IAS 34 <i>Interim Financial Reporting</i> .

IFRS 9 Financial Instruments (as revised in 2014)

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value under IFRS 9.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

Phase 2: Impairment of financial assets

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Notes to the Financial Statements for the year ended 31 December, 2016

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The work on macro hedging by the IASB is still at a preliminary stage – a discussion paper was issued in April 2014 to gather preliminary views and direction from constituents with a comment period which ended in October 2014. The project is still under analysis at the time of writing.

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.

If an entity elects to apply IFRS 9 early, it must apply all of the requirements in IFRS 9 at the same time, except for those relating to:

- a. the presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may early apply without applying the other requirements in IFRS 9; and
- b. hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

IFRS 9 contains specific transitional provisions for:

- i) classification and measurement of financial assets;
- ii) impairment of financial assets; and
- iii) hedge accounting.

The directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on the amounts reported and disclosures made in the financial statements.

However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Company performs a detailed review.

IFRS 15 Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognise 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. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Notes to the Financial Statements for the year ended 31 December, 2016

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Company performs a detailed review.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the current lease Standard and Interpretations including IAS 17 Leases, IFRIC 4, SIC-15 Operating Leases – Incentives, SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease upon its effective date.

In addition, IFRS 16 also provides guidance on the accounting for sale and leaseback transactions. Extensive disclosures are also required by the new Standard.

Due to the prominence of leasing transactions in the economy, many entities across different industries will be affected by IFRS 16. In some cases, the changes may be substantial and may require changes to the existing IT systems and internal controls. Entities should consider the nature and extent of these changes

3 SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The company is incorporated in Uganda under the Uganda Companies Act, 2012 and is involved in the marketing and trade of petroleum products.

For purposes of the Uganda Companies Act, 2012 ("the Act"), the balance sheet is equivalent to the statement of financial position while the profit and loss account is represented by the statement of profit or loss and other comprehensive income and have been prepared in accordance with the Act and International Financial Reporting Standards ("IFRS").

BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis except for the revaluation of certain property and equipment and the carrying of investment property at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Uganda Shillings (Ushs), which is also the company's functional currency. Except as indicated, financial information presented in Uganda Shillings has been rounded to the nearest thousand.

REVENUE RECOGNITION

Sales are recognized upon delivery of products and customer acceptance if any, net of sales taxes

PROPERTY AND EQUIPMENT

Property and equipment is stated at revalued amount, excluding the costs of day to day serving, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met.

Land and buildings are measured at fair value less depreciation on buildings and impairment charged subsequent to the date of the revaluation.

Depreciation is calculated on the straight line method, at annual rates estimated to write off carrying values of the assets over their expected useful lives.

The annual depreciation rates in use are:

Buildings	4%
Plant and machinery	4 % -20%
Motor vehicles	12.5% - 20%
Furniture, fittings, and equipment	5%

Notes to the Financial Statements for the year ended 31 December, 2016

Computer equipment	5% - 16.67%
Leasehold improvements	over the period of the lease

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists or when annual impairment testing for an asset is required, the company estimates the assets recordable amount. An asset's recoverable amount is the higher of an assets cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or companies of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and it is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost of sell, an appropriate valuation model is used.

CAPITAL WORK IN PROGRESS

Assets in the course of construction (capital-work-in-progress) are not depreciated. Upon completion of the project the accumulated cost is transferred to an appropriate asset category where it is depreciated according to the Property and Equipment policy set out above.

LEASES

Leases entered into by the company are all operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease or other more reasonable basis.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currency during the year are converted into Uganda shillings at rates ruling at the transaction dates. Monetary assets and liabilities at the statement of financial position date, which are denominated in foreign currencies are translated into Uganda Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit and loss account.

TRADE RECEIVABLES

Trade receivables are non-derivative financial assets with fixed or determinable payments that are no quoted in an active market. After initial measurement receivables are carried at cost less any allowance for impairment.

A provision for impairment is made where there is objective evidence (such as the probability of insolvency for significant financial difficulties of the debtor) that the company will not be able to collect all of the amounts due under the original terms of the invoice.

The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

INTEREST BEARING LOANS AND BORROWINGS

All loans and borrowings are initially recognized at fair value less directly attributable transaction costs, and have not been

Notes to the Financial Statements for the year ended 31 December, 2016

designated as at fair value through profit or loss. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

DE-RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a company of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- The company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

TAXATION

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences in the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

Notes to the Financial Statements for the year ended 31 December, 2016

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be fully utilized.

Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exist to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

RETIREMENT BENEFIT OBLIGATIONS

The Company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act, 1985. The Company's obligation under the scheme are limited to specific contributions legislated from time to time and are currently 10% of the employees gross salary.

The Company's contributions to the scheme are charged to the profit and loss in the year in which they are made.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand, bank overdrafts and short-term deposits with an original maturity of three months or less.

INVENTORIES

Inventories comprise petroleum products and are stated at the lower of cost and net realizable value. Cost is determined using the average cost. (The previous year's accounts indicate first in first out (FIFO), however the entity follows an average cost policy) incorrectly cost method. Net realizable value is the estimated selling price in the ordinary course of business less any cost to sale. Specific provision is made for slow moving, obsolete and defective inventories.

PROVISIONS

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursed is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss net of any reimbursement.

4 CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

The preparation of the Company's financial statements requires management to make judgments, estimates and assumption that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Notes to the Financial Statements for the year ended 31 December, 2016

In the process of applying the Company's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the company's financial statements.

i) **Taxes**

The Company is subject to income and capital gains tax under the Uganda tax laws. Significant judgment is required in determining the total provision for current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain. The Company recognizes liabilities for current based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made. Deferred tax assets and liabilities are recognized on a net basis to the extent they are relating to the same fiscal unity and fall due in approximately the same period.

ii) **Bad and doubtful debts**

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

iii) **Impairment of financial assets**

The Company assesses whether there are any indicators of impairment for all financial assets at each reporting date. Other financial assets are tested for impairment whenever there are indicators that carrying amounts may not be recoverable.

	2016 Ushs' 000	2015 Ushs' 000
5		
TURNOVER		
Sale of petroleum products	<u>135,914,343</u>	<u>203,241,373</u>
6		
COST OF SALES		
Cost of inventory sold	125,908,508	185,102,683
Direct costs	<u>2,149,473</u>	<u>1,377,543</u>
	<u>128,057,981</u>	<u>186,480,226</u>
7		
OTHER INCOME		
Interest income (related parties)	1,856,773	2,470,288
Reversal of provisions	271,923	1,416,244
Interest income (current account)	269,868	61,590
Miscellaneous income	102,092	141,911
Bad debts recovery	-	6,401
	<u>2,500,656</u>	<u>4,096,434</u>
8		
SELLING AND DISTRIBUTION EXPENSES		
Sales promotion expenses	5,746	5,615
Advertising expenses	<u>745</u>	<u>4,524</u>
	<u>6,491</u>	<u>10,139</u>

Notes to the Financial Statements for the year ended 31 December, 2016

	2016 Ushs' 000	2015 Ushs' 000
9 ADMINISTRATIVE EXPENSES		
Salaries and wages (note 12)	3,390,919	2,373,089
Legal and professional fees	1,319,858	1,725,010
Other staff expenses (note 12)	425,264	373,575
Travelling and entertainment	277,372	271,534
Audit fees	132,981	99,021
Postages and telephones	121,952	132,007
Staff medical and welfare	88,486	98,533
Printing and stationery	26,128	21,296
Miscellaneous expenses	22,330	57,757
Bank charges	12,593	39,615
Subscriptions	9,066	54,016
Donations and fines	2,200	2,000
	<u>5,829,149</u>	<u>5,247,453</u>
10 OTHER OPERATING EXPENSES		
Depreciation & amortization	1,863,567	1,373,060
Repairs and maintenance	627,710	260,208
Rent and rates	535,866	780,425
Insurance	272,887	183,426
Licenses	257,860	67,608
Electricity and water	142,807	130,236
Security expenses	99,530	70,267
	<u>3,800,227</u>	<u>2,865,230</u>
11 FINANCE INCOME		
Realised foreign exchange differences	(7,317,986)	(5,735,227)
Unrealised foreign exchange difference	3,594,457	(2,782,850)
	<u>(3,723,529)</u>	<u>(8,518,077)</u>
12 STAFF COSTS		
Salaries and wages	3,222,470	2,188,951
NSSF	126,209	89,223
Increase in retirement benefit obligation (note 23)	42,240	94,915
Total salaries and wages	3,390,919	2,373,089
Other staff expenses	425,264	373,575
Staff medical and welfare	88,486	98,533
	<u>3,904,669</u>	<u>2,845,197</u>
13 PROFIT BEFORE TAXATION		
The profit before taxation is arrived at after charging:		
Audit fees	132,981	99,021
Depreciation & amortization	1,863,567	1,373,060
Staff costs	3,904,669	2,845,197

Notes to the Financial Statements for the year ended 31 December, 2016

		2016	2015
		Ushs' 000	Ushs' 000
14	TAXATION		
a)	Taxation charge		
	Current tax	2,770,594	5,801,329
	Deferred taxation (credit) / charge – current year	(2,249,130)	587,514
	Deferred taxation credit – prior years	-	(91,736)
	Tax adjustment – prior years	(150,372)	-
		<u>371,092</u>	<u>6,297,107</u>
b)	Reconciliation of tax credit		
	Accounting profit before taxation	<u>4,444,680</u>	<u>21,252,836</u>
	Taxation charge at the applicable rate of 30%	1,333,404	6,375,851
	Tax effect of non-deductible items	(962,312)	12,992
	Deferred taxation charge – prior years	-	(91,736)
		<u>371,092</u>	<u>6,297,107</u>
c)	Corporate tax (receivable) / payable		
	At 1 January	63,883	939,965
	Prior year under provision	(150,372)	(91,736)
	Charge for the year	2,770,594	5,801,329
	Tax arrears paid	-	(707,500)
	Paid during the year	(3,310,435)	(5,878,175)
	At 31 December	<u>(626,330)</u>	<u>63,883</u>
d)	Deferred income tax liability		
	Deferred income taxes are calculated under the liability method using the applicable tax rate of 30%. The deferred income tax liability comprises		
		2016	2015
		Ushs' 000	Ushs' 000
	Deferred tax liability:		
	Accumulated capital allowances	3,198,554	3,414,020
	Deferred tax on revaluation surplus	1,520,443	1,633,516
	Un-realized exchange loss	-	885,000
		<u>4,718,997</u>	<u>5,932,536</u>
	Deferred tax assets		
	Un-realized exchange gain	(1,078,337)	(50,145)
	Gratuity provision	(206,687)	(199,288)
		<u>(1,285,024)</u>	<u>(249,433)</u>
		<u>3,433,973</u>	<u>5,683,103</u>
c)	The movement in the deferred tax account:		
	At 1 January	5,683,103	5,187,325
	Income statement (credit) / charge (note 14(a))	(2,249,130)	495,778
	At 31 December	<u>3,433,973</u>	<u>5,683,103</u>

Notes to the Financial Statements for the year ended 31 December, 2016

15 PROPERTY, PLANT AND EQUIPMENT

	Lease Buildings	Motor Vehicles	Plant Machinery and Computers	Furniture Fittings and Equipment	Capital work in Progress	TOTAL
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
COST/ REVALUATION						
At 1 January 2015	8,905,918	672,004	17,915,738	733,663	1,418,381	29,645,704
Additions	-	-	11,052	4,340	153,565	168,958
Transfers	62,276	-	416,419	-	(478,695)	-
At 31 December 2015	8,968,194	672,004	18,343,209	738,003	1,093,251	29,814,662
At 1 January 2016	8,968,194	672,004	18,343,209	738,003	1,093,251	29,814,662
Additions	-	-	1,100	4,472	1,017,853	1,023,425.0
Transfer from capital work in progress	1,077,953	-	781,423	-	(1,859,376)	-
At 31 December 2016	10,046,147	672,004	19,125,732	742,475	251,728	30,838,086
DEPRECIATION						
At 1 January 2015	1,136,010	580,609	3,522,878	330,410	-	5,569,907
Charge for the year	338,767	20,620	975,105	1,655	-	1,336,147
At 31 DECEMBER 2015	1,474,777	601,229	4,497,983	332,065	-	6,906,054
At 1 January 2016	1,474,777	601,229	4,497,983	332,065	-	6,906,054
Charge for the year	453,034	14,750	1,357,014	1,857	-	1,826,655
At 31 December 2016	1,927,811	615,979	5,854,997	333,922	-	8,732,709
NET BOOK VALUE						
At 31 December 2016	8,118,336	56,025	13,270,735	408,553	251,728	22,105,377
At 31 December 2015	7,493,417	70,775	13,845,226	405,938	1,093,251	22,908,607

Capital Work in Progress relates to accumulated costs of developing company owned petrol stations in various strategic locations of Uganda, as part of management's strategic plan to improve the company's distribution network. All property, plant and equipment was last revalued in 2011. None of the assets above were pledged as security.

	2016 Ushs' 000	2015 Ushs' 000
16 OPERATING LEASE PREPAYMENTS		
COST		
At 1 January & 31 December	1,818,042	1,818,042
AMORTIZATION		
At 1 January	673,646	636,733
Charge for the year	36,912	36,913
At 31 December	710,558	673,646
NET BOOK VALUE	1,107,484	1,144,396

Notes to the Financial Statements for the year ended 31 December, 2016

	2016 Ushs' 000	2015 Ushs' 000
17 INVENTORIES		
Material and supplies	235,513	529,845
Fuel and lubricant stocks	3,688,947	3,911,077
Goods in transit	404,208	1,743,921
	<u>4,328,668</u>	<u>6,184,843</u>

None of the inventory above were pledged as security.

18 TRADE AND OTHER RECEIVABLES		
Trade receivables	558	1,728
	<u>558</u>	<u>1,728</u>
Prepayments and deferred charges	959,138	1,658,889
	<u>959,696</u>	<u>1,660,617</u>

The carrying value of the above short term receivables is approximately their fair values.

Trade receivables which are less than three months are not considered impaired. The other classes within trade and other receivables do not contain impaired assets. In the opinion of the directors, the carrying amounts of trade and other receivables approximate to their fair value.

The aging analysis of the trade and other receivables is as summarized below.

	0 - 3 month Ushs'000	3 - 12 months Ushs'000	Over 1 year Ushs'000	Total Ushs'000
At 31 December 2016				
Trade receivables	558	-	-	558
Prepayments and deferred charges	959,138	-	-	959,138
	<u>959,696</u>	<u>-</u>	<u>-</u>	<u>959,696</u>
At 31 December 2015				
Trade receivables	1,728	-	-	1,728
Prepayments and deferred charges	1,658,889	-	-	1,658,889
	<u>1,660,617</u>	<u>-</u>	<u>-</u>	<u>1,660,617</u>

19 RELATED PARTY BALANCES AND TRANSACTIONS

	2016 Ushs' 000	2015 Ushs' 000
a) Amounts due from related parties		
GAPCO Tanzania Limited - Loan	12,546,095	55,478,800
	<u>12,546,095</u>	<u>55,478,800</u>

The loan amounts due from GAPCO Tanzania Limited are interest bearing loans provided by GAPCO Uganda Limited to GAPCO Tanzania Limited at an interest rate of 4.50% per annum.

Notes to the Financial Statements for the year ended 31 December, 2016

19 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)	2016 Ushs'000	2015 Ushs'000
b) Amounts due to related parties		
GAPCO Kenya Limited	1,835,874	1,850,401
Reliance Corporate IT Park Limited	120,955	450,752
Reliance Industries Limited	103,269	454,813
Reliance Petro Marketing Ltd.	9,218	39,565
GAPCO Tanzania Limited	-	170,952
	<u>2,069,316</u>	<u>2,966,482</u>
The amounts due to the related parties arise from normal business operations, are at arm's length and attract no interest.		
c) Related party transactions		
The transactions during the year included;		
	2016 Ushs'000	2015 Ushs'000
<i>Purchases</i>		
GAPCO Kenya Limited	64,051,332	111,779,851
GAPCO Tanzania Limited	943,838	1,298,896
<i>Management consultancy services</i>		
Reliance Industries Limited	516,411	505,349
<i>Business Support / IT support services</i>		
Reliance Corporate IT Park Ltd	518,050	500,836
<i>Lubricant license fee</i>		
Reliance Petro Marketing Ltd.	48,642	49,998
<i>Interest earned on related party loan</i>		
GAPCO Kenya Limited	-	1,040,510
GAPCO Tanzania Limited	1,856,773	1,429,778
	<u>297,733</u>	<u>267,359</u>
d) Key management compensations		
Directors' remuneration	<u>297,733</u>	<u>267,359</u>
20 BANK AND CASH BALANCES		
Bank balance	50,049,622	3,890,711
Cash balance	2,764	2,243
	<u>50,052,386</u>	<u>3,892,954</u>
21 SHARE CAPITAL		
Authorized, share capital		
437,507.5 (2015: 437,507.5) ordinary shares of Ushs 20,000 each.	<u>8,750,150</u>	<u>8,750,150</u>
Issued and fully paid		
437,505 (2015: 437,505) shares paid up ordinary shares of Ushs 20,000 each.	<u>8,750,100</u>	<u>8,750,100</u>

Notes to the Financial Statements for the year ended 31 December, 2016

22 TRADE AND OTHER PAYABLES

Trade payables	2,039,584	1,879,114
Other payables and accruals	3,586,962	4,179,682
	<u>5,626,546</u>	<u>6,058,796</u>

In the opinion of the directors, the carrying amounts of the trade and other payables approximate their fair value. The maturity analysis of the trade and other payables is as summarized below.

	0 - 3 month Ushs'000	3 - 12 months Ushs'000	Over 1 year Ushs'000	Total Ushs'000
At 31 December 2016				
Trade payables	2,039,584	-	-	2,039,584
Other payables and accruals	3,586,962	-	-	3,586,962
	<u>5,626,546</u>	<u>-</u>	<u>-</u>	<u>5,626,546</u>
At 31 December 2015				
Trade payables	1,879,114	-	-	1,879,114
Other payables and accruals	4,179,682	-	-	4,179,682
	<u>6,058,796</u>	<u>-</u>	<u>-</u>	<u>6,058,796</u>

	2016 Ushs'000	2015 Ushs'000
23 GRATUITY PAYABLE		
At 1 January	664,295	627,165
Less: amounts utilised	-	(57,785)
Increase in provision (charge to profit or loss)	24,660	94,915
At 31 December	<u>688,955</u>	<u>664,295</u>

The company maintains a scheme for its staff which is paid out to staff at the point of separation. The provision made is based on one's gross salary and the period of service.

24 CONTINGENT LIABILITIES

The company is a defendant in various legal actions. In the opinion of the directors, after taking appropriate legal advice, the outcome of such actions may rise in contingent liabilities not exceeding Ushs 7.2 billion (2015: Ushs 9.3 billion).

Reliance Industries Limited (RIL) through its wholly owned subsidiary has executed agreement with TOTAL on May 30, 2016 for the sale of its entire interest in the Mauritius – incorporated Gulf Africa Petroleum Corporation (Gapco). The proposed transaction is subject to regulatory approvals and other closing conditions. The transaction will be accounted for including for the legal and regulatory implications, upon its consummation.

Having regard to a review of the circumstances surrounding the litigation and legal advice received, the directors are of the strong view that the contingent liabilities indicated above will not give raise to liabilities in the future.

25 FINANCIAL RISK MANAGEMENT

The company has exposure to the following risks from its use of financial instruments;

- Credit Risk
- Liquidity Risk
- Foreign Exchange Risk

Notes to the Financial Statements for the year ended 31 December, 2016

The company's business activities cover the sale of petroleum products (both retail and wholesale), their marketing, trading, storage and distribution. Management endeavors at all times to minimize risks. Management has put in place elaborate policies in all its functions as a control against risk exposure. These policies are spelt out in the finance policy, HR and credit policy with related controls aimed at minimizing risk.

25 FINANCIAL RISK MANAGEMENT (CONTINUED)

The company is exposed to various risks, including credit risk, liquidity risk and foreign exchange risk. The company's risk management strategy is based on a clear understanding of various risks, disciplined risks assessment procedures and continuous monitoring.

The policies and procedures established for this purpose are continuously benchmarked with the industry best practices. The finance, maintenance, IT, analytical and production functions are supported by local management as well as group management using a comprehensive range of qualitative and quantitative tools. Management is responsible for the assessment, management and mitigation of risk in the company.

The financial management objectives and policies are as outlined below:

(a) Credit risk

The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company's credit risk is primarily attributable to its trade and other receivables and amounts due from related parties, estimated by the company's finance departments based on prior experience, existing financial and economic factors faced by the debtor and the exit options available.

The credit risk on liquid funds with financial institutions is also low, because the institutions are banks with high credit-ratings. Maximum exposure to credit risk before collateral held or other credit enhancements

The maximum exposure to credit risk represents a worst case scenario of credit risk exposure to the company at the comparative end of reporting periods, without taking account of any collateral held or other credit enhancements attached. For assets carried on the statement of financial position, this exposure is based on net carrying amounts as reported.

Collateral

The company does not hold any collateral for trade debtors. The amount that best represents the company's maximum exposure to credit as at 31 December 2016 is made up as follows:

	Total Ushs'000	Performing Ushs'00	Past due Ushs'000	Impaired Ushs'000
As at 31 December 2016				
Trade receivables*	558	558	-	-
Due from related parties	12,546,095	12,546,095	-	-
	<u>12,546,653</u>	<u>12,546,653</u>	<u>-</u>	<u>-</u>
As at 31 December 2015				
Trade receivables	1,728	1,728	-	-
Due from related parties	55,478,800	54,478,800	-	-
	<u>55,480,578</u>	<u>55,480,578</u>	<u>-</u>	<u>-</u>

*The exposure analysis above excludes the amounts that have already been provided for in the books of GAPCO Uganda Limited.

Cash and cash equivalents are fully performing.

Notes to the Financial Statements for the year ended 31 December, 2016

25 FINANCIAL RISK MANAGEMENT (CONTINUED)

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The maximum exposure to credit risk is with the related parties.

(b) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The company's operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However; management ensures that the mismatch is controlled in line with allowable risk levels.

The table below analyses the company's financial instruments into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	0 - 3 month Ushs'000	3 - 12 months Ushs'000	Over 1 year Ushs'000	Total Ushs'000
At 31 December 2016				
Financial assets				
Cash and bank balances	50,052,386	-	-	50,052,386
Due from related parties	12,546,095	-	-	12,546,095
	<u>62,598,481</u>	<u>-</u>	<u>-</u>	<u>62,598,481</u>
Due to related parties	2,069,316	-	-	2,069,316
Trade payables	2,039,584	-	-	2,039,584
	<u>4,108,900</u>	<u>-</u>	<u>-</u>	<u>4,108,900</u>
Net liquidity gap	<u>58,489,581</u>	<u>-</u>	<u>-</u>	<u>58,489,581</u>
At 31 December 2015				
Financial assets				
Cash and bank balances	3,892,954	-	-	3,892,954
Due from related parties	55,478,800	-	-	55,478,800
	<u>59,371,754</u>	<u>-</u>	<u>-</u>	<u>59,371,754</u>
Financial liabilities				
Due to related parties	2,966,482	-	-	2,966,482
Trade payables	1,879,114	-	-	1,879,114
	<u>4,845,596</u>	<u>-</u>	<u>-</u>	<u>4,845,596</u>
Net liquidity excess	<u>54,526,158</u>	<u>-</u>	<u>-</u>	<u>54,526,158</u>

Notes to the Financial Statements for the year ended 31 December, 2016

(c) Market risk

(i) Foreign exchange risk

The company undertakes certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the company's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	2016 US\$ Ushs'000	2015 US\$ Ushs'000
<i>Assets</i>		
Cash and bank balances	48,172,337	2,387,837
Due from related parties	12,546,095	55,478,800
Total assets	60,718,432	57,866,637
<i>Financial liabilities</i>		
Due to related company	2,049,922	2,926,918
Trade payables	1,649,407	592,255
	3,699,329	3,519,173
Net exposure	57,019,103	54,347,464

Foreign exchange risk – appreciation/depreciation of Ushs against other currencies by 5%.

The following sensitivity analysis shows how profit would be affected if the market risk variables had been different at reporting date with all other variables held constant.

	2016 Effect on profit Ushs'000	2015 Effect on profit Ushs'000
Currency - US Dollars		
+ 5% US\$ Movement	(2,850,955)	(2,717,343)
- 5% US\$ Movement	2,850,955	2,717,343

(ii) Interest rate

Interest rate risks arise from fluctuations in the borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. The company closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the end of each reporting period. Included in the table are the company's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	0 - 3 month Ushs'000	3 - 12 months Ushs'000	Over 1 year Ushs'000	Total Ushs'000
At 31 December 2016				
<i>Financial assets</i>				
Due from related parties	12,546,095	-	-	12,546,095
Financial assets	12,546,095	-	-	12,546,095
<i>Financial liabilities</i>				
Due to related parties	2,069,316	-	-	2,069,316
Financial liabilities	2,069,316	-	-	2,069,316
	10,476,779	-	-	10,476,779

Notes to the Financial Statements for the year ended 31 December, 2016

25 FINANCIAL RISK MANAGEMENT (CONTINUED)

	0 - 3 month Ushs'000	3 - 12 months Ushs'000	Over 1 year Ushs'000	Total Ushs'000
At 31 December 2015				
Financial assets				
Due from related parties	55,478,800	-	-	55,478,800
Financial assets	<u>55,478,800</u>	<u>-</u>	<u>-</u>	<u>55,478,800</u>
Financial liabilities				
Due to related parties	2,926,918	-	-	2,926,918
Financial liabilities	<u>2,926,918</u>	<u>-</u>	<u>-</u>	<u>2,926,918</u>
	<u>52,551,882</u>	<u>-</u>	<u>-</u>	<u>52,551,882</u>

The following sensitivity analysis shows how profit and equity would change if the market risk variables had been different at the end of the reporting period with all other variables held constant.

	2016 Effect on profit Ushs'000	2015 Effect on profit Ushs'000
+ one percentage point movement	10,476	52,552
- one percentage point movement	<u>(10,476)</u>	<u>(52,552)</u>

(f) Capital Management

The company manages its capital to ensure that it is able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance. The company's overall strategy remains at maximising shareholders value. The Company sets the amount of capital in proportion to risk. It manages the capital structure and makes adjustments to it in light of the economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may issue new shares or sell assets to reduce debt. Consistently with others in the industry, the company monitors capital on the basis of the debt-to-adjusted capital ratio.

26 COUNTRY OF INCORPORATION

The company is incorporated in Uganda under the Uganda Companies Act, 2012.

27 ULTIMATE HOLDING COMPANY

The immediate holding Company is Gulf Africa Petroleum Corporation, a company incorporated and registered in Mauritius while the ultimate holding Company is Reliance Industries Limited, India, incorporated and registered in India.

28 CURRENCY

These financial statements are presented in Uganda Shillings in thousands (Shs'000). The Uganda Shilling is also the functional currency of the entity.

29 SUBSEQUENT EVENTS

No subsequent events after the reporting date.