**LA FRANCAISE DE L'ENERGIE**

A public limited company (*société anonyme*) with share capital of € 5,065,174
Registered office: 1 avenue Saint-Remy, Espace Pierrard, 57600 Forbach
Sarreguemines Trade and Companies Register no. 501 152 193

# ANNUAL FINANCIAL REPORT

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

# 1. DECLARATION BY THE PERSON RESPONSIBLE

## 1.1 PERSON RESPONSIBLE FOR THE INFORMATION

Mr Julien Moulin, Chairman of the Board of Directors and Chief Executive Officer.

## 1.2 CERTIFICATION BY THE PERSON RESPONSIBLE

To the best of my knowledge, the financial statements for the past financial year were prepared in accordance with applicable accounting standards and provide a true image of the assets, financial position and income of the Company, and all companies included in the Group's scope, and the management report included in this annual financial report presents a true picture of changes in the business, income and financial position of the Company and all the companies included in the Group's scope as well as a description of all the main risks and uncertainties with which they are confronted.

Forbach, France, 31 October 2016

**Julien MOULIN**
Chairman of the Board and CEO

## 2. STATUTORY AUDITORS

### 2.1 PRINCIPLE STATUTORY AUDITORS

- **Ernst & Young Audit**

Registered member of the Compagnie Régionale des Commissaires aux Comptes de Versailles (Versailles Regional Association of Statutory Auditors)
Represented by Mr Philippe Rahms
Tour Europe - 20, place des Halles, 67081 Strasbourg

Appointed by decision of the sole shareholder on 20 December 2013 for a term of six financial years, which will expire at the close of the General Shareholders' Meeting called to approve the financial statements for the financial year ending 30 June 2019.

- **CBP Audit et Associés**

Registered member of the Compagnie Régionale des Commissaires aux Comptes d'Aix-en-Provence - Bastia (Aix-en-Provence - Bastia Regional Association of Statutory Auditors)
Represented by Mr Daniel Noël, 3, quai Kléber, 67000 Strasbourg

Appointed by decision of the sole shareholder on 24 June 2015 for a term of six financial years, which will expire at the close of the General Shareholders' Meeting called to approve the financial statements for the financial year ending 30 June 2020.

### 2.2 ALTERNATE STATUTORY AUDITORS

- **Auditex SAS**

Registered member of the Compagnie Régionale des Commissaires aux Comptes de Versailles (Versailles Regional Association of Statutory Auditors)
Represented by Mohamed Mabrouk
1-2, place des Saisons- Paris La Défense- 92400 Courbevoie

Appointed by decision of the sole shareholder on 20 December 2013 for a term of six financial years, which will expire at the close of the General Shareholders' Meeting called to approve the financial statements for the financial year ending 30 June 2019.

- **Mrs Isabelle Lecomte Calvet**

Registered member of the Compagnie Régionale des Commissaires aux Comptes d'Aix-en-Provence - Bastia (Aix-en-Provence - Bastia Regional Association of Statutory Auditors)
2, boulevard de Gabés-13008 Marseille

Appointed by decision of the sole shareholder on 24 June 2015 for a term of six financial years, which will expire at the close of the General Shareholders' Meeting called to approve the financial statements for the financial year ending 30 June 2020.

# 3. MANAGEMENT REPORT

Dear readers,

In accordance with Articles L.225-100, L.233-26 and L.232-1 of the French Commercial Code, we hereby present the management report of La Française de l'Energie SA (hereinafter referred to as the "Company") and the Group (hereinafter referred to as the "Group") for the financial year starting on 1 July 2015 and ending on 30 June 2016.

## 3.1 BUSINESS ACTIVITY AND DEVELOPMENT OF THE COMPANY AND GROUP DURING THE PRECEDING FINANCIAL YEAR

### 3.1.1 Group structure

Française de l'Energie is the parent company of the Group and the most senior entity in terms scope of consolidation.

The main subsidiaries that the Company either directly or indirectly holds are described below. As of 30 June 2016, none of the Company's subsidiaries were listed on the stock market.

Key information about the Group's main subsidiaries is summarised below:

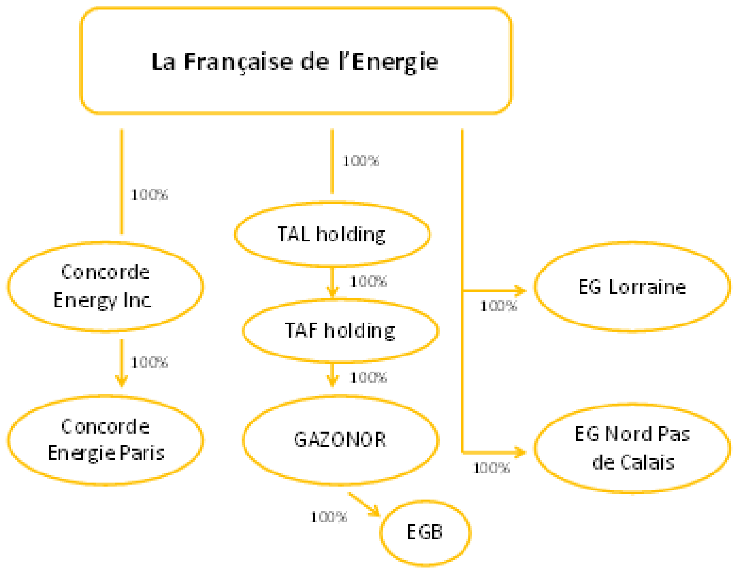
| Address and Trade and Companies registration number | Share capital | % equity interest | Activity |
|---|---|---|---|
| ***FRENCH COMPANIES*** | | | |
| **Concorde Energy Paris**<br>36 rue du Dr Le Savoureux 92290 Châtenay-Malabry (France)<br>Trade and Companies Registration Number 529 069 825 | € 1,000 | 100% | operating company (EPP La Folie de Paris) |
| **EG Lorraine**<br>1 avenue Saint-Rémy<br>57600 Forbach<br>Trade and Companies Registration Number 790 110 639 | € 868,544 | 100% | operating company (EPP application La Grande Garde) |
| **EG NPC**<br>1 avenue Saint-Rémy 57600 Forbach<br>Trade and Companies Registration Number 790 090 880 | € 1 | 100% | operating company (NPC permit) - currently inactive |
| **Gazonor**<br>ZAL Fosse 7<br>62210 Avion<br>Trade and Companies Registration Number 381 972 439 | € 1,400,000 | 100% | operating company (exploration permit and concessions) |
| **Transcor France** *("TAF")*<br>247 C, route de Béthune<br>62300 Lens Trade and Companies registration number 451 506 612 | € 8,450,000 | 100% | holding company |

| Address and Trade and Companies registration number | Share capital | % equity interest | Activity |
|---|---|---|---|
| **FOREIGN COMPANIES** | | | |
| **Concorde Energy Inc.**<br>1537 Bull Lea Road Lexington, Kentucky 40511 USA | N/A | 100% | holding company |
| **European Gas Benelux (“EGB”)**<br>7 boulevard de France 1420 Braine-L’Alleud (Belgium) | € 300,000 | 100% | operating company (holds a concession in Belgium) |
| **Transcor Astra Luxembourg (“TAL”, now called “LFDE International SA”)**<br>76-78 rue de Merl 2146 Luxembourg | € 1,000,000 | 100% | holding company |

*NB: the Company also wholly owns two subsidiaries: EG Gardanne and EG Jura, which are dormant*

The organisational chart below illustrates the Group’s legal structure and, in particular, the main subsidiaries held by the Company either directly or indirectly as of 30 June 2016 after the Gazonor and Concorde acquisitions.

**Group Structure as of 30 June 2016**



### 3.1.2 Business activity and development, key events

(i) Business activity and development of the Company and Group

The Group is a leading operator in the French energy sector, with gas assets in northern and eastern France, specifically coal bed methane. The Group has recently become the largest domestic gas producer in France, thanks to the acquisition of Gazonor, which took place during the financial year and is described below. The Group aims to substitute a portion of the gas imported into France with coal bed methane, which it produces, thanks to its low carbon footprint and very competitive production cost.

Over the past ten years, and with the acquisition of Concorde and Gazonor, the Group has built the second largest portfolio of gas exploration and production permits in France, covering over 10,000 square kilometres in total. This permit portfolio in France comprises several exclusive exploration permits that are currently being approved or renewed, two concessions in the process of being approved and around twelve exploration permits currently being applied for.

The Group's operations are mainly located in two areas: Lorraine, located in eastern France close to the Franco-German border, and in Nord-Pas-de-Calais, in the Hauts-de-France region located at the Franco-Belgian border. The subsoil and geology of these two geographic areas have been extensively explored, documented and mapped out via more than one hundred years of mining activities, thousands of explorations wells and other historical drilling activities and seismic studies, giving the Group a sizeable competitive advantage, which it plans to use by focusing primarily on extracting the gas present in the coal seams.

The Group's normative annual gas production is nearly 2.6 billion cubic feet ("BCF"), or 76.6 million cubic meters. This figure was estimated by DMT, a German company specialised in auditing coal bed methane resources in Europe. The Group holds 253 BCF of certified proven and probable reserves (category 2P) in the Nord-Pas-de-Calais and Lorraine basins. The Group also holds 6 trillion cubic feet, or "TCF", of contingent resources, which it intends to gradually extract in the coming years as soon as they are converted to proven resources.

The table below summarises the Group's gas reserves and resources (as of 30 September 2015 for the Lorraine region and as of 18 February 2016 for the Nord-Pas-de-Calais region). At this stage, the initial certified gas reserves in Lorraine are concentrated within an area accounting for only 0.9% of the surface area of the Group's permits in this region, whereas the contingent resources audit covered just 29.4% of the surface area of the land under permit for the Group in this region. The Company, therefore, believes that it has unrivalled growth potential, since this correlates to gas volumes equivalent to the Lacq gas field, the largest gas production field in France. The potential in Lorraine and in Nord-Pas-de-Calais is greater than the figures provided at this stage, which only correspond to the gas volumes present in areas audited and certified by BEICIP (IFP Energies Nouvelles) and DMT.

| | Reserves | | | Contingent Resources | | | Prospective Resources | | |
|---|---|---|---|---|---|---|---|---|---|
| ***BCF*** | ***Proven (1P)*** | ***Proven & Probable (2P)*** | ***Proven & Probable <6 Possible (3P)*** | ***1C*** | ***2C*** | ***3C*** | ***Low production scenario*** | ***Best case scenario*** | ***High production scenario*** |
| ***NPdC*** | ***51.0’*** | ***225.0’*** | ***709.4[J]*** | ***1,176*** | ***1,869*** | ***2,877*** | ***n/a[2]*** | ***n/a[2]*** | ***n/a[2]*** |
| ***Lorraine*** | ***5.3[3]*** | ***27.9[3]*** | ***73.5[3]*** | ***1,240[4]*** | ***2,032[4]*** | ***3,085[4]*** | ***1,183[4]*** | ***2,209[4]*** | ***3,637[4]*** |
| ***Total*** | ***56.3*** | ***252.9*** | *782.9* | ***2,416*** | ***3,901*** | ***5,962*** | - | - | - |

[1] gas mix
[2] n/a: not available
[3] the reserve certification area in Lorraine accounts for 0.9% of the Group’s surface area under permit in this region.
[4] the resource audit area in Lorraine accounts for 29.4% of the Group’s surface area under permit in this region.
BEICIP 's reserve figures are based on 20-year planning forecasts, and DMT’s figures on 25-year planning forecasts.
*Source: BEICIP (IFP Energies Nouvelles)* ***- 2015, DMT - 2016***

### (ii) Key events during the financial year

During the financial year ended 30 June 2016, the Company acquired two large assets, Concorde and Gazonor, and launched its Initial Public Offering (“IPO”) on the Euronext Paris regulated stock market:

- **Acquisition of Concorde**

On 19 September 2015, the Company signed a contract pertaining to the purchase of 100% of the capital and voting rights of Concorde USA with the shareholders of Concorde Energy Inc. (“Concorde USA”), a company registered in the United States (Delaware).

Concorde USA is exclusively dedicated to the exploration and exploitation of oil and gas resources in France, both directly and through Concorde Energie Paris SARL (“Concorde France”), its wholly-owned subsidiary. Concorde USA filed a number of exclusive exploration permit (“EEP”) applications in the Paris basin area, and Concorde France also holds an EEP called “La Folie de Paris”.

The acquisition of Concorde USA and Concorde France was finalised on 28 April 2016 after amending the terms and conditions of the purchase agreement to provide for a reduction in the initial € 750,000 purchase price to € 150,000.

- **Acquisition of Gazonor**

On 14 January 2016, the Company signed a purchase agreement with the company Transcor Astra Group (“TAG”) for 100% of the share capital and voting rights of Transcor Astra Luxembourg (“TAL”), a company based in Luxembourg that holds 100% of the share capital and voting rights of Transcor Astra France (“TAF”), which itself holds 100% of the share capital and voting rights of Gazonor.

Gazonor is a French gas production company which holds exploration permits and concessions.

Gazonor was a subsidiary of the Company until it was sold to TAG in June 2011 under the Group's global restructuring plan. Under the terms and conditions of this plan, the Company only kept contractual rights on the permits held by Gazonor.

This acquisition was finalised on 27 June 2016. The final purchase price (including the agreed base price, the amount of existing seller debt and interest payments) paid to Transcor Astra Group, shareholder of TAL, totalled € 19,872,039.

The term "acquisition of Gazonor" used in this report refers to the acquisition of TAL as described above, which indirectly included Gazonor.

- **IPO**

In June 2016, the Company launched its IPO on compartment C of the Euronext Paris regulated stock market, raising € 37.5 million by issuing 1,388,889 new shares at € 27 per share.

(iii) Key events since the financial year-end

In July 2016, the Company began the operational integration and tax consolidation processes for the legal entities acquired in the 2016 financial year as described above.

On 22 September 2016, the € 60,000,000 framework financing agreement with RGreen Invest, which was initially signed in May 2016, was extended until 31 December 2016, as Gazonor is still waiting for the French government to publish a ministerial order on the subsidised tariff for electricity produced from coal mine methane (CMM).

On 13 October 2016, Gazonor entered into a letter of intent with the 2G Energy AG Group to order six engines of 1.5 MW each. These engines will be ordered during the fourth quarter of 2016 for the four sites at Lens, Avion, Divion and Desiree for Gazonor to start gas and electricity production.

As of the date this report was signed, the Company is still working on preparing the AFEs ("***Authorisations For Expenditure")*** for the drilling campaign in Lorraine and aims to finalise them as soon as possible. The drilling program to develop eight wells in Lorraine is almost complete, and the company aims to put in place the first CBM production wells at four different drill sites. The planned drilling development program will cost a total of € 25 million. The Company has increased its staffing levels by hiring three people, including a drilling engineer, a drilling advisor and a chief procurement officer, to achieve these goals. The Company is currently conducting the earthworks and civil engineering works to prepare for the first wells to be drilled in December 2016.

As of the date of this report, the Company is in a dispute with Société Générale, leading the Company's IPO on Euronext, concerning fees related to this transaction which have been deducted directly by Société Générale from the capital raised during the IPO. As a result, the Company intends to contest Société Générale's deduction of these fees in court.

(iv) The Company's research and development activities

With regard to Article L.232-1 of the French Commercial Code, we would like to inform you that the Company has not conducted any research or development activities during the financial year just ended, except for the gas exploration R&D as described in the "Business activity and development" section above.

## 3.2 PRESENTATION OF THE COMPANY'S STATUTORY ACCOUNTS

The Company's financial statements for the financial year ended 30 June 2016 that we submit for your approval were prepared in accordance with the reporting rules and valuation methods provided for under current legislation and according to French accounting standards. These rules and methods are identical to those applied to the previous financial year ended 30 June 2015.

The Company's financial statements for the financial year ended 30 June 2016, including the balance sheet and income statement, are included in Section 5.1 of this report.

### 3.2.1 Income statement

| | 2016 | 2015 |
|---|---|---|
| Revenue | € | € |
| Other revenue | 558,702 | 868,543 |
| **Total operating revenue** | **558,702** | **868,543** |
| Other purchases and external expenses | 4,492,972 | 914,782 |
| Taxes and similar levies | 13,580 | 2,618 |
| Wages and salaries | 1,139,324 | 568,530 |
| Social contributions | 465,053 | 257,071 |
| Other expenses | 120,000 | |
| Operating amortisation and depreciation | 11,816 | 16,551 |
| **Total operating expenses** | **(6,242,745)** | **(1,759,552)** |
| **Operating income (loss)** | **(5,684,043)** | **(891,009)** |
| Foreign exchange gains | 2,209 | 2,093 |
| **Total financial revenue** | **(2,209)** | **2,093** |
| Interest and similar costs | 1,113,750 | 612,783 |
| **Total financial expenses** | **(1,113,750)** | **(612,783)** |
| **Financial income (loss)** | **(1,115,959)** | **(610,690)** |
| **Ongoing earnings before tax** | **(6,800,002)** | **(1,501,699)** |
| Exceptional revenue | 8,000,000 | 2,200,000 |
| **Total exceptional revenue** | **8,000,000** | **2,200,000** |
| Income tax | (601,378) | - |
| **Net income (loss)** | **598,620** | **698,301** |

### 3.2.2 Revenue

During the financial year ended 30 June 2016, the Company did not generate any revenue.

This is due to the fact that, for the moment, the only activities carried out by the Company are the exploration and evaluation of resources and reserves. Hence the Company did not produce or sell any gas during the financial year ended 30 June 2016.

### 3.2.3 Operating expenses

Operating expenses, at € 6,242,745, were higher than the previous financial year, mainly due to an increase in wages and salaries amounting to € 1,139,324, and in other purchases and external expenses of € 4,492,972.

The increase in wages is mainly due to the growth in reserve evaluation activities, which led to the need for additional technical personnel within the Company, as well as the transfer of EGLUK employees to the Company in June 2015.

The other purchases and external expenses mainly relate to provisions for wages, contingency fees relating to the Company's initial public offering, and consultancy and advisory fees associated with this transaction.

### 3.2.4 Cost of financial debt and other financial expenses

Financial expenses, totalling € 1,113,750, increased for the financial year ended 30 June 2016.

The cost of net financial debt is mainly composed of interest expenses incurred on the convertible loan note issued for a nominal value of € 8,000,000 with a maturity of five years from the date of issue, calculated at an annual interest rate of 15% (Note 18 to the Group's consolidated financial statements). When the Company's shares were admitted to trading on Euronext Paris, these convertible loan notes were automatically converted to ordinary Company shares (for a total amount of € 1,100,000 including the principal and interest up to the date of listing).

Other financial expenses relate to the effect of the accretion of the debt to EGLUK for the 2016 financial year (see Note 18 to the consolidated financial statements).

### 3.2.5 Exceptional revenue

The Company's financial statements include exceptional revenue of € 8,000,000, which corresponds to the total amount of debt waivers carried out between the Company and EGLUK during the financial year ended 30 June 2016, in accordance with the principles set out in the Restructuring Agreement concluded in June 2015.

### 3.2.6 Income - Allocation

Net income for the financial year ended 30 June 2016 was € 598,620 after corporation tax of € 601,378, compared with net income of € 698,301 for the financial year ended 30 June 2015.

(i) Proposed allocation of income

We recommend that you approve the financial statements (balance sheet, income statement and notes) as presented to you, which show a profit of € 598,620.

We recommend that you allocate the profit for the financial year as follows:

- € 29,931 to the "legal reserve", taking it to a total of € 105,762, in line with provisions set out in Article L. 232-10 of the French Commercial Code, which imposes a deduction of 5% from the profits until the aggregate reserve amounts to 10% of the share capital;

- € 568,689 to "retained earnings", taking these to a total of € 628,788.

Taking this allocation into account, the Company's shareholders' equity would total € 50,041,537.

(ii) Prior distributions of dividends

Pursuant to Article 243 of the French General Tax Code, no dividends were distributed for the previous three financial years.

### 3.2.7 Capitalised expenses

The above analysis of the Company's income statement does not reflect amounts allocated to exploration costs on existing permits, as these are capitalised and are therefore not included in the Company's income statement.

Total capitalised exploration costs relating to the Company's exploration permits for the Lorraine project are presented in the table below:

| | € |
|---|---|
| Bleue Lorraine | 27,854,409 |
| Bleue Lorraine Sud | 295,603 |
| Total costs relating to Lorraine permits | 28,150,012 |

The substantial amount of capitalised expenses recognised for the Bleue Lorraine permits reflects the costs of the drilling campaigns conducted in the past and, more recently, the drilling and testing carried out at Tritteling between 2013 and 2016.

Total exploration expenses capitalised by the Company as part of the Nord-Pas-de-Calais exploration program mainly relate to seismic processing work, permit applications, data processing, Petrel software modelling and DAOTMs (applications for authorisation to launch mining works). The breakdown of these capitalised expenses is presented below:

| | € |
|---|---|
| Valenciennois (NPC) | 229,080 |
| Sud-Midi (NPC) | 366,684 |
| Poissonnière (NPC) | 394,283 |
| Total expenses linked to NPC permits | 990,047 |

Capitalised exploration costs for activities at Gardanne and Lons-le-Saunier are presented below:

| | € |
|---|---|
| Lons-le-Saunier | 220,061 |
| Gardanne | 74,259 |
| Total expenses for other projects | 294,320 |

Expenses related to operations in Gardanne and Lons-le-Saunier pertain to geological studies and other mining work conducted in the past.

## 3.3 PRESENTATION OF THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

The Group's consolidated financial statements for the financial year ended 30 June 2016 that we are providing for your review were prepared in accordance with the presentation rules and the evaluation methods provided under current legislation and in accordance with International Financial Reporting Standards ("IFRS") as published on 30 June 2016.

Since the acquisition of Gazonor wasn't completed until 27 June 2016, i.e., three days before the financial year-end, the Group's consolidated financial statements only contain the key information about Gazonor. This acquisition only impacts the consolidated balance sheet as of 30 June 2016.

The Group's consolidated financial statements for the financial year ended 30 June 2016 are shown in Section 6.1 of this report.

### 3.3.1 Consolidated income statement

| | Notes | 2016 | 2015 |
|---|---|---|---|
| | | € | € |
| **Revenue** | | | |
| Other revenue | | - | - |
| | | | |
| Purchases, net of change in inventory | | - | - |
| Other operating expenses | **3** | (5,656,328) | (2,109,679) |
| | | | |
| Amortisation of property, plant and equipment and mineral rights | **4** | (11,816) | (16,551) |
| Other revenue | | - | - |
| Other expenses | | - | - |
| | | | |
| Net cost of financial debt | **5** | (1,113,750) | (612,783) |
| | | | |
| Other financial revenue | | | - |
| Other financial expenses | **5** | (1,237,000) | (971,000) |
| Foreign exchange difference | | (2.209) | 2.093 |
| Goodwill | **7** | 1,189,556 | - |
| | | | |
| Tax | **6** | 2,666,622 | 1,121,308 |
| **Consolidated net income** | | **(4,164,926)** | **(2,586,612)** |
| **Net income (loss), Group share** | | **(4,164,926)** | **(2,586,612)** |
| **Comprehensive income (loss), Group share** | | **(4,164,926)** | **(2,586,612)** |
| | | | |
| *Earnings per share, Group share* | | *(1.26)* | *-0.80* |
| *Fully-diluted earnings per share, Group share* | | *(1.23)* | *-0.80* |

### 3.3.2 Revenue

The Group did not generate any revenue during the financial year ended 30 June 2016, because at this stage, the Company is exclusively conducting exploration and resource and reserve evaluation operations. The Company did not, therefore, produce or sell any gas during the financial year ended 30 June 2016.

With the acquisition of Gazonor on 27 June 2016, the Group will generate revenue during the next financial year. However, since this acquisition did not occur until 27 June 2017, i.e., a few days before the financial year-end, no revenue was recognized for the financial year ended 30 June 2016.

### 3.3.3 Other operating expenses

Other operating expenses, which amounted to € 5,656,328, are up compared to the previous financial year, mainly due to an increase in consultancy and advisory fees incurred during the Company's IPO.

The significant changes in operating expenses, incurred between the year ended 30 June 2015 and the financial year ended 30 June 2016, are as follows:

**Other operating expenses**

| | **2016** | **2015** |
|---|---|---|
| | € | € |
| Exploration costs | | 8,603 |
| Staff and management expenses (Note 23) | 1,573,439 | 1,171,207 |
| Rent | 86,949 | 27,338 |
| Fees | 2,918,082 | 309,560 |
| Advertising | 530,097 | 51,500 |
| Taxes | 13,617 | 2,862 |
| Energy and electricity | 6,309 | 1,191 |
| Other general expenses | 527,835 | 537,418 |
| **Total** | **5,656,328** | **2,109,679** |

Other operating expenses relate mainly to running costs. Employee expenses are detailed in Note 23 to the consolidated financial statements, entitled *"Group workforce and personnel costs"*.

### 3.3.4 Cost of financial debt and other financial expenses

The main components of the net cost of financial debt are the following:

| | **2016** | **2015** |
|---|---|---|
| | € | € |
| Net cost of financial debt | (1,113,750) | (612,783) |
| Other financial expenses | (1,237,000) | (971,000) |
| **Financial income (loss)** | **(2,350,750)** | **(1,583,783)** |

The net cost of financial debt is primarily composed of interest expenses on a convertible bond with a nominal value of € 8,000,000 and a maturity of five years from the date of issue, calculated at an annual interest rate of 15% (see Note 18 to the consolidated financial statements).

When the Company's shares were admitted to trading on Euronext Paris, these convertible bonds were automatically converted to ordinary Company shares (for a total amount of € 1,100,000 including the principal and interest).

Other financial expenses relate to the effect of the accretion of the debt to EGLUK for the 2016 financial year (see Note 18 to the consolidated financial statements).

### 3.3.5 Tax issues

For the financial year ended 30 June 2016, the Company recognized € 345,000 in deferred tax assets. The deferred tax assets were generated during the financial year ended 30 June 2016 after the fair value accounting of debt owed to EGLUK.

The recognition of deferred tax assets has been analysed on a company-by-company basis, taking into account deferred tax liabilities with the same reversal deadlines.

Deferred tax assets not discounted in the financial statements were valued based on how the Group expects to recover or settle the book value of the assets and liabilities using the tax rate in effect or substantively in effect at the balance sheet date.

### 3.3.6 Total consolidated losses

The total consolidated net losses for the financial year ended 30 June 2016 amounted to € 4,164,926 after the recognition of € 2,666,622 in deferred tax revenue, compared to losses of € 2,586,612 for the financial year ended 30 June 2015, i.e., a € 1,578,314 decrease in income.

The increase in consolidated losses is primarily due to a significant rise in operating expenses and financial expenses.

### 3.3.7 Capitalised expenditure

The above analysis of the Group's income statement does not reflect amounts allocated to exploration costs for existing permits because these are capitalized and, therefore, not recognized in the Company's income statement.

Total capitalised exploration costs relating to the Company's exploration permits for the Lorraine project are presented in the table below:

| | € |
|---|---|
| Bleue Lorraine | 27,854,409 |
| Bleue Lorraine Sud | 295,603 |
| Total expenses related to Lorraine permits | 28,150,012 |

The large amount of capitalised expenses recognised for the Bleue Lorraine licences reflects the cost of drilling campaigns conducted in the past and, more recently, the drilling and testing carried out at Tritteling between 2013 and 2016.

Total exploration expenses capitalised by the Company as part of the Nord-Pas-de-Calais exploration program mainly relate to seismic processing work, permit applications, data processing, Petrel software modelling and DAOTMs (applications for authorisation to launch mining works). A breakdown of these capitalised expenses is presented below:

| | € |
|---|---|
| Valenciennois (NPC) | 229,080 |
| Sud-Midi (NPC) | 366,684 |
| Poissonnière (NPC) | 394,283 |
| Total expenses related to NPC permits | 990,047 |

Capitalised exploration expenses for operations in Gardanne and Lons-le-Saunier are presented below:

| | € |
|---|---|
| Lons-le-Saunier | 220,061 |
| Gardanne | 74,259 |
| Total expenses for other projects | 294,320 |

Expenses related to operations in Gardanne and Lons-le-Saunier are in relation to geological studies and other mining work conducted in the past.

In addition, following the acquisition of Concorde during the financial year ended 30 June 2016, the Group now also holds the following exploration permits:

| | |
|---|---|
| La Folie de Paris | € 1,941,770 |

### 3.3.8 Consolidated balance sheet

| | Notes | 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | € | € |
| **Non-current assets** | | | |
| Goodwill | **7** | 18,263,758 | - |
| Intangible assets | **8** | 31,852,162 | 28,748,189 |
| Property, plant and equipment | **9** | 626,065 | 25,055 |
| Other financial assets | **11** | 104,498 | 11,850 |
| Deferred tax assets | **6** | 345,000 | |
| **Total non-current assets** | | ***51,191,483*** | ***28,785,094*** |
| **Current assets** | | | |
| Inventories | **10** | 435,670 | - |
| Other receivables | **12** | 1,420,342 | 157,758 |
| Cash and cash equivalents | **13** | 11,962,172 | 2,044,849 |
| **Total current assets** | | **13,818,184** | **2,202,607** |
| **Total assets** | | **65,009,667** | **30,987,701** |
| **LIABILITIES** | | | |
| **Equity** | | | |
| Capital | **14** | 5,065,175 | 3,226,620 |
| Consolidated share premiums and reserves | **16** | 51,687,266 | 8,269,213 |
| Net income (loss), Group share | | (4,164,926) | (2,586,612) |
| **Total equity** | | **52,587,515** | **8,909,221** |
| **Non-current liabilities** | | **6,840,394** | **20,737,266** |
| Provisions | **29** | 3,786,616 | 514,524 |
| Non-current financial debt | **18** | 3,053,778 | 18,217,494 |
| Deferred tax liabilities | **6** | - | 2,005,248 |
| **Total non-current liabilities** | | **6,840,394** | **20,737,266** |
| **Current liabilities** | | | |
| Trade payables | **19** | 4,605,268 | 1,236,418 |
| Other current liabilities | **19** | 976,490 | 104,796 |
| **Total current liabilities** | | **5,581,758** | **1,341,214** |
| **Total liabilities and equity** | | **65,009,667** | **30,987,701** |

### 3.3.9 Consolidated cash flow

**Financial year**

| | **2016** | **2015** |
|---|---|---|
| | € | € |
| Consolidated net income (loss) | (4,164,926) | (2,586,612) |
| **Non-monetary items** | | |
| Elimination of Depreciation, amortisation and provisions | 11,816 | 27.803 |
| Revenue and expenses related to share-based payments | - | 335,074 |
| Elimination of Deferred tax revenue | (2,666,622) | (1,121,308) |
| Debt issue costs | - | 362,500 |
| Non-cash financial expenses | 1,100,000 | 612,783 |
| Other non-cash items | 1,206,607 | 971,000 |
| Negative goodwill recognised in income statement | (1,189,556) | |
| (Increase) decrease in working capital requirements (Note 20) | 2,292,321 | 451,760 |
| Taxes paid | - | - |
| **Cash flows from operating activities** | **(3,410,360)** | **(947,720)** |
| Acquisition of a subsidiary, net of cash acquired | (16,073,666) | - |
| Acquisition of intangible assets | - | (4,688) |
| Capitalised exploration costs (Note 8) | (1,163,626) | (2,019,677) |
| Acquisition of property, plant and equipment | (1,508) | (40,043) |
| Acquisition of other financial assets | (92,648) | (11,850) |
| **Cash flows from investing activities** | **(17,331,448)** | **(2.076.258)** |
| Capital increase | 37,500,003 | - |
| Issue expenses | (1,805,939) | - |
| Bond issues (note 19) | - | 8,000,000 |
| Debt issue costs | - | (362,500) |
| Reimbursement of EGL UK loan | (5,034,933) | (2,588,009) |
| | | - |
| **Cash flows from financing activities** | **30,659,131** | **5,049,491** |
| **Net increase (Decrease) in cash** | **9,917,323** | **2,025,513** |
| Cash at the beginning of the period | 2,044,849 | 19,336 |
| **Cash at the end of the period** | **11,962,172** | **2,044,849** |

In the consolidated cash flow statement above, net cash includes cash and cash equivalents net of bank overdrafts and short-term loans. According to IAS 39, securities are recorded at their market value as at the financial year-end.

The cash flow statement presented above does not include the transactions listed below that took place in 2015 and 2016, as these were non-cash transactions:

- debt waiver amounting to € 8,000,000 (2015: € 2,200,000), which has been recognised directly in equity;
- the fair value adjustment of the EGLUK loan resulting from the agreement dated 12 December 2014 whereby the existing intercompany loan was transformed into a five-year interest-free loan maturing on 12 December 2019.

## 3.4 PRESENTATION OF THE PRO-FORMA FINANCIAL STATEMENTS

The Company has prepared the following pro-forma financial information in order to illustrate the impact of the Gazonor acquisition on the Group's results and financial position if this acquisition had been completed on 1 July 2015.

This pro-forma financial information is presented for information only and does not reflect the performance that would have been obtained if the acquisition had actually been completed on that date. As explained above, the acquisition of Concorde USA does not appear below, because it has no impact on the financial position and past results.

The table below shows a pro-forma summary income statement for the financial year ended 30 June 2016.

**Groupe Transcor Astra LUX (now named LFDE International SA) - Acquisition - pro-forma consolidated income statement as of 30 June 2016**

| | Française de l'Energie S.A | Groupe LFDE Int S.A | Total pro forma |
|---|---|---|---|
| | € | € | € |
| **Revenue** | | | |
| Revenue from ordinary activities | - | 3,656,428 | 3,656,428 |
| Other revenue | - | 204,370 | 204,370 |
| Purchases | - | (527,198) | (527,198) |
| Change in inventory | - | 43,321 | 43,321 |
| **Operating margin** | | **3,376,921** | **3,290,279** |
| Other operating expenses | (5,656,328) | (3,221,080) | (8,877,408) |
| Amortisation of property, plant and equipment | (11,816) | (341,793) | (353,609) |
| Write-backs | - | 257,100 | 257,100 |
| **Operating income (loss)** | **(5,668,144)** | **71,148** | **(5,596,996)** |
| Other revenue | - | - | - |
| Other expenses | - | (448,080) | (448,080) |
| Net cost of financial debt | (1,113,750) | - | (1,113,750) |
| Other financial expenses | | | |
| Foreign exchange gains | (2,209) | - | (2,209) |
| Gain on a bargain purchase | 1,189,556 | - | 1,189,556 |
| **Income (loss) before tax** | **(6,831,548)** | **(376,932)** | **(7,208,480)** |
| Taxes | 2,666,622 | (11,761) | 2,654,861 |
| **Consolidated net income (loss)** | **(4,164,926)** | **(388,692)** | **(4,533,619)** |
| **Comprehensive income (loss), Group share** | **(4,164,926)** | **(388,692)** | **(4,533,619)** |

The main profit and loss items for Transcor Astra Luxembourg are related to the Gazonor subsidiary, primarily to the sale of natural gas at Avion, the costs of goods sold, particularly compression and energy costs, and to the purchase of additional gas in order to reach the minimum quality of gas required for injection into the network. Other operating expenses primarily relate to employee and management remuneration, as well as procurement and administrative expenses and other costs related to its offices.

## 3.5 FUTURE OUTLOOK

The Company believes that the outlook for growth in the Group's businesses is promising. Firstly, France and Europe are increasingly dependent on Russian natural gas and are hoping to reduce dependence by importing American shale gas, which is arriving in Europe in the form of LNG, a significant source of supply.

Furthermore, France and Europe are committed to reducing their carbon footprints through energy transition. Nevertheless, this energy transition does not have the same importance for all the main players in the European market, most of which (Germany, the United Kingdom, France, Poland, etc.) continue to use coal electricity generation or diesel for transportation.

Our business, which focuses on the production of clean gas for the benefit of the public and manufacturers through the establishment of short supply chains, is a real solution for reducing the carbon footprint of the regions in question: replacing imported natural gas with cleaner local gas to capture the added value in our regions, particularly the former mining basins in which our activity is concentrated.

In Nord-Pas-de-Calais, our gas production activity has been affected by low gas prices and limited availability of machinery. It is anticipated that gas prices will stabilise at around € 16/MWh of gas. In addition, the mechanical improvements made to the gas production and compression equipment at the Avion site are intended to significantly improve machine availability in order to boost the gas volumes injected into the GRT Gaz network.

At the same time, Gazonor is developing a new business line dedicated to the production of green electricity from the gas that we are capturing in the former coal mines. This activity benefits from a subsidised green feed-in tariff under the Decree of 28 May 2016 and we are waiting on the publication of the feed-in tariff order in the coming weeks so that we can launch our investment in this business. The installation of small gas engines at different sites in the basin is planned for the 2017 financial year. There are a number of options for financing these investments. In particular, the agreement in principle signed with RGreen Invest in May 2016 for bond financing in several tranches for a maximum of € 60,000,000 was renewed and extended until 31 December 2016.

The issue of the first tranche is subject to the confirmatory due diligence of RGreen Invest and the publication of the tariff order.

The Group is also continuing to assess growth opportunities in Belgium and Germany, primarily in order to take advantage of development and consolidation opportunities that are currently available in our neighbouring countries.

In Lorraine, civil engineering works are in progress on our next production site, with the goal of starting drilling operations by the end of the year.

The tender process for the different services related to these operations are now closed, the cost pricing conditions proved to be in our favour, and we are confident we will achieve our operational objectives in Lorraine over the 2017 financial year as announced in the strategic plan published at IPO with an anticipated multi-year investment of nearly € 25 million.

Studies continue in the other areas of the Lorraine basin, in particular to identify areas of interest to set up our next drilling sites in order to certify new proven reserves before launching production operations on those sites.

Following the IPO, the Company has sufficient working capital to meet its current obligations and cash needs for the next twelve months. In order to continue the development programmes in Lorraine and Gazonor, which represent a total capital investment amount over the next 3 years (until July 2019), we will need to find additional financing. The signature of the framework financing agreement with RGreen Invest fund in 2016 will provide a large portion of this financing and will cover the cost of the development programmes in Lorraine and Gazonor over the next 12 months.

## 3.6 LEGAL AND OTHER INFORMATION

### 3.6.1 Corporate officers

Pursuant to the provisions of Article L.225-102-1 of the French Commercial Code, we are providing you in Annex A. 1"*Report on internal control and corporate governance*" the list of all offices and positions in all French or foreign companies held by each of the directors of the Company during the financial year. This description covers five years in order to comply with Annex I of (EC) Regulation 809/2004, which governs the preparation of registration documents.

### 3.6.2 Remuneration of corporate officers

The tables below provide an overview of the remuneration and benefits of any kind paid to the Chairman-Chief Executive Officer of the Company, to the Chief Operating Officer and to the members of the Board for their duties within the Company and/or in the companies controlled by the Company (the term "control" is to be understood as defined in Article L. 233-16 of the French Commercial Code).

#### 3.6.2.1 Remuneration and benefits of any kind awarded to executive directors

This table presents a summary of the components of the remuneration paid to executive directors for the financial years ended 30 June 2015 and 30 June 2016.

| FINANCIAL YEAR ENDED | 30/06/2015 | 30/06/2016 |
|---|---|---|
| ***Julien Moulin,*** as Chairman-CEO of the Company in its form as a public limited company (*société anonyme*) and as Chairman of the Company prior to its conversion | | |
| Remuneration due for the financial year* | € 52,906 | € 294,868 |
| Value of the multi-year variable remuneration awarded during the financial year* | - | € 600,000 |
| Value of the share options awarded during the financial year** | - | |
| Value of the bonus shares awarded during the financial year**** | - | € 522,690 |
| **Johannes Niemetz,** as Chief Executive Officer of the Company prior to its conversion into a public limited company (*société anonyme*) | | |
| Remuneration due for the financial year* | € 70,068 | € 185,000 |
| Value of the multi-year variable remuneration awarded during the financial year* | - | € 75,000 |
| Value of the share options awarded during the financial year** | - | - |
| Value of the bonus shares awarded during the financial year**** | | € 416,514 |
| **Antoine Forcinal,** as Chief Operating Officer of the Company in its form as a public limited company (*société anonyme*) (Mr Forcinal has been in office for 8 months) | | |
| Remuneration due for the financial year*** | N/A | € 155,167 |
| Value of the multi-year variable remuneration awarded during the financial year | N/A | € 75,000 |
| Value of the share options awarded during the financial year**** | N/A | - |
| Value of the bonus shares awarded during the financial year | N/A | € 420,000 |
| **TOTAL** | € 122,974 | € 2,744,239 |

***** *These sums were paid under the service provision agreements described in section 3.6.2.6 of this report.*
*** *** *The share warrants described in section 3.6.2.3 below have not been included in this table and will be replaced by a bonus share plan described in section 3.6.2.4.*
******* *The Forbach flat made available to Mr. Forcinal, with a maximum rental value of € 1,000 per month, is not included in this table.*
******** *The value of the bonus shares awarded was determined by multiplying the unit value (based on the price of the share on the award date, i.e., 30 June 2016) of € 21 by the number of bonus shares awarded to the executive. No cost related to this operation has been recognised, as the bonus shares were only issued on 30 June 2016.*

The executive directors received gross total remuneration (in salaries, bonuses and bonus shares) of € 2,744,239 during the financial year ended 30 June 2016.

The table below shows the total gross remuneration paid or due to the officers for the financial years ended 30 June 2015 and 30 June 2016, including the fixed and variable remuneration paid or due by the Company for these years, benefits in kind and directors' fees.

| FINANCIAL YEAR ENDED | 30/06/2015 | | 30/06/2016006/2016 | |
|---|---|---|---|---|
| | **amounts due** | **amounts paid** | **amounts due** | **amounts paid** |
| **Julien Moulin,** as Chairman-CEO of the Company in its form as a public limited company (*société anonyme*) and as Chairman of the Company prior to its conversion | | | | |
| Fixed remuneration* | € 52,906 | €5 2,906 | - | € 294,868 |
| Variable remuneration* | - | - | € 600,000 | |
| Attendance fees | - | - | - | - |
| Benefits in kind | - | - | - | - |
| **Johannes Niemetz,** as Chief Executive Officer of the Company prior to its conversion into a public limited company (*société anonyme*) | | | | |
| Fixed remuneration* | € 70,068 | € 70,068 | - | € 185,000 |
| Variable remuneration* | - | - | € 75,000 | - |
| Attendance fees | - | - | - | - |
| Benefits in kind | - | - | - | - |
| ***Antoine Forcinal,*** as Chief Operating Officer of the Company in its form as a public limited company (*société anonyme*) (Mr Forcinal has been in office for 8 months) | | | | |
| Fixed remuneration | N/A | | | € 90,000 |
| Variable remuneration | N/A | N/A | € 75,000 | - |
| Attendance fees | N/A | N/A | - | - |
| Benefits in kind** | N/A | N/A | - | € 65,167 |
| **TOTAL** | € 122,974 | € 122,974 | € 750,000 | € 635,035 |

***** *These sums were paid under the service provision agreements described in section 3.6.2.6 of this report.*
*** The Forbach flat made available to Mr. Forcinal, with a maximum rental value of € 1,000 per month, is not included in this table.*

The details of the remuneration paid to the executive directors under the related agreements described in sections 3.6.2.5 and 3.6.2.6 of this report are presented below:

Pursuant to the Mandate Agreement described in section 3.6.2.5 of this report, Mr. Moulin was authorised to receive a (i) gross annual remuneration of € 180,000, payable in cash, and (ii) variable remuneration equal to 1% of any increase in the value of the Company recorded from one calendar year to the next, as determined by the Remuneration Committee, and payable in shares. This agreement is valid for Mr. Moulin's term as Chairman-CEO. This agreement was terminated by mutual agreement of the parties prior to the date AMF approval was received for the prospectus relating to the Company's IPO on Euronext.

In addition, under the services provision agreement described in section 3.6.2.6 of this report, Nebula Resources Limited ("NRL"), a UK company controlled by Mr. Moulin, (i) received fixed fees in the amount of € 10,000 per month during the year, and (ii) will have the right to success fees representing 1% of the proceeds if the Company or its subsidiaries raise funds in excess of € 20,000,000. This agreement is for an indefinite term and may be terminated at the end of an initial 2-year period by either of the parties with advance notice of six months, except in the event of a breach by one of the parties of its contractual obligations. This agreement was terminated by mutual agreement of the parties in the context of the IPO.

#### 3.6.2.2 Remuneration and benefits of any kind awarded to non-executive corporate directors

In its twenty-first resolution, the Combined Ordinary and Extraordinary Shareholders' Meeting of 23 March 2016 decided to grant a package of directors' fees in the amount of € 250,000 per year to the Board members.

Following the opinion issued by the Appointments and Remuneration Committee on 30 June 2016, the Board of Directors, at its meeting on the same date, decided, in accordance with the fourth resolution of the Board meeting of 20 June 2016, to distribute the director's fees among the members of the Board, other than Julien Moulin, as follows:

- € 5,000 for attendance at one of the quarterly meetings of the Board;
- € 10,000 for the chairman of the Accounting and Audit Committee;
- € 10,000 for the chairman of the Appointments and Remuneration Committee;
- € 5,000 for each member of these two committees.

The table below shows the distribution of the directors' fees paid and due to non-executive directors for the financial years ended 30 June 2015 and 30 June 2016.

| **FINANCIAL YEAR ENDED** | | **30/06/2015** | | **30/06/2016** | |
|---|---|---|---|---|---|
| **Non-executive directors** | | **amounts due** | **amounts paid** | **amounts due** | **amounts paid** |
| **Christophe Charlier** Director | Attendance fees | N/A | N/A | € 15,000 | - |
| | Other remuneration | N/A | N/A | | - |

| FINANCIAL YEAR ENDED | | 30/06/2015 | | 30/06/2016 | |
|---|---|---|---|---|---|
| **Non-executive directors** | | **amounts due** | **amounts paid** | **amounts due** | **amounts paid** |
| **Director** | Other remuneration | N/A | N/A | | - |
| **Jean Fontourcy** Director | Attendance fees | N/A | N/A | € 17,500 | - |
| | Other remuneration | N/A | | | - |
| **Alain Liger** Director | Director's fees | N/A | N/A | € 12,500 | - |
| | Other remuneration | N/A | N/A | | - |
| **Cécile Maisonneuve** Director | Attendance fees | N/A | N/A | € 12,500 | - |
| | Other remuneration | N/A | N/A | | - |

#### 3.6.2.3 Share subscription and purchase options, and performance shares

For the financial years ended 30 June 2015 and 30 June 2016, no share subscription or purchase options were awarded, free of charge or against payment, to the Company's executive directors. During this same period, no share subscription or purchase options were exercised by the Company's executive directors.

By a decision taken on 24 June 2015, the Company's sole shareholder authorised the implementation of a warrants plan intended to enable Company executives and employees to subscribe to a reserved capital increase in the event of an IPO. A total of 100,750 warrants were allocated free of charge to the plan's beneficiaries and gave a right, in the event of exercise (permitted between two and four years after the issue), to the award of one share in exchange for the payment of a subscription price of € 7.95 per subscribed share.

However, there were no subscriptions to these warrants insofar as the Company decided to replace them with a new incentive plan in the form of bonus shares governed by the more favourable tax and social security regime instituted by Law 2015-990 of 6 August 2015 known as the "Macron Law" (see section 3.6.2.4 below).

#### 3.6.2.4 Allocation of bonus shares

The Combined Ordinary and Extraordinary Partners' Meeting of 23 March 2016 approved the implementation of a bonus share plan for some or all of the Group's employees and executives. The total number of bonus shares awarded must not represent more than 5% of the Company's share capital. Bonus shares will have a nominal value of € 1 and will be definitively awarded to the beneficiaries at the end of a vesting period of at least two (2) years from the initial award of the bonus shares (the "Plan Rules"), in accordance with the other conditions that will be defined by the Plan Rules.

On 30 June 2016, the Board of Directors adopted the Plan Rules and defined the initial beneficiaries of the plan, in accordance with the following distribution:

| | Bonus shares |
|---|---|
| Thomas Gueant | 4,117 |
| Ronan Seguier | 3,578 |
| Stéphanie Borraccia | 2,619 |
| Christophe Mueller | 3,628 |
| Romain Chenillot | 2,469 |
| Sheik Nayamuth | 4,467 |
| Antoine Forcinal | 20,000 |
| Johannes Niemetz | 19,834 |
| Julien Moulin | 24,890 |
| **Total** | **85,602** |

It should be noted that the number of shares initially awarded indicated above does not necessarily correspond to the number of shares that will be definitively awarded to the beneficiaries; the definitive awarding of the shares is, in particular, subject to employment conditions and the provision of the documents described in the Plan Rules.

#### 3.6.2.5 Specific severance packages

- **Julien Moulin**

(i) Mandate Agreement signed with the Company (now terminated)

On 24 June 2015, Mr. Moulin and the Company signed an agreement (the "Mandate Agreement") that defined the terms and conditions of the appointment of Mr. Moulin as Chairman-Chief Executive Officer of the Company.

Under the Mandate Agreement, if Mr. Moulin were dismissed before the end of his term, and in consideration for his commitment to (i) waive any action against the Company for this dismissal and (ii) comply with the non-compete clause in the Mandate Agreement, he would receive an indemnity equal to two years of his fixed gross remuneration. The Mandate Agreement was approved by the Company's Executive Committee on 24 June 2015. This Mandate Agreement was also mentioned in the Special Statutory Auditors' Report approved by the General Partners Meeting of the Company held on 25 November 2015.

This agreement was terminated by mutual agreement between the parties in the context of the IPO.

(ii) Severance package for the Chairman-CEO

Based on the opinion provided by the Appointments and Remuneration Committee on 30 June 2016, the Board of Directors at its meeting on the same day, after noting that Julien Moulin does not have an employment contract with the Company, and taking into consideration the services rendered by Julien Moulin to Group since 2009, authorized and approved the payment of a severance package if he is removed from his position as Chairman-CEO of the Company.

This severance payment would be equal to two (2) years of his gross annual fixed remuneration. It would be payable in the event that Julien Moulin is dismissed from the position of Chairman-CEO, unless such dismissal results from gross negligence or serious misconduct on his part or if he resigns from this position.

Pursuant to Article L.225-42-1 of the French Commercial Code, the payment of this severance would be subject to the following performance conditions:

- payment of half the severance would depend on the market performance of the Company's shares, and would be due only if the average price of the Company's shares on Euronext Paris in the last three months preceding Mr. Moulin's dismissal is less than 50% of the average price recorded since the completion of the Company's IPO;

- the payment of half the severance would depend on the progress made by the Company in its exploration and production operations; this progress will be measured and considered satisfactory if, during the six months prior to the dismissal of Mr. Moulin, at least one of the following events has occurred: (i) at least one new exclusive exploration permit or concession has been awarded; (ii) gas production has started on at least one of the Group's drilling sites; (iii) electrical power production has increased from the Gazonor production sites.

- **Johannes Niemetz** - Services agreement with LFDE International

Under the services agreement signed by the Company with Karlin Limited SDN BHD ("Karlin"), a company controlled by Johannes Niemetz, the terms of which are detailed in section 3.6.2.6 below, and under which fixed fees of € 50,000 per year are payable to Karlin, Karlin grants the Company exclusivity, in consideration for which the Company has agreed to pay Karlin an amount equal to two years of consultancy fees in the event of the termination of the agreement.

- **Antoine Forcinal** - Employment contract with the Company

On 1 November 2015, the Company and Mr. Forcinal signed a contract for the position of Chief Operating Officer of the Company.

Pursuant to this contract, Mr. Forcinal receives (i) fixed gross annual remuneration of € 135,000, and (ii) a relocation bonus of € 97,750 intended to offset the costs incurred by Mr. Forcinal, who previously worked in Switzerland, during his move to France, which will be paid until 31 December 2020. If the Company terminates Mr. Forcinal's contract following a change in control of the Company, Mr. Forcinal will have the right to receive severance pay in an amount equal to nine months of fixed gross remuneration. Housing with a maximum rental value of € 1,000 a month is also provided to Mr. Forcinal.

#### 3.6.2.6 Services agreements signed with the executive directors

- **Julien Moulin**

(i) Services agreement signed between his personal holding company and the Company

On 24 June 2015, the Company and Nebula Resources Limited ("NRL"), a UK company controlled by Mr. Moulin, signed a services agreement to define the terms and conditions under which NRL provides consulting services to the Company. These services consist of (i) lobbying activities, particularly with European institutions responsible for energy policy, and (ii) financial consulting services in the context of the preparation of the Company's IPO and, more generally, in identifying sources of financing for the Company.

This agreement was mentioned in the Special Statutory Auditors' Report and was approved by the general partners' meeting of the Company held 25 November 2015.

This agreement was terminated by mutual agreement between the parties on 30 June 2016.

(ii) Services agreement signed by NextGen NRJ Limited and LFDE International

As a result of the opinion rendered by the Appointments and Remuneration Committee on 30 June 2016, the Board of Directors, at its meeting on the same date, decided to approve and authorise LFDE International, the Luxembourg subsidiary of the Company responsible for the Group's international development, to sign with the UK company NextGen NRJ Limited, the personal holding company of Mr. Moulin, a specific contract for the provision of these specific public relations services, particularly at European level, and to seek financing within the community of international investors, including those based in London.

Mr. Moulin is a UK resident and spends a large proportion of his time in London, where he has access to a large community of international investors. The terms of this agreement would be as follows:

- Two types of services are provided by NextGen NRJ Limited:
  - public relations services: the service provider undertakes to promote the activities of the Company, particularly with the bodies of the European Union responsible for energy projects;
  - services related to the identification of external growth and financing transactions: the service provider agrees to provide its financial expertise to the Company in the preparation of future acquisitions, and to promote the Company with banks, investment funds and family offices**.**
- In consideration for these services, LFDE International pays NextGen NRJ Limited fees of € 10,000 per month before tax.

The Board has noted that these services require specific lobbying skills and financial expertise which are distinct from the more general skills employed by Mr. Moulin in the daily management of the Company, and that NextGen NRJ Limited may employ experts other than Julien Moulin to render these services.

As NextGen NRJ Limited is granting the Company exclusivity, it was agreed that the Company would pay NextGen NRJ Limited an amount equal to two years of consultancy fees if the contract is terminated.

- **Johannes Niemetz -** Services agreement signed by Karlin Limited SDN BHD and LFDE International

On 25 June 2015, the Company signed a service agreement with Karlin Limited SDN BHD ("Karlin"), a company controlled by Johannes Niemetz, for the provision of financial consulting services.

This agreement was initially signed in 2011 with European Gas Limited (Australia), then transferred to the Company in July 2012 in the context of the separation of European Gas Limited (Australia) from the rest of the Group. The consulting services provided by Karlin involve finding acquisition opportunities for the Company (including “farm-out” and “farm-in” calls for tender) and consulting on the valuation of possible targets and on the establishment of acquisition or financing transactions.

Fixed fees of € 50,000 per year are payable to Karlin. In consideration for Karlin granting the Company exclusivity, the Company has agreed to pay Karlin an amount equal to two years of consultancy fees in the event of the termination of the agreement.

It should be noted that this agreement was mentioned in the Special Statutory Auditors’ Report for the financial year ended 30 June 2015, and was approved by the general partners’ meeting of the Company held 25 November 2015.

Because the Board wishes to encourage the Company’s international growth and find international investors, and wants to use LFDE International for this purpose, the Company’s assigned this contract to Luxembourg subsidiary responsible for the Group’s international development

Based on the opinion provided by the Appointments and Remuneration Committee on 30 June 2016, the Board of Directors, at its meeting on the same date, authorised and approved the signature of this services agreement, which will be the subject, as required, of a Special Statutory Auditors’ Report, and will be submitted to a vote in the Ordinary Shareholders’ Meeting of the Company called to approve the financial statements for the financial year ended 30 June 2016.

#### 3.6.2.7 Other benefits

No Group company has granted loans or guarantees to the directors and executives of the Company.

### 3.6.3 Information on the Company’s share capital

- **Composition of the share capital**

Pursuant to the provisions of Article L. 233-13 of the French Commercial Code, we have provided below the breakdown of the Company’s shareholders as at 30 June 2016:

| **Principal Shareholders** | **Number of shares** | **% of capital and theoretical voting** | **% of real voting rights** |
|---|---|---|---|
| Deltec Bank & Trust Clients | 952,423 | 18.8% | 18.8% |
| Chaldon Asia Limited | 493,692 | 9.7% | 9.7% |
| LCF Rothschild Clients | 453,944 | 9.0% | 9.0% |
| EGL UK | 403,905 | 8.0% | 8.0% |
| Maritime Manufacturers Associates | 350,000 | 6.9% | 6.9% |
| Ginkgo Holdings | 305,300 | 6.0% | 6.0% |
| Julien Moulin | 267,290 | 5.3% | 5.3% |
| Financière Gabriele | 189,447 | 3.7% | 3.7% |
| Crédit Mutuel du Nord Europe (CMNE) | 185,185 | 3.7% | 3.7% |
| Financière De Rosario | 128,992 | 2.5% | 2.5% |
| **Total Principal Shareholders** | **3,953,352** | 79.4% | 79.4% |
| Others holding less than 1.4% of the capital and individual voting rights | **1,111,823** | **20.6%** | **20.6%** |
| **Total** | **5,065,175** | **100%** | **100%** |

There are no securities giving rights to the Company’s share capital.

- **Bonus share plan**

The Combined Ordinary and Extraordinary Partners’ Meeting on 23 March 2016 approved the implementation of a bonus share plan (BSP) for some or all of the employees and executives of the Group and, on 30 June 2016, the Board of Directors adopted the bonus share plan and defined the initial plan as detailed in 3.6.2.4 above.

- **Delegations of authority for capital increases**

The following table lists the financial delegations and authorisations in effect at 30 June 2016:

| **Type of authorisation** | **Date of BSP (Resolution No.)** | **Duration and expiration** | **Amount authorised (nominal or %)** | **Use** |
|---|---|---|---|---|
| Delegation of authority to the Board of Directors to issue shares with elimination of the pre-emptive subscription right, and a public offering in the context of the Company’s IPO. | 23 March 2016 (Resolution No. 8) | 18 months | € 3,000,000 | Capital increase in the context of the IPO approved on 10 June 2016 by the Board of Directors and executed on 14 June 2016 by decision of the Chairman-CEO.<br>Amount: nominal value of € 1,388,889 and share premium of € 36,111,114 |
| Authorisation to the Board of Directors to award bonus shares to employees and corporate officers of the Company and its subsidiaries | 23 March 2016 (Resolutions No. 9 and 10) | 36 months | 5% of the share capital of the Company (on the date of the award decision by the Board of Directors) | Award of bonus shares approved by the Board of Directors on 30 June 2016 and adoption of the Plan Rules. |
| Delegation of authority to the Board of Directors to decide on the issue, with maintenance of the pre-emptive subscription right, of ordinary shares or securities that are equity securities giving rights to other equity securities, or giving the right to the allocation of debt securities, or securities giving the right to equity securities to be issued. | 23 March 2016 (Resolution No. 11) | 26 months | • Nominal amount of the capital increases limited to € 6,000,000;<br>• Nominal amount of the debt securities limited to € 300 million. | |
| Delegation of authority to the Board of Directors to decide on the issue, with elimination of the pre-emptive subscription right, through a public offering, of ordinary shares or securities that are equity securities giving rights to other equity securities, or giving the right to the allocation of debt securities, or securities giving the right to equity securities to be issued. | 23 March 2016 (Resolution No. 12) | 26 months | • Nominal amount of the capital increases limited to € 3,000,000;<br>• Nominal amount of the debt securities limited to € 300 million. | |

| Type of authorisation | Date of the Shareholders' Meeting (Resolution No.) | Duration and expiration | Amount authorised (nominal or %) | Use |
|---|---|---|---|---|
| Delegation of authority to the Board of Directors to decide on the issue, with elimination of the pre-emptive subscription right, through an offering described in Article L.411-2 II of the French Monetary and Financial Code, of ordinary shares or securities that are equity securities giving rights to other equity securities, or giving the right to the allocation of debt securities, or securities giving the right to equity securities to be issued. | 23 March 2016 (Resolution No. 13) | 26 months | • Nominal amount of the capital increases limited to € 3,000,000;<br>• Nominal amount of the debt securities limited to € 300 million. | |
| Delegation of authority to the Board of Directors to increase the amount of the issues executed, with maintenance or elimination of the pre-emptive subscription right of shareholders | 23 March 2016 (Resolution No. 14) | 26 months | 15% of the amount of the initial issue | |
| Delegation of authority to the Board of Directors to set the issue price of ordinary shares or securities that are equity securities giving rights to other equity securities, or giving the right to the allocation of debt securities, or securities giving the right to equity securities to be issued, issued through a public offering or an offering described in Article L.411-2 II of the French Monetary and Financial Code, with elimination of shareholders' pre-emptive subscription right, up to a limit of 10% of the capital per year. | 23 March 2016 (Resolution No. 15) | 26 months | 10% of the share capital (on the date the issue price is set by the Board of Directors), per 12-month period | |
| Delegation of powers to the Board of Directors to decide to issue ordinary shares or securities giving rights to the Company's share capital up to a limit of 10% of the share capital, with elimination of the shareholders' pre-emptive subscription right, in consideration for contributions in kind made to the Company. | 23 March 2016 (Resolution No. 16) | 26 months | 10% of the share capital (on the date of the Board meeting that approves the issue) | |

| Type of authorisation | Date of the Shareholders' Meeting (Resolution No.) | Duration and expiration | Amount authorised (nominal or %) | Use |
|---|---|---|---|---|
| Delegation of authority to the Board of Directors to increase the share capital through the issue of equity securities or securities that are equity securities giving rights to other equity securities, or giving the right to the allotment of debt securities, or securities giving the right to equity securities to be issued, with elimination of the pre-emptive subscription right in favour of the participants in a savings plan | 23 March 2016 (Resolution No. 17) | 26 months | 2% of the share capital (on the date of the decision of the Board of Directors) | |
| Authorisation to the Board of Directors to reduce the share capital by cancelling shares | 23 March 2016 (Resolution No. 18) | 18 months | 10% of the existing capital on the date of the cancellation per 24-month period | |
| Delegation of authority to the Board of Directors to decide a capital increase through the capitalisation of premiums, reserves, profits or other funds that may be capitalised | 23 March 2016 (Resolution No. 19) | 26 months | Limited to € 3,000,000 | |
| Authorisation to the Board of Directors to trade in the shares of the Company | 23 March 2016 (Resolution No. 20) | 18 months | • Limited to € 20 million;<br>• Maximum number of shares which the Company may acquire limited to 10% of the shares composing the share capital;<br>• Maximum purchase price of 200% of the IPO price. | |

- **Change in the LFDE shares**

The IPO price was set at € 27 per share by the Board of Directors on 10 June 2016.

At 30 June 2016, the shares of the company were traded at a value of € 21 on Compartment C of Euronext Paris.

- **Company trading in its shares**

Pursuant to Article L.225-209-1 of the French Commercial Code, we are reporting to you on the Company's sale and purchases of its own shares in order to regulate the share price.

During the financial year ended 30 June 2016, the Company traded in its own shares under a liquidity contract signed for a term of one year with the independent financial services provider Aurel BGC.

As at 30 June 2016, the Company held 4,242 of its own shares, which is less than 0.1% of the share capital, purchased for an average cost price of € 21.49. Sales of shares executed under the liquidity contract generated a loss of € 2,056.

### 3.6.4 Related-party agreements

The agreements stipulated in Articles L.225-38 et seq. of the French Commercial Code, i.e. the "related-party" agreements, which were authorised, prior to their signing, by the Board of Directors during the financial year ended 30 June 2016, will be submitted for the approval of the general meeting.

Pursuant to the provisions of Article L.225-40 of the French Commercial Code, these agreements were the subject of a Statutory Auditors' Report and must be submitted for approval of the general shareholders' meeting of the Company.

#### 3.6.4.1 List of related-party agreements signed during the financial year ended 30 June 2016:

**i) Services agreement signed by NextGen NRJ Limited and LFDE International**

The conditions and amounts of this contract are detailed in section 3.6.2.6 (ii) above.

**ii) Third debt write-off for the benefit of the Company by European Gas Limited and first amendment to the Reorganisation and Cooperation Agreement of 25 June 2015**

In the context of the Group's Reorganisation in June 2015, on 25 June 2015, the Company signed an agreement with European Gas Limited ("EGLUK") entitled "Reorganisation and Cooperation Agreement" (the "Reorganisation Agreement") intended to organise a separation of the two entities (the Company ceased to be a subsidiary of EGLUK as a result of this restructuring) in an ordered manner over a two-year period.

Under the terms of the Reorganisation Agreement, EGLUK and the Company also agreed to settle certain financial commitments still pending between the two companies at the end of the June 2015 restructuring. Thus, in consideration for the Company's agreement to fund, at the end of its IPO, the repayment of the € 3 million convertible debt (the “Convertible Loan”) subscribed by EGLUK with some of its shareholders in 2014, EGLUK agreed to gradually forgive the EGLUK Loan over a period of five years.

Under the Reorganisation Agreement, the Company also agreed to employ its best efforts to implement, together with EGLUK, a second buyback transaction enabling EGLUK shareholders to purchase EGLUK shares (or a transaction with an equivalent result) similar to the transaction completed in June 2015, in order to allow shareholders of EGLUK who did not participate in the first buyback transaction (for example, because of applicable regulatory restrictions) to have an opportunity to become shareholders of the Company.

In addition, the principles set forth in the Reorganisation Agreement concerning the progressive waiver of the EGLUK Loan over a five-year period were detailed in an implementation agreement on 25 June 2015 signed by EGLUK and the Company (titled “Waiver Implementation Agreement”). As part of this agreement, EGLUK and the Company have already signed two debt waiver agreements (titled “Waiver Amendment No. 1/ No. 2”), to forgive a portion of the EGLUK Loan for the year ended 30 June 2015 and for the first half of the financial year ended 30 June 2016.

Following the recommendation made by the Appointments and Remuneration Committee on 30 June 2016, the Board of Directors, at its meeting on the same date, authorised and approved the third debt waiver agreement (“Waiver Amendment No. 3”) for the financial year ended 30 June 2016.

In addition, as the Company met its commitment to provide EGLUK with the funds necessary to repay the Convertible Loan, the same Board meeting on 30 June 2016 authorised and approved the amendment to the Reorganisation Agreement, which stipulates that, after 31 December 2016, the Company will no longer have an obligation to provide any financial assistance to EGLUK or to initiate any new redemption or exchange transactions for EGLUK shareholders, and that the balance of the EGLUK Loan must (unless otherwise agreed by the parties) be considered definitively forgiven.

#### 3.6.4.2 List of prior related-party agreements, the performance of which continued during the financial year ended 30 June 2016:

#### i) Services agreement signed by Nebula Resources Limited and the Company

On 24 June 2015, the Company and Nebula Resources Limited (“NRL”), a UK company controlled by Mr. Moulin, signed a services agreement to define the terms and conditions under which NRL provides consulting services to the Company. These services consist of (i) lobbying activities, particularly with European institutions responsible for energy policy, and (ii) financial consulting services in the context of the preparation of the Company’s IPO and, more generally, in identifying sources of financing for the Company.

This agreement was mentioned in the Special Statutory Auditors’ Report and was approved by the general partners’ meeting of the Company held on 25 November 2015.

This agreement was terminated by mutual agreement between the parties on 30 June 2016.

#### ii) Services agreements signed by Karlin Limited SDN BHD and the Company

On 25 June 2015, the Company signed a services agreement with Karlin Limited SDN BHD ("Karlin"), a company controlled by Johannes Niemetz, for the provision of financial consulting services.

This agreement was initially signed in 2011 with European Gas Limited (Australia), then transferred to the Company in July 2012 in the context of the separation of European Gas Limited (Australia) from the rest of the Group. The consulting services provided by Karlin involve finding acquisition opportunities for the Company (including "farm-out" and "farm-in" calls for tender) and consulting on the valuation of possible targets and carrying out acquisition or financing transactions.

Fixed fees of € 50,000 per year are payable to Karlin. In consideration for Karlin granting the Company exclusivity, the Company has agreed to pay Karlin an amount equal to two years of consultancy fees in the event of the termination of the agreement.

It should be noted this that agreement was mentioned in the Special Statutory Auditors' Report for the financial year ended 30 June 2015, and was approved by the general partners' meeting of the Company held 25 November 2015. It was transferred to LFDE International by a decision of the Board of Directors on 30 June 2016.

#### iii) Reorganisation and Cooperation Agreement of 25 June 2015

In the context of the Group's Reorganisation in June 2015, on 25 June 2015, the Company signed an agreement with European Gas Limited ("EGLUK") titled "Reorganisation and Cooperation Agreement" (the "Reorganisation Agreement") intended to organise a separation of the two entities (the Company ceased to be a subsidiary of EGLUK as a result of this restructuring) in an ordered manner over a two-year period.

It should be noted that this agreement was mentioned in the Special Statutory Auditors' Report for the financial year ended 30 June 2015, and was approved by the general partners' meeting of the Company held 25 November 2015. It was transferred to LFDE International by a decision of the Board of Directors on 30 June 2016.

### 3.6.5 Employee shareholders

Pursuant to the provisions of Article L. 225-102 of the French Commercial Code, we are informing you that no company savings plan has been established for the employees of the Company. At 31 December 2015, employee profit-sharing calculated according to the provisions of Article L. 225-102 of the Commercial Code amounted to 0%.

### 3.6.6 Information on payment deadlines for the Company's suppliers

As required by Articles L.441-6-1 and D.441-4 of the French Commercial Code, we are informing you that, at the close of the two financial years ended, the breakdown by due date of the balance of trade payables was as follows:

| Trade payables | At 30 June 2015 | | At 30 June 2016 | |
|---|---|---|---|---|
| | **Amount (€)** | ***% of total*** | **Amount (€)** | ***% of total*** |
| **Due*** | 512,617 | *45.45%* | 2,847,680 | *66.29%* |
| **1 to 30 days** | 508,934 | *45.11%* | 251,454 | *5.85%* |
| **30 to 90 days** | 92,025 | *8.16%* | 234,813 | *5.47%* |
| **Over 90 days** | 14,449 | *1.28%* | 961,723 | *22.39%* |
| **Total** | **1,128,025** | ***100.00%*** | **4,295,670** | ***100.00%*** |

**Included in the "Due" category of trade payables is an amount of € 2,234,365 which represents invoices not yet received for trade payables and related accounts*

### 3.6.7 Non tax-deductible expenses

Pursuant to the provisions of Articles 223 (4) and 223 (5) of the General Tax Code, we are informing you that the financial statements for the financial year ended included non tax deductible expenses in the amount of € 1,849.

### 3.6.8 Company income (loss) over the last 5 financial years

| *Closing date*<br>*Duration of the financial year (months)* | **30/06/2016**<br>12 | **30/06/2015**<br>12 | **30/06/2014**<br>12 | **30/06/2013**<br>12 | **30/06/2012**<br>12 |
|---|---|---|---|---|---|
| **CAPITAL AT FINANCIAL YEAR-END** | | | | | |
| Share capital | 5,065,175 | 3,226,620 | 758,310 | 758,310 | 758,310 |
| Number of ordinary shares | 5,065,175 | 3,226,620 | 75,831 | 75,831 | 75,831 |
| Number of bonds convertible into shares | - | - | - | - | - |
| **TRANSACTIONS AND INCOME (LOSS)** | | | | | |
| Revenue before tax | - | - | - | - | - |
| Income (loss) before tax, profit-sharing, amortisation, depreciation and provisions | 1,211,814 | 714,852 | (960,088) | (436,424) | (12,148) |
| Income tax | (601,378) | - | - | - | - |
| Employee profit-sharing | - | - | - | * | - |
| Amortisation, depreciation and provisions | (11,816) | (16,551) | - | - | - |
| Net income (loss) | 598,620 | 698,301 | (960,088) | (436,424) | (12,148) |
| **EARNINGS PER SHARE** | | | | | |
| Earnings after tax, profit-sharing, before amortisation, depreciation and provisions | *0.12* | *0.22* | *(12.66)* | *(5.76)* | *(0.16)* |
| Earnings after tax, profit-sharing, amortisation, depreciation and provisions | *0.12* | *0.22* | *(12.66)* | *(5.76)* | *(0.16)* |
| Dividend paid per share | - | - | - | - | - |
| **PERSONNEL** | | | | | |
| Average number of employees | 16 | 14 | 7 | 10 | - |
| Payroll expenses | 1,139,324 | 568,530 | 541,091 | 207,371 | - |
| Social contributions | 465,053 | 257,071 | 222,841 | 82,519 | - |

# 4. MAIN RISKS AND UNCERTAINTIES OF THE COMPANY

The Company considers the following risks to be the main material risks affecting the Group. The shareholders and the potential investors should be aware of such risks. However, this list of risk factors is not intended to be exhaustive and do not necessarily comprise all of the risks to which the Group is or may be exposed or all those associated with an investment in the Company.

There may be additional risks and uncertainties that are not currently known to the Group, or that the Group currently deems not significant at this stage. If any of the risks referred to below, or such new risks, occurs, the Group's business, financial condition, results of operations, prospects, and future activities could be materially adversely affected.

## 4.1. GENERAL RISKS ASSOCIATED WITH THE NATURAL GAS INDUSTRY

Activities relating to the exploration, appraisal, development, and production of natural gas are subject to various risks including the following. The realization of any of the risks below could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and future operations.

***Exploration, appraisal, development and production of natural gas involve numerous risks and substantial costs***

The Group's future financial condition and results of operations are dependent on the success of its exploration, appraisal, development, and production activities. Exploration, appraisal, development, and production activities are subject to numerous risks some of which are beyond the Group's control, including the risk that drilling will not result in commercially viable natural gas production. The decision to explore and appraise or otherwise develop and drill locations or assets will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data, and engineering studies, the results of which are subject to varying interpretations and may be inconclusive. The costs associated with drilling, completing and operating wells are often uncertain before drilling commences. Correspondingly, the costs associated with producing commercially viable volumes of natural gas are often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical.

Further, many factors may curtail, delay, or cancel scheduled drilling projects, including the following:

- shortages of or delays in obtaining equipment and qualified personnel;
- facility or equipment malfunctions, drilling hazards or environmental damage;
- unexpected operational events;
- pressure or irregularities in geological formations;
- adverse weather conditions, such as flooding and storms;
- insufficient connection, storage or transportation capacity;

- reductions in natural gas prices;
- delays imposed by or resulting from compliance with regulatory requirements;
- proximity to and capacity of transportation facilities;
- limitations in the market for natural gas;
- costs and availability of contractual arrangements for properties or equipment associated with the Group's activities; and
- delays in obtaining or renewing permits.

The Group's management team has identified and scheduled drilling locations on its acreage covered by the permits held by the Company over a multi-year period. The ability to drill and develop these locations depends on a number of factors, including the availability of equipment and capital, seasonal conditions, regulatory approvals, natural gas prices, costs and drilling results. The final determination on whether to drill any of these drilling locations will be dependent upon different factors, particularly the results of the Group's drilling activities with respect to its established drilling locations. Because of these uncertainties, the Group does not know if the identified drilling locations will be drilled within its expected timeframe, or at all, or if the Group will be able to economically produce natural gas from these or any other potential drilling locations. As such, the Group's actual drilling activities may be materially different from its current expectations.

Separately, the Group's completed natural gas wells and drilled holes may not produce reserves of natural gas that meet its earlier estimates of economically recoverable reserves.

Prospective resources are those estimated quantities of hydrocarbons (including CBM), as of a given date, that are potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both a related chance of discovery and a chance of development. There is no certainty that the Group will discover additional resources. If discovered, there is no certainty that a resource will be commercially viable to produce any portion of the resources. The Group cannot assure investors that it will be able to actually discover resources or to develop them commercially.

The Group's resources are in various stages of evaluation, and may range from a resource that has already been fully appraised and is ready to be drilled to a resource that will require substantial additional seismic data processing and interpretation and other technical analysis.

The Group faces numerous uncertainties about the feasibility of extraction of hydrocarbons. Developing a hydrocarbon production field requires significant investments to drill production wells and build facilities in order to extract, store and transport hydrocarbons over the duration of the permit, and generally over several decades, whereas the estimated hydrocarbon may finally be incapable of extraction. Delays in the construction of production projects or other technical difficulties may result in any projected production being delayed or further capital expenditure being required. In the production phase, hydrocarbon reserves generally decline at a shallow rate after initial increases in production. The rate of decline from the Group's projected wells may change in a different manner than what has been estimated. This could affect the Group's development and production plan.

The plan to ultimately develop production is dependent on the successful continuation of existing drilling works, which may be negatively affected by risks inherent to such activities, including disruptions in the operation of the wells, equipment break-downs and other mechanical failures, availability of technical resources, environmental hazards, natural disasters and “acts of God”. Drilling operations may also be affected by unexpected geological conditions, which include for instance geological anomalies and uncontrolled flows of groundwater, natural gas or other fluids, which may disrupt the operations and damage the wells, temporarily or permanently, causing the loss of the wells and of the related costs and investments. As a consequence of these risks, the Group may drill some wells that are non-productive and which must be plugged and abandoned.

The Group’s operations also may be disturbed by equipment malfunctions or break-downs affecting the drilling equipment. Operations involving the use of such equipment require skilled and experienced personnel to allow their proper operation and to minimize the risk of serious injury or damage, and break-downs can cause disruptions to the drilling activities and damages to the wells. The Group may therefore face interruptions or delays with respect to its existing and future exploration and production activities, which could result in disruptions or changes to the Group’s development projects, or an increase in development costs that may compromise the economics of the development.

In addition, the materialization of the risks described above may result in the carrying value on the Group’s proved assets not being recoverable and therefore an impairment charge being required to reduce the carrying value of the proved assets to their estimated fair value, as discussed in more detail below.

In addition, the use of seismic data and other technologies and the study of producing fields in the same area will not enable the Group to know conclusively prior to drilling whether natural gas will be present or, if present, whether natural gas will be present in commercial quantities. Seismic data is a method used to determine the depth and orientation of subsurface rock formations. Even when properly used and interpreted, 2D and 3D seismic data and visualization techniques are only tools used to assist geoscientists in identifying subsurface structures and hydrocarbon indicators and do not enable geoscientists to know definitively whether hydrocarbons are, in fact, present in those structures or the amount of hydrocarbons present. The use of seismic and other advanced technologies requires greater pre-drilling expenditures than traditional drilling strategies, and the Group might not be able to recover such expenditures. As such, the Group’s drilling activities may not be successful or economical, and its overall drilling success rate, or drilling success rate for activities in a particular area, could decline and the resources expected may not materialize. The Company cannot assure investors that the analogies drawn from available data from other wells, more fully explored resources or producing fields will be applicable to the Group’s drilling resources.

***The Group’s activities involve many operational risks, some of which might result in substantial losses and unforeseen interruptions of the activities***

The Group’s operations are subject to all the risks normally incidental to the exploration, appraisal, development, and production of natural gas, including:

- blowouts, cratering (catastrophic failure), explosions and fires;
- adverse weather effects and natural disasters;
- environmental hazards, such as natural gas leaks and pipeline ruptures;
- uncontrolled flows of natural gas or well fluids;

- high costs of drilling rigs and other essential equipment, supplies, personnel and gas field services, shortages or delivery delays of equipment, materials, labour or other services;
- facility or equipment malfunctions, failures, or accidents;
- pipe or cement failures or casing collapses;
- reservoir damage; restrictions linked to licensing or regulatory issues;
- lost or damaged gas field workover and service tools;
- unusual or unexpected geological formations or pressure or irregularities in formations; and
- protests or disruptions caused by local communities, organizations and activist movements acting for ecological or political purpose.

The cost to develop the Group's projects has not been fixed and remains dependent upon a number of factors, including the completion of detailed cost estimates and final engineering, contracting and procurement costs. The Group's construction and operation schedules may not proceed as planned and may experience delays or cost overruns. Any delay may increase the costs of the projects, requiring additional capital, and such capital may not be available in a timely and cost-effective fashion.

The Group's overall exposure to operational risks may increase as its operations expand. Any of these risks could result in substantial losses due to claims in relation to injury or loss of life, worker's compensation, production facilities or other property. Exposure to operational risks may subject the Group to clean-up responsibilities, regulatory investigations and penalties; suspension of operations and default in obligations to third parties, which could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, and future operations.

***The quantity and commerciality of any of the Group's discoveries remain uncertain in the development phase***

At the time exploration operations are launched, there are still numerous uncertainties about the quality of hydrocarbons that may be discovered and, as the case may be, produced. Knowledge of reserves can sometimes be unpredictable and may only be acquired gradually during the course of exploration. Should the estimate of hydrocarbon reserves and the economic analysis justify the development of a discovery, the quantity and quality of the reserves discovered may, during production, turn out to be lower than predicted, or may vary from one well to another, and thus compromise the economics of the operation. In addition, in order to market such natural gas, the quality of the natural gas must comply with certain criteria (for instance, in terms of percentage of methane). If the quality of the natural gas turns out to be lower than expected, the improvement of the quality of the natural gas may generate additional costs (such as the insertion of natural gas treatment units) which may compromise the profitability of the production of such natural gas, or even affect the commerciality of the natural gas produced.

If the actual reserves or resources of the Group prove to be less than the current estimates, or of lesser quality than expected, the Group may be unable to recover and produce the estimated levels or quality of hydrocarbon (including CBM) set out in the Registration Document published for the Company initial public offering and included in its annual report. In such case, the Group may not recover the capital expenditures and operating costs that it has spent on exploration, development and production works.

***The activities of the Group depend of the availability of drilling and production equipment***

The activities of the Group are dependent on the availability of the equipment used to carry out exploration works, such as drilling rigs. The level and location of drilling activity around the world impact the availability of drilling rigs and other equipment as well as third party services or technical contractors. An increase in drilling operations in France could therefore affect the availability of equipment and services to the Group.

The Group may have difficulties sourcing the exploration and production equipment it requires in the timeframe envisaged by the Group's plans due to high global demand for such equipment. The reduced availability of equipment and services, as well as heir potentially high cost, may delay the Group's ability to carry out its explorations activities and, in case of discovery, to exploit reserves, and may as a result adversely affect the Group's operations and profitability. Should the Group decide to enter into executive or long term contracts with certain providers of drilling equipment, the Group may become dependent upon such providers and subject to a risk of default from such providers.

***Future declines in natural gas prices may adversely affect the Group's business and could result in an impairment loss if the Group is required to reduce the carrying value of its proved natural gas assets***

The market price of, and demand for, natural gas is (and is likely to continue to be) volatile and is driven by a variety of factors, such as the price of oil, international supply and demand, the level of consumer product demand, and political and regulatory changes.

In particular, the natural gas energy industry is subject to ongoing development throughout the world and the entry of new competitors. New competitors could either operate in the natural gas sector (for example, in the development of shale natural gas in Europe or Russia or increasing LNG import from Africa or North America) or in the sector of alternative energy sources (such as solar or wind energies). Such other types of energies may be produced and marketed at a lower price than that associated with the natural gas resources and reserves operated by the Group.

It is impossible to accurately forecast future natural gas price movements, and there can be no assurance that existing natural gas prices will be maintained in the future. Any material decline in natural gas prices could result in a decrease in the valuation of the Group (in particular as it may impact the level of reserves estimates) and a change in its development plans. Sustained downward movements in natural gas prices could render less profitable, or wholly unprofitable, some or all of the exploration activities of the Group, and therefore adversely affect the value of the Group's exploration assets and the potential future natural gas production related activities to be undertaken by the Group.

Declines in natural gas prices may also result in the Group having to make substantial downward adjustments to its estimated proved reserves. If this occurs, or if the Group's estimates of production or economic factors change, IFRS accounting rules may require the Group to impair, as a non-cash charge to earnings, the carrying value of its natural gas assets.

The Group is required to perform impairment tests on proved natural gas assets for each annual accounts reporting date and whenever events or changes in circumstances indicate that the carrying value of proved assets may not be recoverable. To the extent such tests indicate a reduction in the estimated useful life or estimated future cash flows of the Group's natural gas assets, the carrying value may not be recoverable and therefore an impairment charge will be required to reduce the carrying value of the proved assets to their estimated fair value. The Group periodically evaluates its unproved natural gas assets and could be required to recognize assets impairments. These evaluations are affected by the results of exploration activities, commodity price outlooks, planned future sales or expiration of all or a portion of the leases, contracts and permits pertaining to such projects. If the quantity of potential reserves determined by such evaluations is not sufficient to fully recover the cost invested in each project, the Group will recognize impairment losses. Likewise, further declines in the price of natural gas may cause a decrease of the expected future cash flows and require an impairment loss to be recognized.

## 4.2 SPECIFIC RISKS ASSOCIATED WITH THE GROUP AND ITS ACTIVITIES

Activities relating to the exploration, appraisal, development, and production of natural gas are subject to various risks including the following. The realization of any of the risks below could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, and future operations.

***The Group has incurred losses and has earned no revenue over the past two financial years, and it may never achieve a sustainable profitability***

For the financial years ended June 30, 2015, and June 30, 2016, the Group incurred net losses and also recorded negative operating cash flows. There can be no assurance that the Group will ever earn sufficient revenues to offset past, current and future losses and achieve profitability, which could impair its ability to pursue its operations. Moreover, even if the Group achieves profitability, such profitability may not be sustainable.

***The Group has a limited operating history and its success is dependent on its ability to generate cash flow from future operations***

The Group's operations are speculative and at an early stage of development, and its success will depend upon the Group's management ability to manage the current projects and to identify and take advantage of further opportunities which may arise. Before the closing of the acquisition of Gazonor, the Group had no assets producing positive cash flow and its ultimate success will depend on its ability to generate cash flow from economically viable projects. Even after the acquisition of Gazonor, there is no guarantee that the cash flows generated by Gazonor are sufficient to cover the working capital requirements of the Group in the future.

Gazonor's capacity of development, the amount of results expected and its capacity to achieve its business plan are uncertain. The Group may be unable to meet its development objectives and its activity may not attain results and return on investment. As a young exploration company, market perception, in particular in the natural gas sector, may quickly change, which could impact the Group's reputation and, as a result, the value of investors' holdings, creating the volatility of the valuation of the Group.

The Group's projects have no recent operating history upon which to base estimates of future cash operating costs. For early stage projects, estimates of resources, reserves, capital requirements and operating costs are, to a large extent, based upon the interpretation of geological data and a series of assumptions including operating costs and expected production. These assumptions may prove wrong and as a result it is possible that actual operating costs and economic returns may differ materially from those estimated.

***The Group's actual results of operations may differ significantly from certain information included in its Registration Document or expert reports***

The Group has included in its Registration Document published for the Company initial public offering certain information from the CPR (Competent Person Report), because the Group believes that their evaluations are helpful to an investor's understanding of its business operations. These reports are based on certain assumptions, including, among others, forward-looking assumptions about development time frames including government approvals and development of infrastructure, production capacities, fixed capital costs, operating costs, product prices, sales levels, inflation rates, exchange rates and financing costs. This information is provided for illustrative purposes only. Investors should in particular make their own assessment as to future prices for natural gas and as to the appropriate discount rate for projects of this size and type.

These forward-looking assumptions may differ from the Group's development plans or may require revision in light of actual production experience, operating costs, natural gas prices and other factors. In particular, operating costs, product prices, exchange rates and financing costs have been assumed based on current market conditions which may or may not prove to be stable in the medium to long-term. These costs and exchange rates have experienced significant fluctuations in the past and may fluctuate in the future. The Group cannot assure you that its actual net present value, operating costs and earnings, among other things, will not differ materially from its estimates in its Registration Document published for the Company initial public offering and included in its annual report. If there is a significant change in the above factors, the Group's actual results of operations may be materially and adversely affected. You are therefore cautioned not to rely unduly on the conclusions stated in the reports.

***The reserves and resources data for the Group's natural gas assets are estimates and may differ materially from the actual figures and may not ultimately be extracted at a profit***

The Group's business, which relies on the discovery and extraction of hydrocarbons, is dependent upon the analysis of geological data and assessments, describing potential or identified reserves and resources, carried out by the Group or by third-party experts, which are inherently uncertain and may prove wrong. Regarding identification of reserves and resources, the Group relies in particular on data extracted from reports, in particular from the CPR, which has been prepared in accordance with the standards established by the 2007 Petroleum Resources Management System, approved by the Society of Petroleum Engineers, and historical data collected by Charbonnages de France.

The hydrocarbons estimated may be insufficient or incapable of extraction, or exploitation may not be commercially viable. Consequently, the Group cannot guarantee a return on any investments that are, or that will be, made with respect to future exploration, or that current exploration activities will be profitable.

Numerous uncertainties exist in estimating quantities of natural gas reserves and resources as well as net cash flows of the Group's proved reserves. The estimates set forth herein are based on various assumptions, which may ultimately prove to be inaccurate. The determination of such data is a subjective process of estimating underground accumulations of natural gas that cannot be measured in an exact manner. Estimates of economically recoverable natural gas reserves and resources as well as estimated net cash flows of the Group's proved reserves depend upon a number of variable factors and assumptions, including the following:

- historical production from the area compared with production from other producing areas;
- the quality and quantity of available data;
- the interpretation of that data;
- the assumed effects of regulations by governmental agencies;
- the production performance of the Group's reserves;
- assumptions concerning prevailing and future commodity prices;
- extensive engineering, geological and geophysical judgments;
- individual geologic chance factors, such as trap, source, reservoir and migration; and
- assumptions concerning future operating costs, severance, *ad valorem* and excise taxes, development costs, transportation costs and workover and remedial costs.

The estimates of reserves and resources are derived from expert reports (such as the CPR) and interpretations of seismic data and of well test results and in certain cases based on historical records of production. Such estimates are subject to various uncertainties that are beyond the Group's control. Actual reserves and production may therefore vary from estimates, and such variations may be material. Hydrocarbon resource and reserve estimates may require revisions and/or changes based on actual production experience and in light of the prevailing market price of natural gas.

Moreover, the natural gas estimates for Lorraine and Nord-Pas-de-Calais projects provided include prospective resources. Unlike reserves and contingent resources for natural gas, there is no certainty that any portion of such prospective resources will be discovered. The estimates for prospective resources were calculated based on undiscovered accumulations of natural gas and were based on a mathematical model incorporating probability and inferences and limited drilling.

There are also numerous factors and assumptions inherent in estimating the quantities and qualities of, and costs to drill, natural gas reserves, any one of which may vary considerably from actual results. These factors and assumptions include: natural gas characteristics such as energy, purity, equipment and productivity, operating costs, including for critical supplies such as fuel and explosives, capital expenditures and development and reclamation costs, the percentage of CBM or CMM ultimately recoverable, the effects of regulation, including the issuance of required permits, and taxes, including severance and production taxes and royalties, and other payments to governmental agencies and timing for the development of the reserves.

The Group's actual production, revenues and expenditures with respect to its natural gas reserves and resources will likely be different from estimates, and the differences may be material. Any inaccuracy in the Group's proven and probable reserves estimates could result in decreased profitability from lower than expected revenue and/or higher than expected costs and may affect the value of its Shares. In addition, the carrying value on the Group's proved reserves may not be recoverable and therefore an impairment charge will be required to reduce the carrying value of the proved reserves to their estimated fair value, as discussed in more detail above.

***The Group's natural gas reserves estimates may be incorrect over time or may not accurately reflect actual reserves, or even if accurate, some changes may prevent the Group from producing natural gas from these reserves under the circumstances expected***

The hydrocarbon resources and reserves data contained in the CPR and the Registration Document published for the Company initial public offering and included in its annual report are estimates only and should not be construed as representing exact quantities. Estimates are based on various assumptions which may prove to be incorrect at the time of the actual discoveries.

Geological and seismic analyses are also conducted prior to exploration drilling in order to decide on the location of drillings and whether to pursue exploration. Nevertheless, knowledge of reserves and resources may sometimes be unpredictable and only be acquired gradually during the course of exploration.

Evaluations of natural gas reserves involve multiple uncertainties and require exploration and production companies to make extensive judgments as to future events based upon the information available. Natural gas reserves data are estimates based primarily on internal technical analyses using standard industry practices. Such estimates reflect the Group's best judgment at the time of their preparation, based on geological and geophysical analyses and appraisal work (processes that are continual and yield new results over time), and may differ from previous estimates.

Reserves estimates are subject to various uncertainties, including those relating to the reservoir parameters of natural gas fields. These reservoir parameters may be difficult to estimate and, as a result, actual production may be different from current estimates of reserves. Factors affecting the Group's reserves estimates include: new production or drilling activities; assumptions regarding future performance of wells and surface facilities; field reviews; the addition of new reserves from discoveries or extensions of existing fields; the application of improved recovery techniques; and changed economic conditions.

Further, the Group has provided certain estimates regarding natural gas reserves in the Registration Document published for the Company initial public offering and included in its annual report. These estimates are based on volumetric analysis of the Group's various permit areas, lands and establishments which are combined in the CPR with a series of economic assumptions to form a model field development plan. The Company does not rely only on the assumptions and conclusions of the CPR to make its decisions regarding capital expenditures and development plans. The actual developments carried-out by the Group may therefore differ substantially from those set forth in the CPR. The Group cannot guarantee that the available level of hydrocarbons will correspond to the amount currently expected from the CPR. For example, the Group may launch exploration activities in an area where reserves and/or resources were previously identified by the CPR but where ultimately natural gas resources are absent or significantly below expected quality or quantities. The Group can also give no assurance that the reserves estimates upon which the Group has made investment decisions accurately reflect actual reserve level, or even if accurate, that technical limitations will not prevent the Group from retrieving these reserves and accordingly, investors should not rely on this natural gas reserves data as the primary basis for your investment decision.

***The Group's long-term success is dependent on identifying and developing new, profitable natural gas resources and reserves***

The future success of the Group's natural gas business depends upon the ability of the Group to find, appraise, develop and acquire additional natural gas reserves that are economically recoverable. To do this, the Group must identify and access new resources through exploration under existing permits, obtaining new exploration and production permits from the government or negotiations for the acquisition of rights over permits. The Group currently relies on the geological data describing identified resources and reserves, such as the data set forth in the CPR.

In the future, the Group will need to identify new natural gas resources and reserves, in order to continue its exploration activities and develop into production. In addition, currently identified natural gas reserves may not be profitably operated and new resources and reserves may be necessary for the Group to continue its activities. If the Group is unable to replace reserves through drilling or acquisitions, its level of production and cash flows will be adversely affected. In general, production from natural gas assets declines as reserves are depleted, with the rate of decline depending on the relevant reservoir characteristics. The Group's total reserves decline as reserves are produced unless the Group conduct other successful exploration and development activities or acquire assets containing reserves that are economically recoverable. The ability of the Group to make the necessary capital investment to maintain or expand its asset base of natural gas reserves could be impaired to the extent cash flow from operations is reduced and external sources of capital become limited or unavailable. As a result, the Group may not be successful in exploring, appraising, developing, and acquiring additional reserves, and the Group may also not be successful in raising funds to acquire additional reserves. The Group cannot assure investors that it will obtain new permits in high potential areas and that new resources will be discovered in sufficient quantity and quality to replace existing resources and reserves or to allow the Group to recover the capital invested in exploration activities and to ensure a return on the investments made.

***The Group's business requires significant capital expenditure, which may be higher than forecasted and may never be recovered***

Significant capital investment expenditures will be required to complete exploration and appraisal work on the Group's existing projects, to acquire new permits or develop exploration and appraisal work on new projects, and ultimately to achieve commercial production. The Group will therefore need to raise funds by way of equity financing and/or debt financing to finance its anticipated future operations, its working capital or capital expenditure requirements and to make acquisitions and finance its growth through future stages of development.

The estimated capital expenditure requirements of the Group are based on expected costs and certain assumptions with respect to the method and timing of exploration. By their nature, these estimates and assumptions are subject to significant uncertainties and, accordingly, the actual costs may materially differ from these estimates and assumptions. Should the Group's capital expenditure requirements turn out to be higher than expected (for example, if there are unexpected difficulties in drilling, or price rises), the Group may need to seek additional funds which it may not be able to secure on reasonable commercial terms.

***The Group may face difficulties obtaining financing for new projects, expansion, and developments***

The Group's business is capital intensive and requires substantial funds to explore and develop its assets prior to generating revenue. The Group has generated no revenue and consequently has financed its operations through debt and equity financing. The Group's existing funds and available credit facilities may not be sufficient to finance acquisitions, new projects and developments, further exploration and feasibility studies. The Group may need to raise additional debt or equity funds in the future to develop its projects, to place them in commercial production and to expand its operations. There is no assurance that the Group will be able to obtain additional debt or equity funding when required, or that the terms associated with that funding will be acceptable for the Group.

The Group's ability to secure funding for projects or other forms of financing for operations may depend on a number of factors, including commodity prices, interest rates, economic conditions, debt market conditions, stock market conditions and country risk issues. Inability to obtain financing or refinancing could cause revisions or delays in planned capital expenditure, reduction in the scope of planned activities or increased financing costs and, thus, adversely affect its business, reputation, financial condition, results of operations, prospects, and future operations.

The Group's future capital requirements will depend on many factors, including:

- the scope, rate of progress and cost of the Group's exploration, development and production activities;
- natural gas prices;
- its ability to locate and acquire hydrocarbon reserves;
- its ability to produce natural gas from those reserves;
- the terms and timing of any drilling and other production-related arrangements that the Group may enter into;
- the cost and timing of governmental approvals and/or Concessions; and
- the effects of competition by larger companies operating in the natural gas industries.

Additionally, any debt financing the Group undertakes could make the Group more vulnerable to changing exchange rates, interest rates, competitive pressure and economic downturns in the Group industry or the economy, in general. It could also require the Group to use a portion of its cash from operations for the repayment of debt or service interest expense, which will reduce the cash that would otherwise be available for its working capital needs, capital expenditures, acquisitions and other general requirements and reduce its flexibility to respond to changing business, regulatory and economic conditions. It could also restrict additional, future borrowings and indebtedness levels as well as future acquisition activity in addition to requiring security interests over its assets and limiting the Group's ability to pay dividends.

If the Group needs additional financing and is unable to obtain it, or obtain it on terms which are commercially acceptable, it may not be able to fulfil its development strategy. The Group may also be required to reduce the scope of its operations, forfeit its interest in some or all of its permits, or reduce its operations, which may have a negative impact on the Group's long term development and business.

***The Group may not be able to accomplish its business and development plans relating to***

***exploration***

The Group has established certain business and development plans regarding its activities, particularly in respect of its future drilling campaigns designed to identify new resources, prove commerciality, and book reserves.

However, these plans are based upon assumptions and forecasts regarding the development of the financial condition and business of the Group. In particular, such plans have been established based on assumptions such as the ability of the Group to drill, its capacity to comply with its capital expenditure plans and the expected timeframes. These forecasts may become inaccurate, and external events may occur that would have an impact on these assumptions and forecasts (*e.g.*, technical problems, an increase in the price of equipment, discrepancies between the expected and current sizes of hydrocarbon reserves and resources, etc.). As a result, business and development plans of the Group may not be accomplished.

***The Group may not be able to develop its business from the exploration stage into the production stage***

Before the completion of the acquisition of Gazonor, the Group was in the exploration and appraisal stage for all of its assets. The Group expects to apply for a production permit in Lorraine, its most advanced CBM project, in 2016. The Group may face delays or unexpected costs that make it unable to convert its business model from the exploration phase to the production phase and/or to produce natural gas in a cost and/or time effective manner or meet its return on investment objectives.

Production activity requires obtaining production permits (the "Concessions") from the Ministry of Ecology and other administrative approvals necessary to start development and production works which are granted by local authorities. The Group is dependent on obtaining such Concessions in order to implement its production plans, but the Group has no assurance that it will obtain such permits and approvals in the planned timeframe or at all.

In addition, developing production activities, such as those planned by the Group in the Lorraine area, require high investments in particular in respect of the development of a full-fledged production platform connected to a gas distribution network. The Group's development will therefore depend on its ability to find the appropriate partners (financial and/or farm-out partners), to raise reserves-based financing, and/or to raise funds from the market or other investors.

***The Group may not be able to market and commercialize its hydrocarbon production under the circumstances expected, and a small number of customers may account for a significant portion of the Group's total operating revenues in the future***

After successful completion of its exploration and appraisal campaigns, the Group is planning to enter into production and start commercializing its CBM natural gas or oil production. To that effect, the Group will have to invest in production equipment and commercialization activities, for which it will need an experienced internal team, and will need to secure commercialization contracts.

A small number of customers may account for a significant portion of the Group's total operating revenues, and the loss of, or a decline in the creditworthiness of, one or more of these future customers could adversely affect the Group's financial condition and results of operations.

The Group can neither guarantee that it will manage to distribute its natural gas at an acceptable cost, nor that it will have sufficient resources to make the adequate investments in equipment or have personnel dedicated to the commercialization of its natural gas production. As a result the Group may be unable to develop such activity and/or to comply with its business plan.

The Group may also opt to externalize such activity. This will require the Group to find partners, which the Group may be unable to find.

***Any failure by the Group to effectively identify, manage, and integrate acquisitions successfully could cause it to not realize its anticipated benefits of these acquisitions***

The Group has engaged into acquisitions of assets recently and continues to evaluate mergers and acquisitions opportunities in France and Europe. As the acquisitions of Gazonor and Concorde Energy Inc. are now completed, the Group will seek to exploit its existing French, Belgian and German exploration and production acreage, pursue attractive opportunities to acquire or obtain participation interests in additional assets, and obtain exploration and development permits in other locations which may require significant investments. In the process of such acquisitions, the Group may not be able to complete the transactions on terms which are most commercially advantageous to the Group. The Group may not be able to fully realize all the anticipated benefits of any acquisition transactions within the anticipated time frame or at all due to inadequacies in its operations with respect to its evaluation, planning and analysis of such investment opportunities or factors. In particular, the Group’s acquisition strategy involves a number of risks and uncertainties, including:

- unforeseen contingent risks or latent liabilities relating to these businesses that may become apparent only after the merger or acquisition is completed;
- identification of appropriate targets, in line with the Group’s external growth strategy, may be difficult;
- integration of new companies could lead to substantial costs, as well as to delays or other financial and operational difficulties;
- the realization of the expected financial and operational synergies may take more time than foreseen or fail to occur, either in whole or in part;
- the acquisitions could require increased attention by the Group’s management, to the detriment of other activities;
- the assumptions made in the business plans of the acquired companies may be incorrect, in particular with respect to synergies and performance;
- the acquisitions could lead the Group to bear more significant liabilities than those calculated during the due diligence phase of the acquisition;
- the Group could be forced to sell or limit the external growth of certain enterprises in order to obtain the required regulatory authorizations for these acquisitions, in particular with respect to anti-trust authorizations;
- the acquisition of a new company could lead to the loss of certain key employees and contracts;
- there could be environmental or geological problems with the acquired assets;

- the Group may not be able to acquire sufficient surface rights to enable extraction of resources;
- there could be outstanding permit violations associated with acquired assets;
- there could be difficulties or unexpected issues arising from the Group's evaluation of internal control over financial reporting of the acquired businesses;
- expected profits from future or completed acquisitions could fail to materialize within the time periods and to the levels expected; and
- regulatory challenges for completing and operating the acquired natural gas assets.

Part of the Group's growth strategy includes pursuing strategic acquisitions and alliances. However, if the Group is unable to integrate the operations of acquired assets or businesses successfully, establish and operate joint ventures in connection with such acquisition and alliances successfully, derive favourable returns from the Group's acquisitions, or manage such future acquisitions profitably, the Group may not be able to achieve the strategic purpose of such an acquisition or investment. These difficulties could disrupt the ongoing business of the Group, distract its management and employees, and increase its expenses, any of which would materially and adversely affect its business and results of operations. Additionally, any acquisition that the Group makes may result in the assumption of material liabilities. Acquired assets may subject the Group to increased costs and liabilities, including environmental liabilities. The costs and liabilities associated with known risks may be greater than expected, and the Group may assume unforeseen contingent risks or latent liabilities that become apparent only after the acquisition is completed.

***Acquisitions or disposals of significant assets may materially impact the Group's financial statements and results of operations***

The Company intends to acquire and dispose of its interests in gas assets from time to time as part of its strategy to unlock value through strategic portfolio management. This can also involve partial sales of assets to provide funding and/or to reduce the Company's risk exposure to major exploration or development players. Such acquisitions and disposals, if significant, will have a material effect on the Group's results of operations and financial condition. Consequently, the Group's historical financial results before the acquisition or disposal may not be comparable with future results.

For instance, should the Company decide to sell economic interest under certain it its permits, or to enter into farm-out agreements in respect of such permits, the Group would lose all or part of the interests under those permits and the royalties received by the Company or the savings resulting from such arrangements may not fully compensate the Company for the loss of the corresponding part of the cash flows acquired by the Company's counterparts in the course of such transactions.

***The Group is subject to its relations with the different stakeholders and is exposed to the reputational prejudices affecting natural gas companies and must develop a positive image ensuring its social acceptance***

The Group's ongoing and future success depends on securing and maintaining a positive relationship with the communities in which it operates. The Group believes its operations can provide valuable benefits to surrounding communities, in terms of direct employment, training and skills development, creation of demand for products and services and other community benefits associated with ongoing payment of taxes and contribution to community development funds. However, communities may oppose to the Group's activities, which may result in civil unrest, protests, direct action, or campaigns against the Group which could slow down the process of obtaining necessary permits. Any such actions may have a material adverse impact on project costs or production, or in extreme cases, project viability.

The Group also may face opposition by certain non-governmental organizations dedicated to the protection of the environment or individuals. Opposition to the Group's future projects could lead to opposition during public enquiries and legal proceedings, the costs to the Group could be potentially large and the ultimate outcome uncertain, with a possibility that the Group fails to obtain the authorizations necessary to pursue the development of its activities.

In addition, the Group depends on its relations with the competent authorities and notably with governmental authorities and every change on the applicable regulations and on the policy towards the Group, or more generally every change of the exploration and production activities may have a significant negative impact on the Group's activities, financial situation, results, forecasts and future operations.

The Group's image and its reputation are fundamental elements of its positioning and its value. However, natural gas companies may not be perceived positively by the public and their businesses not always well understood. In particular, since the Group may be viewed as a natural gas exploration company, it may face critics and other types of disparagement. In addition, people may incorrectly assume the Group uses "hydraulic fracking" technology, which the Group does not (and is banned under French law), and other unpopular technologies, such as those used for shale natural gas and certain exploration activities similar to those of the Group. Any such event, misperception or unpopularity could affect the Group's ability to obtain additional permits and could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, and future operations.

***The Group may not be able to obtain access to infrastructure, distribution and transportation to market its CBM***

The marketability of the Group's CBM depends upon the proximity of its reserves to, and the capacity of, facilities and third party services, including natural gas gathering systems, pipelines, trucking or terminal facilities, and processing facilities, railroads, ports as well as the existence of adequate markets. The Group relies (and expect to rely in the future) on facilities developed and owned by third parties in order to carry out the Group's production, and store, process, transmit and sell its natural gas. The Group's plans to develop and sell its natural gas could be materially and adversely affected by the inability or unwillingness of third parties to provide sufficient transmission, storage or processing facilities, especially in European countries of planned expansion for the Group, where such facilities or access to such facilities do not necessarily exist.

Failure to obtain adequate storage facilities or any reduction in any storage facilities obtained arising from adverse weather conditions, or due to other emergencies and/or due to the need to protect the environment or to comply with the relevant legislations could adversely affect the Group's business, financial condition, results of operations, prospects, and future operations. In the event of insufficient capacity available on these systems, or if these systems were unavailable to the Group, the price offered for its production could be materially adversely affected as the Group could be forced to reduce production or delay or discontinue drilling plans and commercial production following a discovery of reserves while the Group constructs its own facility. In addition, regulation of natural gas production transportation in the countries in which the Group operates may affect its ability to produce and market its products on a profitable basis. A shut-in, delay, or discontinuance could adversely affect its financial condition and results of operations.

In addition, transportation and distribution costs represent a significant portion of the total cost for its domestic and export customers. The cost and availability of transportation is a key factor in a customer's purchasing decision and impacts the Group's sales and the price received for its natural gas.

***The Group may face supplies, equipment, materials and personnel shortages, and operating cost pressures***

The strong commodity cycle over recent years and large numbers of projects being developed in the resources industry has led to increased demand for, and shortages in, skilled personnel, contractors, materials and supplies that are required as critical inputs to the Group's operations. In particular, the availability and cost of labour and construction materials will be critical to the growth and development of the Group's business. An increase in drilling operations in France or abroad could therefore affect the availability of equipment and services to the Group. Shortages and increases in the cost of inputs could also lead to increased capital and operating costs and could impact the schedule of the Group's exploration and development plans. Such changes may require the Group to seek additional funding and incur additional debt which may adversely affect the Group's business, financial condition, results of operations, prospects, and future operations.

If any of the above occurs, the Group may have difficulties sourcing the exploration and production equipment it requires in the timeframe envisaged by the Group's plans due to high global demand for such equipment. The reduced availability of equipment and services, as well as their potentially high cost, may delay the Group's ability to carry out its exploration and appraisal activities and, in case of discovery, to exploit reserves, and may as a result adversely affect its operations and profitability. Should the Group decide to enter into exclusive or long-term contracts with certain providers of drilling equipment, the Group may become dependent upon such providers and subject to a risk of default from such providers.

***The drilling technology using by the Group may be difficult to implement on a wide scale and may become obsolete***

The Group uses or intends to use various technologies to carry out its exploration and appraisal works.

The Group plans to test and exploit CBM reservoirs using multi-lateral wells. This type of well, sometimes referred to as "horizontal", are widely used in the international hydrocarbon industry and the Group believes that the usual techniques employed to drill such wells can be implemented in France.

However, a number of risks remain in the operation of such drilling technology, including the risk of sticking tools in the hole, loss of valuable equipment which may not be recovered, inability to steer the well in the desired formation and inability to progress the well to the desired length/depth. These risks may be more or less severe depending on the uncertainties regarding the geometry and continuity of the target formation and the length of the well. If such risks materialize, the Group may face interruptions, delays or the loss of valuable wells, which could result in disruptions to the Group's activities or changes in its development projects, and therefore have an adverse effect on the Group's development.

The Group's technology may become obsolete or difficult to implement on a wide scale, and the Group may be unable to identify and develop new technologies. Competing technologies may be further developed to the detriment of the Group. The Group may have to dedicate some resources to research and development activities and monitor the development of competing technologies. The Group's failure to adapt successfully to these changes in the competitive landscape could also result in a loss of market share, decreased revenue or a decline in profitability.

***The Group is a small start-up gas operator, and faces significant competition from larger, well-established natural gas companies that may compete to find reserves on the same parcels of land the Group is exploring***

The Group operates in a challenging business environment where there is intense competition for access to exploration acreage, natural gas markets, natural gas services and rigs, technology and processes, and costs and transportation capability.

Key areas in which the Group faces competition include:

- acquisition of exploration and production permits through competitive or bidding processes run by governmental authorities;
- acquisition of other companies that may already own licenses or existing hydrocarbon assets;
- attracting and retaining experts and labour for the Group's various stages of operations;
- engagement of third-party service providers whose capacity to provide key services may be limited;
- entering into commercial arrangements with customers;
- purchase of capital equipment that may be scarce;
- gas sale as a source of energy as alternative energy sources such as hydroelectric, wind or solar energy, becoming more cost-competitive; and
- employment of highly-skilled personnel and professional staff.

The Group's competitors include larger and more established companies with greater financial resources, staff and facilities. Competition for exploration and production permits as well as other acquisition opportunities may increase in the future. The Group's competitors include, inter alia, British Petroleum, France BridgeOil, Celtique Énergie, Egdon Resources, ENGIE, ENI, Geopetrol, Ineos, Lundin, Maurel et Prom, Moore Energy, Petroineos, Petromanas Energy France, Petrorep, PetroServices GmbH, Primagaz, Poros, Sapetro et SCDM Energie, Sasca, Shell, SPPE, Statoil et Trapil, Total and Vermilion.

If the Group is unable to manage its production quality and price competitiveness, maintain its operational efficiency and control costs in connection with its expansion or retain its highly-skilled personnel, the Group will experience an adverse effect on its business, reputation, growth opportunities, ability to obtain financing, financial condition, results of operations, prospects, and future operations. In addition, if alternative energy sources, such as hydroelectric, wind or solar energy, become more cost-competitive, demand for traditional sources of energy such as natural gas could decrease.

The Group's competitors may also convert into the production phase more quickly, or at lower costs or more generally at better financial condition. This may lead to increased costs in the carrying on of the Group's long term activities and reduced available growth opportunities. Therefore, any failure on the Group part to compete effectively could adversely affect its business, financial condition, results of operations, prospects, and future operations.

***The Group may not be the operator on all of its future assets and therefore may not be in a position to control the timing of development efforts, the associated costs, or the rate of production of the reserves on such assets***

While the Group is the sole operator for its existing wells, the Group may not serve as operator of all planned wells in the future. The Group may enter into formal agreements with third parties to jointly pursue resources and reserves. As a result, the Group may have limited ability to exercise influence over the operations of some non-operated assets or their associated costs. Dependence on the operator and other working interest owners for these projects, and limited ability to influence operations and associated costs could prevent the realization of targeted returns on capital in drilling or acquisition activities. The success and timing of development and exploration activities on assets operated by others depend upon a number of factors that will be largely outside of the Group's control, including:

- the timing and amount of capital expenditures;
- the timing and level of exploration activities;
- the availability of drilling equipment, production and transportation infrastructure and qualified operating personnel;
- the operator's expertise and financial resources and condition;
- health and safety, environmental and other regulatory compliance practices;
- the prices at which and customers to whom products are sold;
- approval of other participants in the assets;
- selection of technology; and
- the rate of production.

In the event that the Group's joint venture partners or third party operators do not meet their obligations under the requisite permits necessary to carry out operations, or they breach agreements governing the Group's relationship, these violations may lead to fines, penalties, restrictions, withdrawals of licenses and the termination of the agreements under which it operate. Notwithstanding that the Group will be entitled to seek certain recourse against its counterparties in the event of such risk occurring, the Group may also be jointly liable for the non-compliance with these obligations.

***The Group may experience difficulty in achieving and managing future growth, and future growth may place strains on its assets***

The Group's ability to grow its business will depend on a number of factors, including, but not limited to:

- the ability to obtain permits on or acquire interests in suitable assets;
- the ability to identify and acquire new exploratory prospects;

- the ability to develop existing prospects;
- the ability to continue to retain and attract skilled personnel;
- the ability to maintain or enter into new relationships with project partners and independent contractors;
- the results of the Group's drilling programs;
- commodity prices; and
- access to capital.

The Group may not be successful in upgrading its technical, operations, and administrative resources or in increasing its ability to internally provide certain of the services currently provided by outside sources, and the Group may not be able to maintain or enter into new relationships with project partners and independent contractors.

***The Group may be unable to strengthen its internal control systems***

The scale and scope of the Group's operations require maintaining sufficient and robust internal control systems and an effective monitoring mechanism with respect to its operations. In particular, with respect to the Group exploration and production business operation, the Group is generally required to conduct internal audits relating to its financial and operational activities. Although the Group has implemented and continues to implement such internal control systems to the extent possible, there can be no assurance that the Group will be successful in developing and implementing policies and strategies that will be effective in managing risks relating to its operations in France and internationally.

***The geographical concentration of its assets exposes the Group to a risk***

The concentration of the Group's natural gas proven reserves and prospective resources, as well as its natural gas production, in France increases its exposure to an event that could adversely affect the development or production of natural gas in a limited geographic area, including catastrophic damage to wells, pipelines, installations, natural catastrophes, terrorist attacks and other acts of violence or events that could result in the loss of the Group's natural gas reserves or impact the supply of its natural gas production. The geographic concentration of the Group's producing assets in France means that some or all of the assets could be affected should the region experience severe weather such as storms and hurricanes, delays or decreases in production, the availability of equipment, facilities, services, capacity to transport, gather or process production; and/or changes in the regulatory environment. Hence, the Group's future production will be highly dependent upon its success in acquiring or finding and developing additional reserves in a timely and cost-effective manner. If the Group is unsuccessful, its total proved reserves and production will decline, which will adversely affect its results of operations and financial condition. There may be potential risks associated with the Group's operations not covered by insurance. There also may be certain risks covered by insurance where the policy does not reimburse the Group for all of the costs related to a loss. Because all or a number of the assets could experience any of the same conditions at the same time, these conditions could have a relatively greater impact on the Group's results of operations than they might have on other producers who have assets over a wider geographic area.

***The Group is dependent on its senior management team and employees with relevant natural gas experience***

The Group's success will depend to a large extent upon the efforts and abilities of its executive officers and key operations personnel who have built the Group's business and have been instrumental in its development. The loss of the services of one or more of these key employees could have a material adverse effect on the Group. In particular, the Group relies on the expertise and experience of its directors and executive officers who play a pivotal role in its daily operations. If the Group is unable to retain the services of these key individuals and are unable to suitably replace them in a timely manner, its business may be materially and adversely affected.

The Group's business is also dependent upon its ability to attract and retain qualified personnel. The Group requires highly skilled personnel to provide technical and engineering services in the production and development of, and the exploration for, hydrocarbon resources. The Group also requires specific personnel who have specialized experience working in adverse conditions, or have knowledge of CBM. For example, the Group's plans to develop its CBM Lorraine assets require the identification and retention of personnel who have the specialized experience in drilling and developing natural resources in France. As the demand for geoscientists, CBM engineers and highly skilled persons from the Group's competitors increase, shortages in professionals may occur, and thus acquiring and keeping these personnel could prove more difficult or cost substantially more than estimated. This could cause the Group to incur greater costs, or prevent it from pursuing its stated business objectives as quickly as the Group would otherwise wish to do. Limitations in the Group's ability to hire and train the required number of skilled personnel and professional staff may reduce its capacity to expand its operations and may adversely impact its business. There is no assurance that the Group will successfully continue to retain existing senior management and specialized personnel or attract additional qualified senior management and/or natural gas specialists required to successfully execute and implement the Group's business plan, which will be particularly important as the Group expands. Competition for such personnel is intense. The loss of such personnel and the failure to successfully recruit replacements would have a material adverse effect on its business, financial condition, results of operations, prospects, and future operations.

***Work stoppages and other personnel-related issues could materially adversely affect future operations***

If the Group's employees or the employees of one of its contractors were to engage in a work stoppage or other slowdown in the future, the Group could experience a significant disruption of its operations, which could have negative effects on its business, such as decreased productivity and increased labor costs. There also is the possibility that in the future the Group may be subject to charges, claims and/or lawsuits relating to its employees, its management, the employees' working time arrangements, its staff representatives and the frequency of its meetings or use of independent contractors that may cause increased costs.

***The Group may be unable to dispose of non-strategic assets on attractive terms, and may be required to retain liabilities for certain matters***

The Group expects to regularly review its asset base for the purpose of identifying non-strategic assets. Various factors could materially affect the ability of the Group to dispose of non-strategic assets or complete previously-publicized dispositions, including the availability of purchasers willing to purchase such non-strategic assets at acceptable prices. Sellers typically retain certain liabilities or indemnify buyers for certain matters. The magnitude of any such retained liability or indemnification obligation may be difficult to quantify at the time of the transaction and ultimately may be material. Also, as is typical in divestments, third parties may be unwilling to release the Group from guarantees or other credit support provided prior to the sale of the divested assets. As a result, after a sale, the Group may remain secondarily liable for the obligations and/or indemnities guaranteed or supported to the extent that the buyer of the assets fails to perform these obligations.

The Group has recorded goodwill (not yet allocated depending on the reserves and sites' resources) of an amount of € 18,765,531 in its pro forma statements of June 30, 2015, corresponding to the acquisition of Gazonor. Moreover, the Group will have the possibility to continue to record goodwill in the future. The determination of goodwill is based on hypothesis and estimates. These hypothesis and estimates may not be materialized. Any variation of the environment compared with these hypothesis and estimates might require the Group to impair its goodwill hence computed, which may have a material adverse effect on the Group's results and financial situation.

## 4.3 RISKS RELATED TO THE REGULATORY ENVIRONMENT APPLICABLE TO THE GROUP'S ACTIVITIES AND OTHER LEGAL RISKS

Activities relating to the exploration, appraisal, development, and production of natural gas are subject to the following risks you should consider. The realization of any of the risks below could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, and future operations.

***The Group is subject to governmental regulations relating to the natural gas industry and the procurement of government permits, licenses, and approvals***

The Group's current operations are, and its future operations will be, subject to the various governments' policies and regulations governing the natural gas industry and the environment. These policies and regulations relate to, among others things, the implementation of new regulations, granting of permits for the exploration, production and authorization for drilling operations, obligations relating to the respect of the environment and rehabilitation, the sharing of information on natural resources and reports concerning operations, the spacing of wells, unitization of natural gas accumulations, taxation, development, construction, operation, production, marketing and pricing, transportation and storage of natural gas. For instance, each time the Group undertakes drilling of new wells for exploration or production the Group will be required to obtain new administrative approval which it may not obtain in a timely manner, or at all. Failure to obtain such approvals would have an adverse effect on the Group's drilling plans and may result in significant financial loss to the Group.

In addition, the regulatory and contractual environment inherent to the Group's activities in the hydrocarbon sector may include specific provisions that may apply in the event of a change of control of the Company. Thereby, pursuant to article 43 of the Decree n°2006-648 dated June 2, 2006 relating to mining permits, a change of control of the Company is subject to the prior information of the French minister in charge of mines (currently the French minister of ecology, sustainable development and energy – the "Minister of Ecology") who has two months – that may be extended -from the date on which the authorization request is received to contest it. This process may therefore impact on certain transactions, in particular on their timetable. Moreover, pursuant to the same article, the Company shall inform the Minister of Ecology of any significant change which could modify the technical and financial capabilities, this information being not submitted to specific deadlines.

Further, any governmental action concerning the conventional and unconventional natural gas industry, such as a change in natural gas pricing policy, expropriation, nationalization, renegotiation or nullification of existing permits, Concessions, authorizations and contracts, taxation policies, foreign exchange and repatriation restrictions and currency controls could have a material adverse effect on the Group. There is no assurance that these governments will not postpone or review projects or will not make any changes to government policies.

***The complex regulatory regimes that govern the Group's operations may change***

The Group currently operates only in France. A change in the French government's energy policy, in particular by promoting renewable energies to the detriment of hydrocarbons, for instance, by amending the current tax regime applicable to natural gas production, could materially adversely impact the activity of the Group. Such changes may have consequences on the granting of new permits and renewal of older permits.

The French government has been reviewing for several years the adoption of a new mining law which may significantly amend the current regulatory framework embodied in the French mining code. Such amendments may make natural gas exploration and production activities more cumbersome, subject to longer approval delays and higher costs.

In addition, no assurance can be given that new laws and regulations will not be enacted or that existing or future laws and regulations will not be applied in a manner which could serve to limit or curtail natural gas exploration, production or the development of the Group's business or have an otherwise negative impact on its activities.

Amendments to existing rules, laws and regulations governing the Group's operations and activities, or increases in or more stringent enforcement, implementation or interpretation thereof, could have a material adverse impact on the Group's business, financial condition, results of operations, prospects, and future operations and its industry in general in terms of additional compliance costs.

***The Group operations depend on regulatory permits and authorizations that might not be obtained, maintained, or renewed***

Natural gas exploration and production activities are strictly regulated in France, particularly with respect to the grant, renewal and transfer of mining permits (exploration permits untitled "*permis exclusifs de recherches*" under French law (the "PER") and production permits untitled "Concessions" under French law (the "Concessions").

For instance, the following operations require prior approvals and/or opinion from the French Minister of Ecology or other administrative authorities, both at the national and local level: obtaining a permit for the first time, start drilling works under such permits, obtaining the renewal of existing permits or their transfer, or obtaining the conversion of exploration permits into Concessions. In some instances, French law also requires the organization of public enquiries.

The Group's intended activities depend upon obtaining the appropriate permits, Concessions, authorizations and regulatory consents which could subsequently be withdrawn, annulled or repealed, or made subject to limitations, or which may be subject to administrative or court challenges by third parties. The Group cannot guarantee that it will obtain or maintain all the permits it will need in accordance with its business and development plan, that its existing permits will be renewed or transferred as requested by the Group, or ultimately converted into Concession, or that other permits will be obtained in the future.

***Approval of the Group's applications for procuring or renewing government permits may be delayed***

The Group might not be able to obtain in a timely manner all the necessary approvals from the Minister of Ecology and other administrative authorities, both at the national and local level, and from surface owners, municipalities or other third parties, for carrying out its activities. The processing of the Group's application for exploration permits has been, and may in the future continue to be, subject to delay.

For instance, the review and processing by the Minister of Ecology of the applications submitted by the Company for the grant of new exploration permits or the renewal of its existing exploration permits, or the transfer from EGLUK to the Company of certain exploration permits, have been delayed. Moreover, the government may decide, without necessarily modifying the applicable law, to not grant or renew the exploration permits anymore.

Should the decisions to award the Company the requested grant or renewal of exploration permits be further delayed, the Company may be required to resubmit an application. It may risk losing its existing rights or not being able to obtain new rights. Such circumstances could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, and future operations.

***The Group may not be able to maintain, extend, or renew its existing permits, or obtain new permits***

The Group has filed various exploration permit applications and intends to file more applications, including application for conversion into Concessions, in the course of its development. If the Group does not demonstrate to the French authorities that it has the financial and technical capacities necessary to operate its exploration or production activities, such permits may not be renewed or new permits may not be obtained.

The Group has filed renewal applications for certain of its permits, but no renewal decision has been issued before the formal date of expiry of such permits. There can however be no assurance that the Group will ultimately be able to renew its permits. Under the French Mining Code, in case the administrative decision to renew an exploration permit has not been issued before the expiry date of the permit, the permit holder is entitled to continue exploration within the requested perimeter for the renewal of the permit (which shall be reduced compared to the initial perimeter) until an explicit decision is issued by the Minister of Ecology. Any past failure by the applicant to fulfil the work program and financial commitments set forth under the license coming for renewal may adversely affect the renewal decision.

More generally speaking, for the reasons mentioned above, there can be no assurance that the

Group will ultimately be able to renew its permits when they expire, convert exploration permits into Concessions or obtain additional permits in the future. If the Group cannot renew some or all of it exploration permits, or obtain their conversion into Concessions, the Group will not be able to claim the benefit of the resources and reserves associated with the permits and will not be able to engage into production.

Failure by the Group to obtain the renewal of its existing permits or their conversion into Concessions, or failure to obtain new permits, could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, and future operations.

***The Group may not be able to obtain the transfer of its permits***

The transfer of mining permits requires approval from the Minister of Ecology, which could delay or hinder the transfers of certain exploration permits from EGLUK and Heritage Petroleum plc to the Company.

There can be no assurance that transfers will be approved or granted. Any delay or failure to receive the approvals for such transfers, or any termination, suspension or withdrawal of permits may have a material adverse effect on the Group's resources, reserves, business, financial condition, results of operations, prospects, and future operations if the terminated permit relates to material assets of the Group.

***The Group may be involved in legal, regulatory, judicial and other proceedings arising out of its business and operations, and may incur substantial costs and/or delays arising as a result***

The Group is and has been involved in disputes with various parties such as partners in farm-out or production sharing agreements, customers or suppliers and may be again in the future. These disputes may lead to legal, judicial or other proceedings and may result in substantial costs, delays in the Group's development schedule, and the diversion of resources and management's attention, regardless of the outcome. If the Group fails to win these disputes, it may incur substantial losses and face significant liabilities. Even if the Group succeeds in these disputes, it may also incur substantial costs in mounting its claim or defence.

In addition, from time to time, the Group is involved in disputes brought by local opponents (individual or collective), environmental activists or environmental NGOs intended at limiting the operational activities of the Group under its permits or challenging before French courts the administrative decisions granting or renewing exploration permits (*permis exclusifs de recherche*). Although the Group does not see these actions as presenting a serious risk to its activities, the Group may incur significant management time and legal costs in defending such claims.

Lastly, the Group may be subject to regulatory action in the course of its operations, which may subject the Group to administrative and/or judicial proceedings and unfavourable decisions that could result in administrative or criminal penalties and/or delayed construction of new facilities. In such cases, the Group's results of operations and cash flow could be materially and adversely affected.

***The Group's operations are subject to various health, safety, environmental, and operating risks***

Due to the nature of its operations, the Group is exposed to various health, safety, environmental and operating risks. Such risks may include adverse weather conditions or natural disasters such as earthquakes or flooding, fires, unusual or unexpected variations in geological conditions, industrial accidents, critical failures in its exploration and production equipment, mishandling or loss of containment of dangerous substances, and technical problems. Factors influenced by geography, operational diversity and technical complexity of the Group's activities at each site are beyond its control.

The Group faces industrial and environmental risks inherent in hydrocarbon exploration and production activities. Among these risks are eruptions of crude oil or natural gas during drilling, wellhead cave-ins and spills or leaks of hydrocarbons, leading, in particular, to risks of toxic spillage, fire or explosions. All these events are capable of damaging or destroying the hydrocarbon wells in production and surrounding facilities, endangering human lives or property, leading to business interruptions and causing environmental damage with certain direct consequences for the health and economic wellbeing of local communities.

The Group's natural gas exploration/production activities can also endanger water resources and the quality of subsoil, especially in the case of hydrocarbon spills into groundwater or the subsoil. These spills could affect the environment and inhabitants near each exploration plants and storage areas, and cause the Company to incur high remedial, rehabilitative and legal costs. In addition to these risks during the period of operations, the Group may be bound, when unwinding operations on a production site, to carry-out decommissioning or decontamination activities which may represent a significant cost for the Group.

In addition, the Group may also be subject to intentional acts of sabotage or vandalism on its facilities or production sites. The Group cannot assure that the risks described above will not occur in the course of its operations. The occurrence of any of these risks may expose the Group to legal or regulatory proceedings where the Group may have to incur substantial costs to rectify and rehabilitate. Any such occurrence could be detrimental to the Group's reputation in respect of future operational opportunities or could even result in the loss or suspension of, among others, its licenses or the termination of its agreements for its operations in the affected Concessions and/or permits, which could affect the Group's results of operations and financial position.

Moreover, future spills or releases of regulated substances or accidents or the discovery of unknown contaminations and pollutions could expose the Group to material losses, expenditures and liabilities regarding the legislations and regulations applicable to environmental, health and safety matters. Such liabilities could include penalties, sanctions or claims for damages to persons, property or for damages to the environment brought by the administration or by third parties that could cause the Group to incur substantial costs or losses, of which the Group may not be able to recover some or any of these costs from insurance and this would have a material adverse effect on its business, financial condition, results of operations, prospects, and future operations.

Implementation of any one or more of any various proposed responses to any disaster, past or future, could materially adversely affect the Group's financial results by raising operating costs, increasing insurance premiums, delaying drilling operations and increasing regulatory costs, in addition to a wide variety of other unforeseeable consequences.

***The Group may incur significant costs in connection with the unwinding of some of its***

***operations as a result of environmental regulations***

As a result of the applicable mining and environmental regulations, the Group will have to take various remedial, compensation or surveillance actions (such as site restoration, confinement and perimeter protection, prevention measures), in connection with the unwinding of certain of its operations or closing of some of its drilling sites.

The cost of such remedial actions may be significant, and may be increased as a result of changes in applicable regulatory requirements, which could have a material adverse effect on the Group's business, financial condition and results of operations.

***The Group is subject to tax risks, which may be increased as a result of acquisitions***

The Group must structure its organization and operations appropriately while respecting the various complex tax laws and regulations of the jurisdictions in which it operates. Because tax laws may not provide clear-cut or definitive doctrines, the tax regime applied to its operations and intra-group transactions or reorganizations is often based on its interpretations of tax laws and regulations. There can be no assurance that such interpretations will not be questioned by the relevant tax authorities, which may adversely affect the Group's financial condition and results of operations. Tax laws and regulations are subject to change, and new laws and regulations may make it difficult to restructure the Group's operations in an advantageous manner. More generally, any failure to comply with the tax laws or regulations of the country in which the Group operates may result in reassessments, interest on late payments, fines and penalties.

Furthermore, the Group may record deferred tax assets on its balance sheet, reflecting future tax savings resulting from differences between the tax and accounting valuation of the assets and liabilities or in respect of tax loss carry forwards from the Group's entities. The actual realization of these assets in future years depends on tax laws and regulations, the outcome of potential tax audits, and on the future results of the relevant entities and the ability of the Group to generate taxable profits. Any reduction in its ability to use these assets due to changes in laws and regulations, potential tax reassessments, or lower than expected results could have a material adverse effect on the Group's business, financial condition and results of operations.

Lastly, the Group may incur significant tax risks and inherit significant tax liabilities as a result of its acquisitions, such as the acquisition of Gazonor, and the recourses available under the related acquisition agreements may not fully protect the Group from such risks. If these tax exposures materialize in the future, the Group may incur significant costs as a result of possible reassessments, interest on late payments, or fines and penalties, which could have a material adverse effect on the Group's financial condition.

The Company has certain tax losses that may be carried-over in France. It shall not be excluded that upcoming evolutions in matters of company taxation may challenge, in all or in part, the possible allocation of these previous losses on the future profits or to limit their allocation over time.

***Failure by the Group to comply with the laws and regulations applicable to its activities may result in substantial costs and the suspension of its operations***

The costs of complying with applicable laws, particularly in environmental matters, are likely to increase over time and the Group cannot assure that it will be able to remain in compliance with respect to existing or new laws and regulations or that the cost of such compliance will not have a material adverse effect on its business, financial condition, results of operations, prospects, and future operations.

Failure by the Group to comply with applicable existing laws, rules and regulations also may result in the suspension or termination of the Group's operations, may subject the Group to administrative, civil and criminal sanctions (including penalties), or may make the Group liable for personal injuries, property damage and other types of damages.

***The Group may not have sufficient insurance coverage against potential operational risks***

The Group's business is subject to environmental hazards that could expose it to substantial liability due to pollution and other environmental damage. The Group may incur material costs and liabilities resulting from claims for damage to property or injury to persons arising from risks associated with its operations. If the Group is pursued for sanctions, costs and liabilities in respect of these matters, its operations and, as a result, its profitability could be materially adversely affected.

The Group maintains general liability insurance, insurance coverage against certain losses resulting from physical damages, business interruption and certain pollution events, as well as directors' and officers' liability insurance. However, the Group's insurance coverage does not provide 100% reimbursement of potential losses resulting from operational hazards, either because such insurance is not available to the Group or to other companies in the Group's industry or because of the high premium costs and deductibles associated with obtaining such insurance.

While the Group has insurance that is typical for its operations, the Group is not fully insured against certain of the risks described in this document. The occurrence of a significant event against which the Group is not fully insured could have a material adverse effect on its business, financial condition, results of operations, prospects, and future operations.

There can be no assurance that any insurance proceeds the Group receives are sufficient to cover expenses relating to insured losses or liabilities. Further, depending on the severity of the damage, the Group may not be able to repair or rebuild damaged property in a timely manner. The Group is also subject to the risk of increased premiums or deductibles, reduced coverage, and additional or expanded exclusions in connection with its existing insurance policies and those of operators of those assets that the Group does not currently operate. The inability to rebuild damaged property and the increased insurance premium could have a material adverse effect on its business.

### 4.4 MARKET RISKS

Activities relating to the exploration, appraisal, development, and production of natural gas are subject to the following risks you should consider. The realization of any of the risks below could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, and future operations.

***The credit risk of counterparties could have an adverse effect on the Group***

The Group transacts with different counterparties, including existing and potential joint venture partners, its customers, and counterparties in the financial services industry, such as commercial banks, insurance companies and other institutions. These transactions expose the Group to credit risk in the event of default of the counterparty. Deterioration in the credit markets may impact the credit ratings of current and potential counterparties and affect their ability to fulfill their existing obligations to the Group and/or their willingness to enter into future transactions with the Group.

***The Group may be subject to currency exchange rates risk in the future***

The Group currently operates only in France and is therefore not presently subject to currency exchange rate risk. Should the Group, in the course of its development, resort to suppliers outside of the European Union or otherwise enters into contracts with payment in foreign currency, the Group may be impacted by fluctuations in exchange rates.

***The Group may be subject to interest rate risk in the future***

The Group's current debt is only composed of fixed rate debt and the Group is therefore presently not subject to interest rate risk. Should the Group resort to floating rate debt, it will be exposed to the risk of fluctuations in exchange rate and, in case of increase of interest rate, to additional financing costs.

***Business disruptions could seriously harm the Group's future revenue and financial condition and increase its costs and expenses***

The Group's operations could be subject to war, expropriation, terrorism, earthquakes, power shortages, telecommunications failures, water shortages, floods, fires, extreme weather conditions, medical epidemics, and other natural or manmade disasters or business interruptions. The occurrence of any of these business disruptions could seriously harm the Group's revenue and financial condition and increase its costs and expenses. The ultimate impact on the Group, its significant suppliers and its general infrastructure as a result of such natural or manmade disasters or business interruptions is unknown, but the Group's revenue, profitability and financial condition could suffer in the event of any such natural or manmade disasters or business interruptions.

***The Company's shares are subject to market fluctuations, in addition a liquid market might not be developed or last***

The Company cannot guarantee the existence of a liquid market for the shares, nor that such a market, if it develops, will last over time.

Should no liquid market for the Company's shares emerge, the shares' market price and the investors' ability to trade the shares under conditions that they may deem satisfactory may be significantly affected.

***The transfer of a substantial number of shares of the company or the perception of the imminence of such transfer may have an adverse effect on the market price of the shares of the Company***

The transfer of a substantial number of the Company's shares on the market at the expiry date of the lock-up agreements consented by the main shareholders for the purpose of the Company initial public offering, or the perception by the market that such transfer is imminent, might decrease the market price of the Company's shares.

At the expiry of these lock-up agreements, the Company and the shareholders are free to transfer all or parts of their stake on the market and the latter are free to complete the abovementioned operations, which may have a significant adverse effect of the market price of the Company's shares.

***The market price of the company's shares may be affected by a significant volatility***

The market price of the Company's shares may be affected by a significant volatility and may vary depending on an important number of factors that the Company does not control. The factors include, in particular, the response of the market to:

- changes in the financial results, forecasts or prospects of the Group or its competitors from one period to another;
- announcements by the Group's competitors or other companies with similar businesses, including those regarding the financial and operational performance of these companies or their prospects, and/or announcements concerning the markets on which the Group is present;
- adverse evolutions on the political, economical or regulatory situation applicable in the countries and markets on which the Group operates; or legal or administrative procedures concerning the Group;
- adverse evolution of the gas and fuel prices;
- announcements regarding the modifications of the Company's shareholding;
- announcements regarding the modifications of the managing team or key-men of the Group; and
- announcements regarding the scope of the Company's assets (acquisitions, disposals.)

Moreover, stock markets are subject to significant fluctuations which are not always related to the results and prospects of the listed companies. Important market fluctuations, as well as the economic environment, may have a material impact on the market price of the Company's shares and lead to a decrease of the investments' value operated by the investors.

### 4.5. PREVENTION AND MANAGEMENT OF RISKS

***Insurance taken out by the Company***

The Group has set up a policy of covering the major insurable risks with cover amounts that it deems in accordance with its activity. The expenses paid by the Company for all the insurance policies amounted respectively to € 99,553 for the financial year ending June 30, 2016. The insurance policies taken out by the Company are summarized in the table below:

| Insurance Company | Type | Amount (€) |
|---|---|---|
| Marsh | D&O and IPO | 55,343 |
| AXA | D&O, Office, Environment and ordinary 3rd party liability | 6,604 |
| JLT Group | Operational third party liability (TPL) and Operators Extra Expense (OEE) policies | 37,606 |

***Internal audit and management of risks***

Moreover, the Company has implemented a preventive, tracking and management process of the risks as presented above described in the Chair’s report on the internal audit, attached in Appendix 1 of this report.

# 5. STATUTORY ACCOUNTS

## Balance sheet as at June 30, 2016 - ASSETS

| | Notes | Gross | Amortisation & Depreciation | 2016 Net | 2015 Net |
|---|---|---|---|---|---|
| | | € | € | € | € |
| Intangible fixed assets | **3** | 29,911,816 | 1,563 | 29,910,253 | 28,748,189 |
| Tangible fixed assets | **4** | 26,563 | 10,253 | 16,310 | 25,055 |
| Investments in subsidiaries | **11 & 12** | 1,018,548 | - | 1,018,548 | 4 |
| Amounts due from subsidiaries | **12** | 19,872,038 | - | 19,872,038 | - |
| Other financial assets | **5** | 102,988 | - | 102,988 | 11,850 |
| **Fixed Assets** | | **50,931,953** | **11,816** | **50,920,137** | **28,785,098** |
| Trade receivables | **6** | 558,702 | - | 558,702 | 1,042,249 |
| Personnel | | | - | - | - |
| State, Other taxes | **6** | 433,324 | - | 433,324 | - |
| Other receivables | **6** | 261,480 | - | 261,480 | 9,340 |
| Cash and cash equivalents | | 8,162,380 | - | 8,162,380 | 2,045,035 |
| **Current assets** | | **29,287,924** | **-** | **29,287,924** | **3,096,624** |
| **TOTAL ASSETS** | | **60,347,839** | **11,816** | **60,336,023** | **31,881,722** |

## Balance sheet as at June 30, 2016 - LIABILITIES

| | Notes | 2016 | 2015 |
|---|---|---|---|
| | | € | € |
| Share capital | **9** | 5,065,175 | 3,226,620 |
| Share premium | **10** | 44,169,670 | |
| Legal reserve | **10** | 75,831 | 75,831 |
| Other reserves | **10** | 72,142 | 72,142 |
| Retained earnings | **10** | 60,099 | (638,202) |
| Result of the financial year | | 598,620 | 698,301 |
| **EQUITY** | **9** | **50,041,537** | **3,434,692** |
| **Provisions for liabilities and charges** | | 474,311 | 474,311 |
| **Financial debts** | | | |
| Convertible debenture loan notes | **8** | - | 8,612,783 |
| Other loans | **8** | 4,979,778 | 18,014,711 |
| **Operating debts** | | | |
| Accounts Payable | | 4,295,670 | 1,225,635 |
| Social security and other taxes | **7** | 394,727 | 119,590 |
| Other payables | | 150,000 | - |
| **Debts** | | **9,820,175** | **27,972,719** |
| **TOTAL LIABILITIES** | | **60,336,023** | **31,881,722** |

## Income Statement

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Sales | | |
| Other income | 558,702 | 868,543 |
| **Total operating income** | **558,702** | **868,543** |
| Other purchases and external charges | 4,492,972 | 914,782 |
| Taxes and similar levies | 13,580 | 2,618 |
| Wages and salaries | 1,139,324 | 568,530 |
| Social contributions | 465,053 | 257,071 |
| Other charges | 120,000 | |
| Depreciation and provisions | 11,816 | 16,551 |
| **Total operating expenses** | **(6,242,745)** | **(1,759,552)** |
| **Net operating loss** | **(5,684,043)** | **(891,009)** |
| Foreign exchange differences | (2,209) | 2,093 |
| **Total finance income** | **(2,209)** | **2,093** |
| Interests and similar charges | 1,113,750 | 612,783 |
| **Total finance charges** | **(1,113,750)** | **(612,783)** |
| **Net finance charges** | **(1,115,959)** | **(610,690)** |
| **Net loss before tax** | **(6,800,002)** | **(1,501,699)** |
| Exceptional income | 8,000,000 | 2,200,000 |
| **Total Exceptional income** | **8,000,000** | **2,200,000** |
| Income taxes | (601,378) | - |
| **Net profit** | **598,620** | **698,301** |

## 5.1 NOTES TO THE STATUTORY ACCOUNTS

As at June 30, 2016, the total of the Balance Sheet amounts to € 60,336,023 and the income statement, which includes operating expenses amounting to € (5,656,328), shows a profit of € 598,620.

The notes and tables indicated in the summary below are an integral part of the statutory accounts.

These individual company accounts were prepared and authorized by the Executive Committee of the company.

## 1. Significant events of the year

Change of legal form to Public Limited Company

On 23 March 2016, the Company's Extraordinary General Meeting approved the conversion of the Company into a limited liability company with a board of directors by adopting new articles and memorandum of association to enable the Company's listing on the stock exchange.

The name of the Company, its duration and its registered office address remained unchanged further to this conversion.

Listing of the Company on the EURONEXT Paris

On 13 June 2016, the company La Francaise de L'Energie SA was listed on EURONEXT, Paris. The company increased its share capital by € 37,500,000 through the issue of 1,388,889 new ordinary shares for cash by way of a public offering.

The costs relating to the listing on EURONEXT, Paris and to the related share capital increase were offset against the amount of the share premium related to the capital increase. The costs net of tax was € 1.204.560; the pre-tax amount was € 1,805,938.

The funds raised are intended to enable the company to continue its operations and to provide it with additional resources to finance the implementation of its strategy, and in particular:

-To finance the coal bed methane gas production activities in Lorraine.
-To finance the conversion of gas from coal mine methane into electricity in the North-pas-de-Calais

As part of this listing, La Francaise de L'Energie has entered into a liquidity contract for an amount of € 350,000 with the independent broker Parel / Aurel, in which La Francaise de L'Energie authorises Parel / Aurel to intervene on its behalf on the stock market in order to promote the liquidity of transactions and stability of the share price. At June 30, 2016, a sum of € 258,862 were held as cash and an amount of € 91,138 in other financial assets.

Increase in capital related to the conversion of debenture loan notes into ordinary shares

Following the IPO of the company on the stock exchange, the convertible debenture loan notes issued by the company Francaise de L'Energie in December 2014 for an amount of € 8,000,000, bearing an annual interest rate of 15% as of 1 January 2015 with a maturity of five years, was automatically converted into ordinary shares of the company for the aggregate amount of their cumulative principal and interest accrued until 31 May 2016, amounting to € 9,712,783 in ordinary shares based on a value equal to 80% of the IPO price, set at € 27 per share, and resulting in a capital increase for a nominal value of € 449,665 by issuing € 449,665 new ordinary shares raising a total share premium of € 9,263,118 fully compensated by the debt.

Acquisition of Transcor Astra Luxembourg under the Gazonor acquisition contract.

On 14 January 2016, the Company signed a purchase agreement with the company Transcor Astra Group ("TAG") (the "Purchase agreement of Gazonor") for 100% of the share capital and voting rights of Transcor Astra Luxembourg ("TAL"), a company based in Luxembourg and owning 100% of the share capital and voting rights of Transcor Astra France ("TAF"), which itself owns 100% of the share capital and voting rights of Gazonor. Gazonor is a French company which holds exploration permits and concessions whose business activity is the production of gas from coal mine methane (CMM).

On 27 June 2016 the Company acquired the shares of Transcor Astra Luxembourg for an amount of € 1 and a receivable held by the seller on that company for a nominal value of € 37,032,933 for an amount of € 19,872,038. This receivable has been recorded in the accounts of La Francaise de L'Energie at its acquisition price as amounts due from subsidiaries. The name of the company Transcor Astra Lux was changed to La Francaise de L'Energie Internationale SA.

This acquisition was fully financed through cash.

Acquisition of Concorde Energy Inc.

On 19 September, the Company entered into a share purchase agreement with the shareholders of Concorde Energy Inc., a company incorporated in the State of Delaware (United States), in order to acquire 100% of the share capital and voting rights of Concorde USA for an amount of € 750,000. Concorde USA is a company which mainly consists of exploration and exploitation of oil and gas resources in France, directly and through the intermediary of Concorde Energie Paris SARL ("Concorde France"), its 100% owned subsidiary.

On 6 April 2016, the shareholders of Concorde USA and the Company agreed to reduce the acquisition price to an amount of € 150,000. This amount is shown as other liabilities at 30 June 2016. As part of the acquisition of Concorde Energy Inc., the Company acquired the control of a French exploration permit, called La Folie de Paris, and a number of current permit applications for oil and gas in the Paris basin (the validity of these permits applications are yet to be confirmed by the French government). As part of this acquisition, the Company acquired a portfolio of miscellaneous data, namely 2D seismic data (114 seismic profiles and raw data covering more than 385 wells and 100 gravimetric data) relating to the Paris Basin.

Cancellation of share subscription options

The 100.750 share subscription options awarded to the officers and employees of the Company, whose issue was approved by the sole shareholder on 24 June 2015, have not been subscribed by the beneficiaries. The General Meeting of 23 March 2016 noted the renunciation made by each of the beneficiaries of the share subscription options in return for the establishment of a free shares plan.

Free share attribution plan to executives and employees

The General Meeting of 23 March 2016 authorised the Board of Directors to proceed with the award of free shares to employees and corporate officers up to 5% of the Company's share capital. This operation will be realised by an increase in share capital through the reserves or share premium.

On 30 June 2016, under this authority, the Board of Directors authorised and approved the free share attribution plan to the executives and employees as well as agreeing the terms, allocation and the conditions of the Plan in favour of the employees and officers and has delegated the Chief Executive Officer of the company all the necessary powers to implement the Plan.

As such, the Chief Executive Officer of the company allocated and awarded 85,602 ordinary shares at a par value of € 21 each to each of the eligible beneficiaries, representing 1.64% of the share capital and in conformity with the awarding conditions as defined by the Board of Directors on 30 June 30 2016.

The definite issue of these free shares will take effect at the end of a minimum period of 2 years following the initial date of acquisition. The definite issue of the free shares could be subordinated by the Board of Directors, subject to the presence of the beneficiary in the group during the acquisition period or any other conditions which the Board of Directors could decide.

No associated costs to the free shares have been accounted for during 30 June 2016.

Payment of the EGL UK shareholder loan for an amount of € 4,668,750 and debt forgiveness

According to the "Reorganization and Cooperation Agreement", European Gas Limited is committed, among other provision and subject to the realisation of an IPO by the company, to gradually waive the debt relating to the transfer of exploration assets it held.

As part of the IPO of the company La Francaise de L'Energie, the two entities have agreed that the EGLUK shareholder loan would be waived over a period of three and a half years in return of the settlement of the EGLUK shareholder loan amounting to € 4,668,750 at 31 May 2016. This amount was settled on 15 June 2016.

At 30 June 2016, this agreement was extended for a further six months until 31 December 2016, so in order to implement a share buyback or exchange operation allowing EGL UK shareholders to become shareholders in La Francaise de L'Energie. At the end of this period, the Company will neither have any obligation to provide financial assistance to European Gas Limited, nor to engage in new buyback or exchange offer for the benefit of the shareholders of European Gas Limited and the loan balance with European Gas Limited will (unless otherwise agreed between the parties) be permanently waived.

As per the agreement, the following loan write-offs were made: € 2,200,000 for the year ended 30 June 2015 and a total of € 8,000,000 during the year ended June 30, 2016.

Financing Framework with RGreen funds

As of 22 May 2016, the Company signed a financing framework with RGreen Invest fund, a fund manager specialising in investments focusing on the environment. This will enable the Company to fulfil part of its requirement related to the continuation of its programs in Lorraine and the Nord-Pas-de-Calais, as per the original timetable.

RGreen Invest has committed to invest up to € 60,000,000 in debt as debentures bearing interest at a fixed rate of 8% per annum, to finance these investments, when the French government will publish the subsidised price of generating electricity from coal mine methane (CMM).

As of 22 September 2016, this framework of finance has been extended until 31 December 2016.

Exclusive exploration permits

At the balance sheet date, the information relating to the exclusive exploration permits are unchanged and are identical to the information described in the ‘’Document de Base’’ (refer to Section 6.4.2 or page 65 of the ‘’Document de Base’’)

Recharge of costs

For year ended 30 June 2016, an agreement was signed between La Francaise de L’Energie and its subsidiary Concorde Energy Inc., under which Francaise de L’Energie invoiced Concorde Energy Inc, exploratory costs related to the exclusive exploratory permit for the site named "La Folie de Paris" which was incurred by the Company.

The re-invoiced costs amounted to € 558,702 (pre-tax) for the financial year 2016, which include mainly the geological and geophysical exploration costs.

## 2. Accounting policies

The financial statements for the year ended 30 June 2016 were authorised and prepared following the principles and methods defined by the French accounting standards, in accordance with the regulations of the l’Autorité des Normes Comptables No. 2014-03 of 5 June 2014 of the French General Accounting Plan (“Plan comptable général”).

French Generally accepted accounting principles were applied in compliance with the principle of prudence and the following fundamental concepts:

- Going concern,
- Consistency of the accounting methods,
- Independence of financial reporting periods.

The method used as a basis to value items recorded in the accounts is the historical cost method.

The valuation methods have not been modified compared with the previous year.

The exposure of the Française de l'Energie Group to liquidity risk can be measured by reference to the amount of its financial debt falling due within one year before taking into account any derivative instruments, net of cash and cash equivalents.

The liquidity of the Company is also based on its ability to generate financing, the diversity of its investors and the quality of its banking relationships, allowing the Company to meet its deadlines maturity and to pursue its exploration activities. The executive management of the Française de l'Energie Company regularly reviews it's financing options to ensure going concern, particularly in connection with the payment due dates of its various assets and liabilities.

The company wishes to maintain a very wide access to the liquidity in order to meet its obligations financial needs. At 30 June 2016, the company had an available cash balance of € 7,903,518.

**Fixed assets**

The intangible assets consist mainly of exploration costs recorded at their acquisition cost.

The geological and geophysical costs, including seismic surveys for exploration purposes, are expensed as incurred in the period to which they relate.

Mineral interests are capitalised as intangible assets when acquired. They are regularly tested for impairment, on an individual interest basis, based on the results from the exploratory activities and executive management's evaluation.

In the event of a discovery, the unproved mineral interests are transferred to proved mineral rights, at their net book value, as soon as proved reserves are booked.

The exploratory wells are tested for impairment on an individual well basis and are accounted for as follows:

- costs of exploratory wells which result in proved reserves are capitalised and then depreciated using the unit-of-production method based on proved developed reserves;
- the cost of dry wells and wells that have not found proved reserves are charged to expense;
- the costs of exploratory wells are temporarily capitalized until a determination is made as to whether the wells have found proved reserves if both of the following conditions are met:
  - the wells have found a sufficient quantity of reserves to justify, if appropriate, their completion as producing wells, assuming that the required capital expenditures are made,
  - the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project. This progress is evaluated on the basis of indicators such as whether additional exploratory works are under way or firmly planned (wells, seismic or significant studies), whether costs are being incurred for development studies and whether the Company is waiting for governmental or other third-party authorization of a proposed project, or availability of capacity on an existing transport or processing facility.

The costs of exploratory wells not meeting these conditions are charged to expenses.

Other intangible assets include mainly software, recognized in the balance sheet at their acquisition cost or cost price, less amortization and impairment losses eventually recognized.

Tangible assets include mainly furniture, office equipment, machinery and equipment and are assessed at their acquisition cost (purchase price and incidental expenses).

Tangible assets are depreciated on a straight-line basis according to their useful economic lives and the residual values are reviewed at each year-end. The amortization period used are as follows:

- Furniture, office equipment, machine and tooling: 3 to 10 years

**Investments in subsidiaries and related receivables**

Their gross values are recognized at their acquisition cost. These assets are depreciated in relation to their market value or value in use. The value in use is assessed on the basis of several criteria mainly being: the value of the shareholders equity, the projection of future cash flows or valuation of assets assessed on the basis of reasonable operating forecasts. The fees in relation to the acquisition of the subsidiaries are expensed.

**Other financial assets**

The other financial assets are recorded at their nominal value. If appropriate, any treasury shares held for cancellation are not depreciated and are recognized at their acquisition price.

**Holdings and other investments**

Investments are recorded at their costs of acquisition. If their net book value is lower that their acquisition costs, then impairment is recognised.

**Receivables and payables**

Receivables and payables are recognised at their nominal value. A provision for bad debts for the receivables is recognised at the year end when there exists a risk of recoverability.

**Foreign exchange transactions**

Gains and losses in foreign currencies are recorded at the prevailing exchange rate at the date of the transaction. Liabilities, receivables and cash in foreign currencies are recorded using the year-end exchange rate.

The difference arising from accounting for receivables and payables in foreign currencies at their year-end exchange rate is recognized in the balance sheet as "unrealized exchange gains and losses".

Unrealized exchange losses are subject to a provision for risk.

**Provisions for liabilities and charges**

These provisions, recorded in accordance with the French accounting standard “CRC 2000-06”, are intended to cover probable risks and charges arising from past events that have occurred or are on-going, of which their nature is clearly specified, but the timing of their resolution and their amount remain uncertain. They include indemnities estimated by the Company and its advisors in respect of litigation, disputes and actions or claims made by third parties.

Future expenses for site restoration, resulting from a legal, regulatory, contractual or implied obligation are provided for based on a reasonable estimate, during the period in which the obligation arises.

In consideration of this provision, the costs of site restoration are capitalized and included in the value of the underlying asset and amortized over the useful life of the asset.

There are no other administrative, legal or arbitration procedures of which the company is aware, that are pending or for which the group is threatened, that may have or have had in the last twelve months significant impacts on the financial position or profitability of the Company Française de l’Energie.

**Liquidity contract**

Following the IPO of La Francaise de L’Energie on the regulated market of Euronext Paris, the Company signed a liquidity contract with Parel, a company specialising in minimising the intra-day trading volatility of La Francaise de L’Energie shares. This liquidity contract, in compliance with the AFEI Code of conduct (Association Francaise des Entreprises d’Investissement), was signed on 15 June 2016. La Francaise de L’Energie has made available to Parel cash for an amount of € 350,000 to buy or sell the shares of the Company to ensure liquidity on the stock market.

The net cash balance available on the liquidity contract is accounted for as cash and cash equivalent, the non-cash balance remaining on the corporate account is accounted for as other financial assets.

An impairment is recognized if the carrying amount, based on the average share price of the last month before the end of the financial year, is lower than the historical value.

**Cash & cash equivalents**

Cash at bank and in hand have been valued at their nominal value.

**Equity**

Under the preferential method, fees related to the IPO and the related raising of capital were offset against the share premium related to the increase.

**Crédit d’impôts compétitivité emploi (CICE)**

An income receivable under the tax credit CICE is recognized based on staff costs incurred during the year. The CICE is recorded as a reduction in personnel costs. This tax credit in the amount of 10.242€ was used to fund the exploration and raising of finance operations.

**Free shares**

At 30 June 2016, 85.602 free shares were granted to officers and employees of the Company. The Company is not exposed to any loss of resources and has not recognised an expense as this transaction only leads to a movement within equity and a dilution of existing shareholdings.

No costs related to this plan was recognized at 30 June 2016, since the decision to award the bonus shares was taken on the last day of the financial year 2016, that is 30 June 2016.

**Costs of borrowing**

The costs of borrowing are expensed as incurred.

**Complementary information**

**3. Intangible fixed assets**

Exploration assets movements (intangible fixed assets not including software) are detailed below:

| | € |
|---|---|
| **At 30 June 2015** | **28,745,064** |
| Acquisitions | 1,163,896 |
| **At 30 June 2016** | **29,908,690** |

«Acquisitions » includes mainly the costs of exploratory drillings in Lorraine for the year ending 30 June 2016.

This amount includes a provision to cover the costs of well abandonment and rehabilitation of the Tritteling site for € 474.311 should the exploratory and drilling activities be stopped.

At June 30, 2016 the components of exploration assets are as follows, by exclusive exploratory license, before provisions for site restoration:

| | | 2016 | 2015 |
|---|---|---|---|
| | | € | € |
| Bleue Lorraine | Renewed on 25/09/2015 | 27,854,409 | 26,694,283 |
| Bleue Lorraine Sud | Renewed on 25/09/2013 | 295,603 | 292,103 |
| Bleue Lorraine Nord | Awarding request in progress | - | - |
| La Grande Garde | Awarding request in progress | - | - |
| Lons-le-Saunier (Jura) | Request 2nd period applied for (reject (1)) | 220,061 | 220,061 |
| Gardanne | Request 3rd period applied for (reject (1)) | 74,259 | 74,259 |
| Valenciennois (NPC) (*) | Renewal request in progress | 229,080 | 229,080 |
| Sud-Midi (NPC) (*) | Renewal request in progress | 366,684 | 366,684 |
| Poissonière (NPC) (*) | Renewed on 29/05/2015 | 394,283 | 394,283 |
| Desiree (NPC) (*) | Renewed on 29/05/2015 | | - |
| **Exploration Assets** | | **29,434,379** | **28,270,753** |

(*) FDE holds an economic interest of 70% on the projects, other than CCMM, for these licenses.

(1) In accordance with Article 23 of Decree No. 2006-648, an implicit rejection decision occurs on the expiry of a period of two years from the original application. This implicit rejection decision can be appealed with the Minister and / or have recourse before the administrative courts. Given the recurrent delays of the government departments in the processing of applications for extension or granting of mining permits in France, and with experience on previous permit applications, the Group's management considers that it is not necessary to write down these assets at this stage of the administrative process, as no explicit refusal decision of the application has been obtained from the French government to date. Therefore, management believes that there is still a chance, the permit could be granted as in practice, even after expiry of the applicable time limits and rejection situation, the administration may take a decision to grant the permit applied for.

The intangible assets related to exploration assets are not amortized. However, they may be subject, if appropriate, to an impairment test when the company begins to extract the hydrocarbon reserves.

### Other intangible fixed assets

Software is recognized as intangible fixed assets for a gross value of € 3,125 (€ 4,688 at June 30, 2015) and a net value of € 1,563 at June 30, 2016 (€ 3,125 as at June 30, 2015).

## 4. Tangible assets

| | 2016 | 2015 |
|---|---|---|

| | € | € |
|---|---|---|
| Equipment, fixtures and fittings | 25,055 | 40,043 |
| Acquisitions | 1,508 | |
| **Tangible assets: Gross book value** | **26,563** | **40,043** |
| | | |
| Depreciation | 10,253 | 14,988 |
| **Tangible assets: Net book value** | **16,310** | **25,055** |

The tangible assets are depreciated on a straight line basis over their useful economic life of between 3 and 10 years.

**5. Other financial assets**

The other financial assets originate mainly from security deposits and bank guarantees required for the operating lease agreements which amount to € 11,850 at June 30, 2016 (€ 11,850 at June 30, 2015).

The other investments relate to the balance on the corporate account which was opened under the liquidity contract (see in particular the liquidity contract in Note 2 "Accounting policies" of the notes to the statutory accounts) with Parel/Aurel for an amount of € 91,138 at 30 June 2016.

**6. Receivables**

| | **2016** | **2015** |
|---|---|---|
| | € | € |
| Accounts receivables (to be invoiced) | 558,702 | 1,042,249 |
| Prepayments | 60,257 | |
| Tax receivables (T.V.A France) | 433,324 | |
| Other receivables (1) | 201,223 | - |
| **Total** | **1,253,506** | **1,042,249** |

(1) Other debtors amounting to € 201,223 relate to the current operations of related entities.

The accounts receivable are recorded in the balance sheet at their nominal value.

The impairment of the accounts receivable will depend on the aging of the debts, nature of any disputes or financial difficulties encountered by the debtors.

The accounts and other receivables outstanding at June 30, 2016 are due within one year.

## 8. Accrued payable

| | 2016 | 2015 |
|---|---|---|
| | € | € |
| Accounts payable (invoices not received) | 2,061,305 | 97,610 |
| Interests on loans | - | 612,783 |
| Tax and social security payables | 394,727 | 69,381 |

## 9. Maturity of debts

Excluding the loans, all other debts at June 30, 2016 are due within one year.

The borrowings and other financial liabilities are as follows:

| | **Within 1 year** | **From 1 to 5 years** | **Over 5 years** | **2016** | **2015** |
|---|---|---|---|---|---|
| | **€** | **€** | **€** | **€** | **€** |
| Financial debt - EG Limited (1) | - | (4,979,778) | - | (4,979,778) | (18,014,711) |
| Convertible debenture notes (2) | - | - | - | - | (8,612,783) |

**(1)** Interest-free loan agreement for a nominal value of € 4,979,778 at 30 June 2016 (€ 18,014,711 as at 30 June 2015), with an initial maturity of five years, to 12 December 2019. On 12 December 2014, La Francaise de L'Energie and European Gas Limited signed an agreement relating to the settlement of this debt and making provision that under certain conditions, part of the debt will be waived as determined by the financial and tax position of each entity. At 30 June 2016, this agreement was extended for an additional period of 6 months to December 2016.

As part of the IPO of La Francaise de L'Energie, the two entities have agreed that the loan with EGLUK will be waived by EGLUK over a period of three and a half years in return for the reimbursement of EGLUK's debenture loans valued at € 4,668,750 on 31 May 2016, which was settled on 15 June 2016.

As part of this agreement, debt waiver totalling € 10,200,000 (at 30 June 2015: € 2,200,000; during the second half of 2015: € 4,000,000 and € 4,000,000 at 30 June 2016) were agreed.

**(2)** The convertible bond issued by La Francaise de L'Energie in December 2014 for an amount of € 8,000,000, bearing interest at the annual rate of 15% effective from 1 January 2015 and having a maturity of five years, was automatically converted into the Company's own shares as part of the IPO to the value of € 9,712,783, made up of the cumulative amount of their principal and interest to 31 May 2016.

## 10. Composition of the share capital

As at 30 June 2015, the share capital amounted to € 3,226,620 and is divided into 3,226,620 shares with a nominal value of € 1 each, of the same class and fully paid.

As at 30 June 2016, the share capital of Francaise de L'Energie SA amounted to € 5,065,175, divided into 5,065,175 ordinary shares with a nominal value of € 1 € each and of the same class.

During the financial year ended 30 June 2016, the movements on the Francaise de L'Energie SA share capital were as follows:

**Increase in capital as a result of the IPO**

On 13 June 2016, the IPO of the company La Francaise de L'Energie SA on EURONEXT, Paris was accompanied by an increase in the share capital by means of a public offering with no preferential rights to subscription, for an amount (inclusive of share premium) of € 37,500,000 through the issue of 1,388,889 new ordinary shares at a nominal value of € 1 each, creating a share premium of € 36,111,114 before the offset of fees related to the increase in capital.

The costs and fees relating to the listing on EURONEXT, Paris and to the related share capital increase were offset against the amount of the share premium related to the capital increase. The costs net of tax was € 1,204,560; the pre-tax amount amounted to € 1,805,938.

Conversion of debenture loan notes into new ordinary shares

Following the IPO of the company La Francaise de L'Energie SA on Euronext, Paris, the convertible debenture loan notes entered into in January 2015 for an amount of € 8,000,000 have automatically been converted into ordinary shares of the company for the aggregate amount of their cumulative principal and interest (annual interest rate of 15%) up to the 31 May 2016, that is for a total of € 9,712,783 in ordinary shares based on a ratio equal to 80% of the IPO price, resulting in an issue of 449,665 new ordinary shares, being € 20.6 per share, fully settled by the waiver of the debt and interests incurred up to 31 May 2016.

The movements in share capital, in terms of the number of shares and nominal value, are detailed below:

| | **Number** | **Nominal value** | **Amount** |
|---|---|---|---|
| | | € | € |
| **At 30 June 2015** | 3,226,620 | 1 | 3,226,620 |
| **Increase in capital** | | | |
| Shares issued by means of public offering | 1,388,889 | 1 | 1,388,889 |
| Shares issued following the conversion of the convertible debenture notes | 449,666 | 1 | 449,666 |
| **At 30 June 2016** | **5,065,175** | **1** | **5,065,175** |

## 10. Changes in equity

| | N-1 | Variation | N |
|---|---|---|---|
| | € | € | € |
| Capital | 3,226,620 | 1,838,555 | 5,065,175 |
| Share premium [(1)] | - | 44,169,670 | 44,169,670 |
| Legal reserve | 75,831 | - | 75,831 |
| Other reserve | 72,142 | - | 72,142 |
| Retained earnings | (638.202) | 698,301 | 60,099 |
| Profit/loss of the period | 698.301 | (99,681) | 598,620 |
| **Total of equity** | **3.434.692** | **44,809,224** | **50,041,537** |

(1) The share premium represents the difference between the nominal value of shares issued that is € 1,838,554 and the amount, net of issuance costs by La Francaise de L'Energie or an amount totalling € 45,374,232. The costs of raising the capital, amounting to € 1,805,939 were deducted net of tax of € 1,204,561 from the share premium.

## 12. Participating interests and subsidiaries

List of subsidiaries, and participating interests with an indication of the share of capital held, the amount of shareholders' equity and the net result of the last financial year:

| Subsidiaries and participating interests | Nominal value of shares | % of capital held | Total of equity | Net result of the last financial year 30/06/16 |
|---|---|---|---|---|
| | | | € | € |
| **Direct subsidiaries** | | | | |
| EG NPC SAS | 1 | 100% | (15,356) | (4,467) |
| EG Lorraine SAS | 868,544 | 100% | (21,907) | (10,331) |
| EG Jura SAS | 1 | 100% | (119) | (120) |
| EG Gardanne SAS | 1 | 100% | (119) | (120) |
| Transcor Astra LUX (LFDE Int SA) | 1 | 100% | (19,297,510) | (130,466) |
| Concorde Energy Inc | 150,000 | 100% | 4,794,260 | (925,286) |
| **Indirect subsidiaries** | | | | |
| Transcor Astra France SAS | - | 100% | 1,797,249 | (185,419) |
| Gazonor SAS | - | 100% | 6,563,346 | 421,033 |
| European Gas Benelux | - | 100% | 108,719 | (1,680) |
| Concorde Energie Paris SAS | - | 100% | (44,512) | (273) |

No provision for impairment has been recognised at 30 June 2016.

To date, the direct and indirect subsidiaries have no operational activity, except for Gazonor SAS which is a French incorporated company and whose principal activity is the exploitation Coal Mine Methane ("CMM") by pumping, its transportation by pipelines and its commercialisation.

During the year ended 30 June 2016 and following the acquisition of Concorde Energie Inc., exploration costs amounting to € 558,702 pre-tax incurred by the Group in relation to the permit of ‘’La Folie de Paris’’ have been recharged to that company.

### 13. Transactions with related companies

Indication of the proportion of financial assets, receivables, payables as well as financial expenses and income with related companies:

| | Amount concerning related companies<br>€ |
|---|---|
| **Assets** | |
| Financial Assets (investments and related receivables, net value) | 20,890,586 |
| Trade receivables | 558,702 |
| Other receivables | 201,222 |
| | |
| **Liabilities** | |
| Other Loans | 4,979,778 |
| Trade payables | 278,358 |
| | |
| **Profit and loss account** | |
| Financial expenses | N/A |
| Financial income | N/A |

The transactions with the related parties were carried out at arm’s length for the year ended 30 June 2016.

### 14. Remuneration of the executive and management bodies (Related parties)

The remuneration allocated to the executives who are members of the Executive Committee of La Française de l’Energie, is detailed as follows:

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Direct remuneration | 545,034 | 52,906 |
| | 545,034 | 52,906 |

The increase in the overall remuneration allocated to management can be explained as follows:

- Recruitment of an Operations Director on 1st November 2015
- Taking in charge management of the former parent company, European Gas Limited, on the 24 June 2015 as agreed by the tripartite agreement.

As a result of the listing of the company on the Stock Exchange on 13 June 2016 and as described in the ‘’Document de base’’, the following terms have been approved in favour of the Chief Executive Officer by the board of directors:

- An annual variable remuneration for the Chief Executive Officer subject to performance measurement such as the funds raised for the Company or an increase in the valuation of the Company.

- A severance payment equal to two (2) years of annual gross fixed remuneration in the case of termination of the mandate of the Chief Executive Officer.
- As part of the allocation of free shares (Note 17) 64,724 shares were granted to executives of the Company.

La Francaise de L'Energie Group has been engaged in a number of transactions with related parties for the year ended 30 June 2016.

- Interest free loan agreement with European Gas Limited, for a nominal value of € 4,979,778 at 30 June 2016, with an initial maturity of five years to 12 December 2019. Following the IPO of La Francaise de L'Energie, the Company repaid part of the loan in the amount of € 4,668,750. The remaining balance should be waived under certain conditions. Two debt waivers were also agreed during the year for a total of € 8 million.
- Service Delivery Agreement dated 24 June 2015 between La Francaise de L'Energie and the company Nebula Resources Company Limited, a UK company. Nebula Resources Limited was engaged to promote the interest and activities of Francaise de L'Energie with the European Commission in charge of the energy sector and with banks and investment funds. In return, La Francaise de L'Energie has been paying a monthly fee of € 10,000 excluding taxes to Nebula Resources Limited until March, 2016.
- On 24 June 2015, La Francaise de L'Energie have agreed to an amendment to a service contract signed on 15 July 2011 with the company Karlin Limited SDN BHD ("Karlin"), consisting of the services of Karlin in seeking mergers and acquisitions opportunities in the energy sector on behalf of the Company and to provide advice in relation to the negotiation and conclusion of future markets in the energy sector. In consideration for its services, Francaise de L'Energie paid the company Karlin an annual fee of € 50.000 excluding tax.
- In its meeting of 23 March 2016, the Board of Directors of Francaise de L'Energie had decided to allocate to its CEO an exceptional net remuneration of € 250,000 in case of an IPO of the company and an additional € 250,000 in case of raising funds above € 20 million. An accrual amounting to € 600,000 made up of the exceptional remuneration was recorded at the end of June 2016 in the consolidated financial statements of Francaise de L'Energie. This will be paid over to the companies Nebula Resources Limited and Next Gen NRJ Limited.
- A contract for services between the company LFDE Internationale (formerly Transcor Astra Luxembourg) and the company NextGen NRJ Limited, a company domiciled in the United Kingdom and a personal holding of the CEO of the Francaise de L'Energie. NextGen NRJ Limited's principal activity is the promotion of the interests of the Company with the European Union institutions and seeking external acquisitions and sources of financing. No expenses were recorded in the year ended 30 June 2016.
- A contract for provision of services between the company LFDE International and the company Karlin Limited, a company domiciled in the United Kingdom and controlled by the Financial Director of the La Francaise de L'Energie group for the supply of

consultancy services primarily to look for acquisition opportunities on behalf of the Company. No expense was recorded over in the year ended 30 June 2016.

An amount of € 120,000 was expensed for the year ended 30 June 2016 in respect of attendance fees allocated to members of the Board of Directors.

**15. Average number of employees**

**Year-end headcount**

The total headcount of the Française de l'Energie group, split by role, is as follows:

| | **Employees in 2016** | **Employees in 2015** |
|---|---|---|
| Executive management | 10 | 5 |
| Workers and employees | 6 | 9 |
| **Total** | **16** | **14** |

In accordance with the position paper of the ANC dated February 28, 2013, the Tax Credit for Competitiveness and Employment (CICE) is booked as a decrease in personnel costs.

For the year ended 30 June 2016, the Company booked a tax credit CICE of € 10,242 (30 June 2015: € 7,024) as a deduction from personnel costs, which will be used for investment and exploration purposes.

**16. Income taxes**

The split of income taxes, between the part attributable to exceptional items in the profit and loss statement and the part attributable to other elements of this statement, with the detail of tax adjustments, is presented in the table below:

| | **Accounting result** | **Tax assignments, reinstatements and deductions** | **Taxable result** | **Incom e taxes** |
|---|---|---|---|---|
| | € | € | € | € |
| Operating result | (6,800,002) | (1,816,181) | (8,616,183) | - |
| Exceptional result | 8,000,000 | - | 8,000,000 | - |
| Employee profit sharing | - | - | - | - |
| Income taxes and contributions | - | - | - | - |
| **Total** | **1,199,998** | **(1,816,181)** | **(616,183)** | **-** |

The tax charge relates to the consideration of tax on issue expenses recognized in shareholders' equity.

**17. Financial commitments**

No financial commitment has been made by the company to its officers, subsidiaries and other related companies as at 30 June 2016.

The table below describes the financial commitments made by the Group in respect of two key licenses currently operated by the company at 30 June 2016:

| **Exclusive licence research (PER)** | **Initial financial commitment** | **Realised investments** | **Residual commitment** |
|---|---|---|---|
| | € | € | € |
| Bleue Lorraine | 7,700,000 | 27,854,409 | - |
| Bleue Lorraine Sud | 7,250,000 | 295,603 | 6,954,397 |

Each exploration license awarded to the Group includes financial commitments in terms of exploration expenditures to be incurred during the term of the license. However, in practice, the Group may decide to spend far more in excess of its original financial commitments. On the other hand, the Group may decide to delay these expenses depending on the circumstances and exploration programs. Furthermore, it is important to clarify that the expenses recorded on the Bleue Lorraine permits also cover studies on well architectures, the quality and resistance of equipment and drilling tools and the characteristics of the Lorraine coals that can be useful for the Bleue Lorraine Sud permit.

## 18. Off-balance sheet commitments

- **Employee retirement indemnities**

Retirement indemnities are payable to employees on the day of their voluntary retirement (defined-contribution plan). These plans are usually based on a percentage of the final salary, according to the seniority of the employee and the relevant employee collective bargaining agreements. The liability is calculated on the basis of a specific actuarial valuation for the relevant company, incorporating notably a discount rate, salary increases, inflation, life expectancy and staff turnover.

In the statutory accounts of La Française de l'Energie at 30 June 2016 and at 30 June 2015, the amount of this actuarial commitment does not give rise to a provision in the balance sheet but to a disclosure in the notes to the financial statements.

The employee retirement indemnity commitment amounted to € 9,275 at 30 June 2016 (€ 40,213 at 30 June 2015), with no hedging assets being used.

The actuarial assumptions used for the valuation of the actuarial commitment as at 30 June 2016 are the following:

- Discount rate: 1.05%
- Wage increase: 2%
- Average staff turnover : 5%

- **Individual training entitlement for employees**

At 30 June 2016, the monitoring of the accumulated number of training hours linked to the rights acquired under the DIF and the CPF as well as the monitoring of the number of training hours that have not been used are now decentralized and searchable via an internet portal accessible only by holders of a CPF account.

- **Operating leases**

**Property lease**

The Company « Française de l'Energie » leases office space in the town of Forbach (Moselle) on the basis of a 9-year lease expiring on June 30, 2022, with an option to terminate the lease at the end of each triennial period. Rental payments under the property lease are accounted for on a straight-line basis throughout the life of the lease.

The future minimum lease commitments arising from this property lease contract is as follows:

| | **2016** | **2015** |
|---|---|---|
| | € | € |
| **Operating lease (Property)** | | |
| Less than one year | 45,000 | 45,000 |
| Between one and five years | 180,000 | 180,000 |
| More than five years | 45,000 | 90,000 |
| **Total** | **270,000** | **315,000** |

**Other operating lease agreements**

As part of its activity, the company finances part of its equipment through operating lease agreements. These contracts mainly concern the rental of vehicles, for which payments are booked on a straight-line basis over the term of the contracts.

The contracts have a life of between 2 and 5 years and are cancellable.

| | **2016** | **2015** |
|---|---|---|
| | € | € |
| **Other operating leases** | | |
| Less than one year | 12,737 | 12,737 |
| From one to five years | 9,421 | 22,158 |
| More than five years | - | - |
| **Total** | **22,158** | **34,895** |

## 19. Provisions for liabilities and charges

### Provision for site restoration

At 30 June 2016, the Company La Française de l'Energie recognized a provision of € 474,311 to support the costs of abandonment of wells and the restoration costs of the Tritteling site in the event of a cessation of the exploration activity (€ 474,311 at 30 June 2015). This amount has been based on technical expertise and information available.

This provision is capitalized and incorporated in the value of the underlying fixed assets, namely the capitalized exploration costs recognized as intangible assets.

### Other litigations and on-going legal procedures

At the date of preparing the statutory accounts of the company La Francaise de L'Energie SA, there are no administrative, legal or arbitration procedures of which the group is aware, that is pending or for which the group is threatened with, that may have or have had in the last twelve months significant impacts on the financial position or profitability of the Company.

**20. Subsequent events**

In July 2016, the Company began the integration of the legal entities it acquired during the financial year 2016, namely Transcor Astra Luxembourg, a company based in Luxembourg and owning 100% of the share capital and voting rights of Transcor Astra France ("TAF"), which itself owns 100% of the share capital and voting rights of Gazonor and Concorde Energy Inc., a company incorporated in the state of Delaware holding 100% of the share capital and voting rights of Concorde Energie Paris SARL.

As of 22 September 2016, the framework of finance with Rgreen Invest for € 60,000,000 initially signed in May 2016, has been extended until 31 December 2016, as the company Gazonor SAS, subsidiary of La Francaise de L'Energie is still waiting for the French government to publish the subsidised price of generating electricity from coal mine methane (CMM).

On 13 October 2016 the company Gazonor SAS, a subsidiary of La Francaise de L'Energie, has entered into a letter of intent with the 2G Energy AG Group for the order of 6 engines of 1.5 MW each. These contracts will be finalized in the fourth quarter of 2016 for the sites in Avion, Lens, Divion and Desiree in order to begin the electricity production.

At the date of signing of this report, the Company is still working on the preparation of the AFE "Authorization for Expenditure" for the drilling campaign in Lorraine with the objective to finalise these as soon as possible. The well drilling program for 8 wells in Lorraine is almost complete and the company aims to develop the first CBM production wells on four different drill sites. The planned development of the drilling program will reach the total sum of € 25 million. The Company has strengthened its staffing levels by recruiting 3 people including a drilling engineer, drilling advisor and a chief procurement officer to achieve these goals. The Company anticipates drilling the first well in December, 2016.

At the date of signing of this report, the Chief Executive Officer noted that it is important to mention that the Company disagrees with the Société Générale in relation to the costs related to the IPO which were deducted directly by Société Générale from the capital raised following the completion of the IPO. To this end, the Company continues to dispute the charges with the Société Générale

**21. Statutory auditors' fees**

The statutory auditors' fees, for the year ended 30 June 2016, amounted to € 269,662. The corresponding fees for the previous financial year amounted to € 30,000.

**[Manque le rapport du commissaire aux comptes]**

# 6. CONSOLIDATED FINANCIAL STATEMENTS

## 6.1 Consolidated financial statements and notes

**-I-**

**CONSOLIDATED FINANCIAL STATEMENTS**

**LA FRANCAISE DE l'ENERGIE GROUP**

**FOR THE YEAR ENDING 30 JUIN 2016**
**( IFRS )**

# Consolidated statement of comprehensive income

## LA FRANCAISE DE L'ENERGIE
**For the fiscal year ended 30 June 2016**

| | Notes | 2016 | 2015 |
|---|---|---|---|
| | | **€** | **€** |
| **Sales** | | | |
| Other income | | - | - |
| | | | |
| Purchases, net of inventory variation | | - | - |
| General and administrative expenses | **3** | (5,656,328) | (2,109,679) |
| | | | |
| Amortization of tangible assets and mineral rights | **4** | (11,816) | (16,551) |
| Other income | | - | - |
| Other expenses | | - | - |
| | | | |
| Cost of net debt | **5** | (1,113,750) | (612,783) |
| | | | |
| Other financial income | | - | - |
| Other financial expenses | **5** | (1,237,000) | (971,000) |
| Net foreign exchange difference | | (2,209) | 2,093 |
| | | | |
| Negative Goodwill | **7** | 1,189,556 | - |
| | | | |
| Income taxes | **6** | 2,666,622 | 1,121,308 |
| **Consolidated net loss** | | **(4,164,926)** | **(2,586,612)** |
| **Net loss - equity holder of the parent** | | **(4,164,926)** | **(2,586,612)** |
| **Total Comprehensive loss** | | **(4,164,926)** | **(2,586,612)** |
| | | | |
| *Earnings per share* | | *(1.26)* | *-0.80* |
| *Fully-diluted earnings per share* | | *(1.23)* | *-0.80* |

# Consolidated balance sheet as at 30 June 2016

## LA FRANCAISE DE L'ENERGIE

| | Notes | 2016 | 2015 |
|---|---|---|---|
| | | **€** | **€** |
| **ASSETS** | | | |
| | | | |
| **Non-current assets** | | | |
| Goodwill | **7** | 18,263,758 | - |
| Intangible assets | **8** | 31,852,162 | 28,748,189 |
| Property, plant and equipment | **9** | 626,065 | 25,055 |
| Other financial assets | **11** | 104,498 | 11,850 |
| Deferred tax assets | **6** | 345,000 | - |
| **Total non-current assets** | | **51,191,483** | **28,785,094** |
| | | | |
| **Current assets** | | | |
| Inventories | **10** | 435,670 | - |
| Other receivables | **12** | 1.420,342 | 157,758 |
| Cash and cash equivalents | **13** | 11,962,172 | 2,044,849 |
| **Total current assets** | | **13,818,184** | **2,202,607** |
| **Total assets** | | **65,009,667** | **30,987,701** |
| | | | |
| **LIABILITIES** | | | |
| | | | |
| **Equity** | | | |
| Issued share capital | **14** | 5,065,175 | 3,226,620 |
| Share premiums and reserves | **16** | 51,687,266 | 8,269,213 |
| Profit/Loss for the year | | (4,164,926) | (2,586,612) |
| **Total Equity** | | **52,587,515** | **8,909,221** |
| | | | |
| **Non-current liabilities** | | | |
| Provisions | **28** | 3,786,616 | 514,524 |
| Long-term borrowings | **18** | 3,053,778 | 18,217,494 |
| Deferred tax liabilities | **6** | - | 2,005,248 |
| **Total Non-current liabilities** | | **6,840,394** | **20,737,266** |
| | | | |
| **Current liabilities** | | | |
| Accounts payable | **19** | 4,605,268 | 1,236,418 |
| Other payables | **19** | 976,490 | 104,796 |
| **Total current liabilities** | | **5,581,758** | **1,341,214** |
| **Total liabilities and equity** | | **65.009.667** | **30,987,701** |

# Consolidated statement of cash flows
## LA FRANCAISE DE L'ENERGIE
**For the year ended 30 June 2016**

| | 2016 | 2015 |
|---|---|---|
| | € | € |
| Consolidated net income / loss | (4,164,926) | (2,586,612) |
| **Non-monetary adjustments :** | | |
| Elimination of Depreciation, amortization and provisions | 11,816 | 27,803 |
| Income and expenses related to the share-based payment | - | 335,074 |
| Elimination of deferred tax assets | (2,666,622) | (1,121,308) |
| Debt issuance costs | - | 362,500 |
| Cost of financial debt | 1,100,000 | 612,783 |
| Other finance costs | 1,206,607 | 971,000 |
| Negative goodwill | (1,189,556) | |
| (Increase) decrease in working capital (note 20) | 2,292,321 | 451,760 |
| Income tax paid | - | - |
| **Net cash flow from operating activities** | **(3,410,360)** | **(947,720)** |
| Net acquisition costs of participation | (16,073,666) | - |
| Purchase of intangible assets | - | (4,688) |
| Exploration costs capitalized (note 8) | (1,163,626) | (2,019,677) |
| Purchase of Property, plant & equipment additions | (1,508) | (40,043) |
| Other financial assets investments | (92,648) | (11,850) |
| **Net cash flow from investing activities** | **(17,331,448)** | **(2,076,258)** |
| Issue of new shares | 37,500,003 | - |
| Transaction costs | (1,805,939) | - |
| Issue of convertible loan notes (note 19) | - | 8,000,000 |
| Debt issuance costs | - | (362,500) |
| Repayment of debt to EGL UK | (5,034,933) | (2,588,009) |
| | | - |
| **Net cash flow from financing activities** | 30,659,131 | **5,049,491** |
| **NET INCREASE (DECREASE) IN CASH** | **9,917,323** | **2,025,513** |
| Cash at the beginning of the period | 2,044,849 | 19,336 |
| **Cash at the end of the period** | **11,962,172** | **2,044,849** |

In the consolidated statement of cash flow, the net cash includes cash and cash equivalents net of Bank loans and overdrafts. According to IAS 39, securities are recorded at their market value at the balance sheet date.

The statement of cash flows presented above does not include the transactions listed below for the period ended 30 June 2015 and 2016 respectively as they were non-monetary transactions:

- The forgiveness of debt amounting to € 8,000,000 € (2015: € 2,200,000) which has been accounted for directly in equity.

- The fair value adjustment of the loan resulting from the agreement dated December 12, 2014 whereby the existing loan was formulated into a 5 years non-bearing interest loan maturing on 12 December 2019.

# Consolidated statement of changes in equity
## LA FRANCAISE DE L'ENERGIE

| | Number | Amount<br>€ | Issued share capital Consolidated Retained earnings<br>€ | Total equity<br>€ |
|---|---|---|---|---|
| **As at 1 July 2014** | **75,831** | **758,310** | **(1,279,615)** | **(521,305)** |
| Net income/(loss) for the year 2015 | - | - | (2,586,612) | (2,586,612) |
| Reduction in share capital | (75,831) | (758,310) | 758,310 | - |
| New issue of shares | 3,226,620 | 3,226,620 | - | 3,226,620 |
| Share based payment (note 18) | | | 335,074 | 335,074 |
| Fair value adjustment (note 18) | | | 9,382,000 | 9,382,000 |
| Forgiveness of debt (note 18) | | | 2,200,000 | 2,200,000 |
| Deferred tax on fair value adjustment | | | (3,126,556) | (3,126,556) |
| **As at 30 June 2015** | **3,226,620** | **3,226,620** | **5,682,601** | **8,909,221** |
| Net income/(loss) for the year 2016 | | | (4,164,926) | (4,164,926) |
| New issue of shares – Initial Public offering (note 14) | 1,388,889 | 1,388,889 | 36,111,114 | 37,500,003 |
| Transaction costs (note 14) | | | (1,204,561) | (1,204,561) |
| Conversion of convertible loan note (note 14) | 449,666 | 449,666 | 9,263,118 | 9,712,784 |
| Fair value adjustment (note 18) | - | - | (5,247,000) | (5,247,000) |
| Forgiveness of debt (note 18) | - | - | 8,000,000 | 8,000,000 |
| Income tax on loan forgiveness | | | (2,667,253) | (2,667,253) |
| Deferred tax on fair value adjustment | - | - | 1,749,248 | 1,749,248 |
| **As at 30 June 2016** | 5,065,175 | 5,065,175 | 47,522,340 | 52,587,515 |

# Notes to the consolidated financial statements

## 1. Accounting policies

### GENERAL PRINCIPLES

On October 28, 2016, the Board of directors have authorised the consolidated financial statements of the Group La Française de l'Energie S.A. for the year ended June 30, 2016. They will be submitted to the approval of the shareholders at the general meeting to be held December 19, 2016. La Française de l'Energie S.A. ("the Company") is a company domiciled in France. The consolidated financial statements for the year ended June 30, 2016 include the Company, being the consolidating entity, its direct subsidiaries, EG Lorraine SAS, EG NPC SAS, EG Jura SAS, EG Gardanne SAS, Concorde Energy Inc., Transcor Astra Luxembourg (recently changed its name to La Française de l'Energie Internationale SA) and indirect subsidiaries, Concorde Energy Paris SARL, Transcor Astra France SAS, Gazonor SAS, European Gas Benelux (all referred to as "the Group"). The direct subsidiaries are 100% owned by La Française de l'Energie S.A and are consolidated using the full integration method. The indirect subsidiaries are also held at 100% and no minority interest existed at June 30, 2016. All the companies of the Group's financial year ended June 30, 2016, except for Transcor Astra Luxembourg, Concorde Energy Inc. and Concorde Energie Paris SARL which have December 31, 2015 as their financial year end.

The consolidated financial statements of La Française de l'Energie and its subsidiaries (the Group) are presented in euros, which is also the functional currency of the Company and its subsidiaries, and have been prepared in accordance with the international IFRS standards (International Financial Reporting Standards), as adopted by the European Union and issued by IASB (International Accounting Standards Board) applicable as at June 30, 2016. The accounting principles at June 30, 2016 are the similar to those adopted for the consolidated financial statements at June 30, 2015, with the exception of the standards and interpretations adopted by the European Union applicable from January 1, 2016.

The balance sheet, statement of comprehensive income, statement of cash flows and statement of changes in equity have not changed compared to previous years.

The preparation of the financial statements in accordance with IFRS requires the Group's executive management to make estimates and assumptions that can affect the carrying amounts of assets, liabilities and contingent liabilities at the date of preparation of the financial statements and reported income and expenses for the period. The executive management reviews these estimates and assumptions on an on-going basis, by reference to past experience and various other factors considered as reasonable for assessing in particular the assets and liabilities carrying book value. These judgements and estimates are made on the basis of information or circumstances existing at the date of preparation of the financial statements, which may later differ from the actual results. The implementation of these estimates and assumptions relates principally to the application of the successful efforts method for the oil & gas activities, depreciation of fixed assets, provisions for site rehabilitation (environmental remediation) and provisions for risks and charges linked to the environment, valuation of financial instruments, valuation of derivatives and share based payments and deferred taxes.

Furthermore when the accounting treatment of a specific transaction is not addressed by any accounting standard or interpretation, the executive management applies its judgement to define and apply accounting policies that provide information consistent with the general IFRS concepts: true and fair view, relevance and materiality.

The Group La Française de l'Energie has not adopted the latest standards, interpretations and amendments to existing standards recently published by the IASB but not yet been adopted by the European Union or adopted at the European level, hence not made mandatory at this stage:

- IFRS 9 – Financial instruments and amendments (not adopted - applicable to accounting periods beginning January 1st, 2018);
- IFRS 15 – Revenue from contracts with customers (applicable to accounting periods beginning January 1st, 2017);
- Annual improvements: 2010-2012 cycle (applicable to accounting periods beginning February 1st, 2015);
- Annual improvements: 2011-2013 cycle (applicable to accounting periods beginning January 1st, 2015);
- Annual improvements: 2012-2014 cycle (applicable to accounting periods beginning January 1st, 2016).

La Française de l'Energie is currently assessing the impact of these new standards. Executive management considers that their implementation should not have a significant impact on the consolidated financial statements.

**Additional information on the group organization**

Change of legal form to Public Limited Company

At March 23, 2016, La Française de l'Energie has changed its legal form and has been converted into a Public Limited Company comprising of a Board of Directors and has adopted the new status to enable the Initial Public Offering.

The name of the Company, its duration and its headquarters remained unchanged as a result of this transformation.

Introduction of the Company on EURONEXT, Paris

At June 13, 2016, La Française de l'Energie S.A has been introduced onto the stock market, EURONEXT in Paris and to this effect, the Company has had a share capital increased amounting to € 37.500.003 resulting in the issuance of 1,388,889 new ordinary shares of € 1 each.

The IPO and corresponding capital increase related costs have been deducted in the share premiums for an amount of € 1,204,560 net of tax; the gross amount, before taxes, being € 1,805,938.

The IPO proceeds are intended to allow the Company to continue its operations and to provide additional resources to fund the implementation of its strategy, and more particularly:

-To finance the coal bed methane gas production activities in Lorraine.
-To finance the conversion of gas from coal mine methane into electricity in the North-pas-de-Calais

Conversion of loan notes into new ordinary shares

Following the IPO of the Company, La Francaise de L'Energie SA on Euronext, Paris, the convertible loan notes formalised in January 2015 for an amount of € 8,000,000 by means of 160 share options ("OCABSA") have automatically been converted into ordinary shares of the company for the aggregate amount of their cumulative principal and interest (annual interest rate of 15%) accrued until 31 May 2016, that is for a total amount of € 9,712,783 into ordinary shares according to parity calculated based on a value equal to 80% of the IPO price, set at € 27 per share.

As indicated in section 4.1 of the « Note d'operation » published during the IPO process of La Francaise de L'Energie, this transaction resulted in a share capital increase by the issuance of 449,665 new ordinary shares at a nominal value of € 1 per share raising a share premium of € 9,263,118 fully offset against the outstanding convertible debt.

Acquisition of Transcor Astra Luxembourg under the Gazonor acquisition contract.

On 14 January 2016, the Company signed a share purchase agreement with the company Transcor Astra Group ("TAG") (the "Purchase agreement of Gazonor") for 100% of the share capital and voting rights of Transcor Astra Luxembourg ("TAL"), a company based in Luxembourg and owning 100% of the share capital and voting rights of Transcor Astra France ("TAF"), which itself owns 100% of the share capital and voting rights of Gazonor. Gazonor is a French company which holds exploration permits and concessions whose business activity is the production of gas from coal mine methane (CMM).

On 27 June 2016 the Company acquired the shares of Transcor Astra Luxembourg for an amount of 1 € and a receivable held by the seller on that company for a nominal value of € 37.032.933 for an amount of € 19,872,038. The name of the company Transcor Astra Lux was changed to La Francaise de L'Energie Internationale SA.

This acquisition was fully financed by cash.

Acquisition of Concorde Energy Inc.

On 19 September, the Company entered into a share purchase agreement with the shareholders of Concorde Energy Inc., a company incorporated in the State of Delaware (United States), in order to acquire 100% of the share capital and voting rights of Concorde USA for an amount of € 750,000. Concorde USA is a company which mainly consists of exploration and exploitation of oil and gas resources in France, directly and through the intermediary of Concorde Energie Paris SARL ("Concorde France"), its 100% owned subsidiary.

On 6 April 2016, the shareholders of Concorde USA and the Company agreed to reduce the acquisition price to an amount of € 150,000. This amount is shown as other liabilities at 30 June 2016.

As part of the acquisition of Concorde Energy Inc., the Company acquired the control of a French exploration permit, called La Folie de Paris, and a number of current permit applications for oil and gas in the Paris basin (the validity of these permits applications are yet to be confirmed by the French government). As part of this acquisition, the Company acquired a portfolio of miscellaneous data, namely 2D seismic data (114 seismic profiles and raw data covering more than 385 wells and 100 gravimetric data) relating to the Paris Basin.

<u>Payment of the EGL UK shareholder loan for an amount of € 4,668,750 and the debt forgiveness</u>

According to the "Reorganization and Cooperation Agreement", European Gas Limited is committed, among other provision and subject to the realisation of an IPO by the company, to gradually waive the debt relating to the transfer of exploration assets it held.

As part of the IPO of the company La Francaise de L'Energie, the two entities have agreed that the EGL UK loan would be waived over a period of three and a half years in return of the settlement of the EGLUK shareholder loan amounting to € 4,668,750 at 31 May 2016. This amount was settled on 15 June 2016.

At 30 June 2016, this agreement was extended for a further six months until 31 December 2016, in order to implement a share buyback or exchange operation allowing EGLUK shareholders to become shareholders in La Francaise de L'Energie. At the end of this period, the Company will neither have any obligation to provide financial assistance to European Gas Limited, nor to engage in new buyback or exchange offer for the benefit of the shareholders of European Gas Limited and the loan balance with European Gas Limited will (unless otherwise agreed between the parties) be permanently waived.

As per the agreement, the following loan write-offs were made: € 2,200,000 for the year ended 30 June 2015 and a total of € 8,000,000 during the year ended June 30 2016.

**A) Basis of consolidation**

The subsidiaries are the entities controlled by the group La Française de l'Energie.

According to IFRS 10, companies in which the Group directly or indirectly holds a majority of voting rights, particularly at the general meeting, the Board of Directors or in any other similar equivalent managerial capacity, giving him the right to govern the operating and financial policies, are generally deemed controlled and are consolidated using the full integration method.

The full integration method has been applied in the preparation of the consolidated financial statements of the companies in which La Française de l'Energie directly or indirectly exercises control. The corporate control exists when the Group:
- Has control over the company;
- Is exposed or has rights to variable returns from the company;
- Has the ability to exercise its authority on the deemed relevant activities of the company in such a way that it can influence the returns to investors.

Participations in joint ventures are consolidated using the equity method as described in IFRS 11.

Participations in associated companies, in which the investor exerts a significant influence, are consolidated using the equity method. Significant influence is presumed when the investor holds, directly or indirectly through subsidiaries, 20% or more of the voting rights. If the percentage is lower than 20%, consolidating using equity method can be applied only if the significant influence can be proved to exist.

The Group consolidation does not include subsidiaries with significant minority interests, joint ventures or associates. La Française de l'Energie S.A. neither has any significant interest in structured company as defined by IFRS 12.

Transactions as well as mutual assets and liabilities between fully consolidated companies are eliminated on consolidation. Any gains/losses on group transactions between fully consolidated companies are also eliminated.

The results of acquired subsidiaries are consolidated from the date on which control is exercised.

A list of the main consolidated companies is provided in note 24.

## B) Segmental information

In accordance with IFRS 8 "Operating Segments", the segmental information presented in the consolidated financial statements is based on the internal reporting used by Management to evaluate performance and resource allocation in different segments. The executive management represents the main operating decision maker for the purposes of IFRS 8.

Following the acquisition of Transcor Astra Luxembourg SA (now known as La Française de l'Energie Internationale SA), a company based in Luxembourg holding 100% indirectly of Gazonor SAS, the group's activity is aggregated in two operating segments in France at June 30, 2016, notably in term of analysis and decision making, which are characterized by a very homogeneous business model, especially in terms of operational organization and key success factors. These operating segments are:

- Lorraine (exploration and certification of gas reserves)
- Avion (gas production)

## C) Revenue recognition

In accordance with IAS 18, revenue is recognised at the fair value of the consideration, net of trade discounts, volume rebates and any other discounts excluding VAT and other taxes. Revenue is recorded at the date the Group has transferred the significant risks and rewards of ownership to the buyer and is no longer involved in either the management or effective control of the goods and assigned services).
Revenue from the sales of gas is recognised as per the conditions described in the sales contract. At June 30, 2016, the Group did not recognise any revenue for the Group Transcor Astra Lux (Gazonor acquisition) as the acquisition was completed on June 27, 2016.

**Business combinations**
Business combinations are accounted for using the acquisition method of accounting as defined by IFRS 3. This method requires the recognition of assets and identifiable liabilities of the Group at their fair value.
The accounting for the acquisition is completed within a maximum of one year from the date

of acquisition.

### Goodwill

Goodwill relating to different consolidated subsidiaries are recorded on the consolidated balance sheet in the ‘’goodwill’’ section.

The acquirer accounts for goodwill at the date of acquisition, evaluated as being the excess of:

- The consideration transferred, the amount of any non-controlling interests and, in a business combination achieved in stages, the fair value of any previously held equity interest remeasured at its acquisition date, less;
- The fair value, at the acquisition date, of the identifiable acquired assets and assumed liabilities.

If the consideration transferred is lower than the aggregate fair value of the identifiable assets acquired and liabilities recorded, the group re-assesses whether it has correctly identified all the assets acquired and all the liabilities assumed. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the negative goodwill is recognized directly in the income statement.

When transactions with non-controlling interests have no impact on control, the difference between the consideration transferred and the book value of the acquired non–controlling interests is accounted for directly in equity.

Goodwill is not amortized but is subject to an impairment test at least once a year. When an impairment loss is recognized, the difference between the carrying value of the asset and its recoverable amount is expensed through the statement of comprehensive income during the financial year in the section operating results.

### D) Foreign currency translation

The financial statements of subsidiaries are prepared in currency that most clearly reflects their business environment. This is referred to as their functional currency.
Transactions denominated in foreign currencies other than the functional currency of the entity are converted at the exchange rate prevailing at the date of the transaction. At the year-end, the monetary assets and liabilities are converted at the year-end exchange rate and the resulting exchange differences are recognized in the income statement.

### E) Liquidity contract

As part of this introduction, La Française de l’Energie has entered into a liquidity contract amounting to € 350,000 with the independent brokerage company Parel / Aurel, whereby La Française de l’Energie mandates Parel / Aurel to trade on its behalf on the regulated market in order to promote the liquidity of transactions and the regularity of the trading securities. At June 30, 2016, included in cash and cash equivalent is an amount of € 258,862 and an amount of € 91,138 in other financial assets.

Impairment is recognized, if the carrying value, based on the average share price of the last month before the year end, is lower than the historical value.

**F) Share-based payment**

The Offers reserved to holders of the Group's obligations for which payment is based on shares are settled in equity instruments.

IFRS 2 requires the Company to recognize an expense for services paid by the benefits granted to employees in the form of share-based payments. The cost of buying equities and equity like instruments is measured by reference to the fair value at the date when the equity instruments are granted.

For stock options and / or shares purchased reserved for employees or free shares that may be granted to employees, the fair value is recorded in personnel costs with a direct corresponding impact in equity as soon as the employee is entitled to these rights.

The fair value of stock options is determined using an appropriate valuation model either by using a market price or using the Black -Scholes model. The assessment of the fair value of stock options, free shares and similar attributions, is carried out on the basis of the share market price, the exercise price and the life of the option, the current price of the underlying shares, the expected volatility of the share price, and the risk free interest rate for the life of the option, taking into account the absence of dividends for the period vesting.

## G) Income tax

The income tax charge for the year includes the current income tax and the deferred income tax.
The Group computes its income taxes on the profits made in accordance with tax legislation in force in the countries where the profit is taxable.

In line with IAS12, a deferred tax is calculated using the liability method for all the temporary differences existing between the book value recorded in the consolidated balance sheet and the tax value of the assets and liabilities. The assessment of the deferred taxes is based on the way the Group thinks it will recover or settle the book value of the assets and liabilities using the enacted tax rate or substantially enacted tax rate at the year-end reporting date of the financial statements. The effects of changes in tax rates from one period to the other is booked to the statement of comprehensive income in the period to which it relates to unless when it relates to transactions booked directly in the shareholders' funds.

Deferred tax relating to share-based payments is recognized in the income statement as long as the tax base does not exceed the fair value of the plans drawn up in accordance with IFRS 2.

The deferred taxes assets and liabilities are not discounted and are presented in the balance sheet as non-current assets or liabilities. A deferred tax asset is recorded on the taxable temporary differences and on the carry forward of unused tax losses to the extent that their future reversal or future use is probable.

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

**H) Exploration assets**

The Group applies IFRS 6 “Exploration for and Evaluation of Mineral Resources”. Oil and gas exploration and production properties and assets are accounted for in accordance with the successful efforts method.

- **Exploration costs**

Geology and geophysical costs, including seismic surveys for exploration purposes, are recorded directly as expenses of the period when incurred.

Mineral interests are capitalized as intangible assets. They are regularly tested for impairment, license by license, according to the results of the exploration activity and executive management’s evaluation.

In the event of a discovery, the unproved mineral interests are transferred to proved mineral interests, at their net book value, as soon as proved reserves are booked.

Exploratory drillings are recorded and tested for depreciation on an individual basis as follows:
- costs of exploratory drillings which result in proved reserves are capitalized and then depreciated using the unit of production method based on proved developed reserves;
- the cost of dry wells and drillings that have not found proved reserves are charged to expenses;
- the costs of exploratory drillings are temporarily capitalized until a determination is made as to whether the drilling has found proved reserves if both of the following conditions are met:
- the well has found a sufficient quantity of reserves to justify, if appropriate, its completion as a producing well, assuming that the required capital expenditures are made,
- the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. This progress is evaluated on the basis of indicators such as whether additional exploratory works are under way or firmly planned (wells, seismic or significant studies), whether costs are being incurred for development studies and whether the Group is waiting for governmental or other third-party authorization of a proposed project, or availability of capacity on an existing transport or processing facility.

The costs of exploratory drillings not meeting these conditions are charged to expenses.

According to IFRS 6, cost of exploration and evaluation are initially capitalised as intangible assets until the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Therefore, when proved reserves of natural gas are determined and development is approved by management, the relevant capitalised expenditures are first assessed for impairment when facts and circumstances suggest that the net book value of the assets of exploration and evaluation may exceed its recoverable amount and (if necessary) considers any impairment that may result and the remaining balance is transferred to property, plant and equipment.

## I) Other intangible assets

Other intangible assets include development costs, patents, licenses, software, trademarks, and leasehold rights.

Intangible assets are carried at cost, after deducting any accumulated depreciation and accumulated impairment losses.
Other intangible assets have a finite useful life and are amortized on a straight-line basis over between one to twenty years depending on the useful life of the assets.

- **Research and development**

Research costs are charged to expenses as incurred.
Development expenses are capitalized when the following assumptions can be demonstrated:
– the technical feasibility of the project and the availability of the adequate resources for its completion;
– the ability of the asset to generate probable future economic benefits;
– the ability to measure reliably the expenditures attributable to the asset; and
– the ability and intention of the Group to complete the intangible asset and use or sell it.

Advertising costs are charged to expense as incurred.

## J) Tangible assets

Property, plant and equipment are recorded at cost, after deducting any accumulated depreciation and accumulated impairment losses. This cost includes borrowing costs directly attributable to the acquisition or production of a qualifying asset incurred until this asset is available for use.

Borrowing costs are capitalized as follows:

– if the project benefits from a specific funding, the capitalization of borrowing costs is based on the borrowing rate;

– if the project is financed by all the Group's debt, the capitalization of borrowing costs is based on the weighted average borrowing cost for the period.

Tangible assets are depreciated on a straight line basis according to their useful lives and the residual values are revised at the end of each financial year. The useful lives are as follows:

- Plant and equipment: 3 to 10 years
- Fixtures and fittings: 5 to 10 years
- Buildings: 10 to 20 years

## K) Lease agreements

Finance lease agreements are those which transfer substantially all the risks and rewards incidental to ownership from the lessor to the lessee. These contracts are capitalized as assets in the balance sheet at fair value or, if lower, at the present value of the minimum lease payments according to the contract.

A corresponding financial debt is recognized as a financial liability. These assets are depreciated over the corresponding useful life used by the Group.

Leases that are not finance leases as defined above are recorded as operating leases with lease repayments charged to expenses as incurred.

**L) Amortization of goodwill and fixed assets**

The recoverable amount of the tangible and intangible assets is reviewed as soon as there is an indication of impairment of these assets, which is reviewed at each accounting year end.

For goodwill and intangible assets with indefinite duration, this test should be performed at each accounting year end.

Goodwill does not independently generate cash inflows and is therefore allocated to cash generating units (CGU).

The recoverable value of these CGU is the value in use or market value less disposal costs when it is higher. When this value is less than the net book value of these CGU, an impairment loss is recorded for the difference and allocated in order of priority against goodwill.

The tests are conducted across the CGU. A CGU is a homogeneous set of assets whose continued use generates cash inflows largely independent of the cash inflows generated by other asset groups.

The value of a CGU is determined by reference to the value of future discounted cash flows expected from these assets as part of the economic assumptions and operating conditions provided by the Group's General Management. The discount rate for expected cash flows reflects the rate of return expected by investors in the field of activity concerned and the risk premium in this activity.

**M) Inventories**

Inventories assets consisting of materials or supplies to be consumed in the production process are valued at the lower of cost and net realizable value. The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Stock is valued on a First in, First out basis.

**N) Financial assets and liabilities**

**Non derivative financial assets**

As required under IAS 39, the main financial assets are classified under the following four categories:

- financial assets at fair value through profit and loss, including derivatives;
- loans and receivables;
- assets held to maturity;
- assets available for sale.

The classification determines the accounting treatment of these assets. It is determined by the Group when the transaction is initially recorded, based upon the purpose for which the assets were acquired. The purchases and sales of financial assets are recorded at the transaction date, date at which the Group commits to the buying or selling of the asset.

### (i) Financial assets recorded at fair value through profit and loss

This applies to financial assets held by the Group in order to realize a profit on disposal in the short-term, or other financial assets voluntarily classified in this category.

These assets are evaluated at their fair value and the variations are recorded through profit and loss.

### (ii) Financial loans and receivables

Loans and receivables are financial assets, for which their future payment is determined or determinable, that are not listed on an active market and are not owned in order to be sold or available for sale. These assets are initially recorded at fair value, then at amortized cost discounted at the effective interest rate method. For interest free short term receivables, the fair value is based on the amount of the original invoice. These assets are tested for depreciation if there is an indication of impairment. An amount of depreciation is recognized, if the book value is higher than the estimated recoverable value. Receivables linked to equity participations and joint-ventures, other loans and receivables, and trade receivable are included in this category. They are recorded as other financial assets and trade receivable.

### (iii) Assets held to maturity

Assets held to maturity are financial assets, other than loans and receivables, with a fixed maturity, where their payment is determined or determinable which the Group intends to hold until maturity and has the capacity to do so. These assets are initially recorded at fair value and then at amortized cost discounted at the effective interest rate method. They are tested for impairment, if there is an indication of impairment. An amount for impairment is recognized, if the book value is higher than the estimated recoverable value. The assets owned to maturity are recorded in other financial assets.

### (iv) Assets available for sale

Assets available for sale are financial assets that do not belong to the previously mentioned categories. They are recorded at their fair value. For listed shares, the fair value is the market price. For non-listed shares, it is determined by reference to recent transactions or by valuation techniques that include reliable and observable market data. However, when it is impossible to reliably estimate the value of the shares, they are recorded at historical cost. The unrealized gains or losses on financial assets available-for-sale are recorded in equity at the date of their disposal. Nevertheless, when there is a strong indication of impairment of an asset available for sale (a sustainable or significant decrease in the fair value), the accumulated loss is recorded in the income statement. Depreciations on variable-income participation cannot be reversed in future accounting periods.

**Non derivative financial liabilities**

Non derivative financial liabilities are recorded initially at fair value net of transaction costs and premium directly attributable to their issuance. After their initial accounting treatment, these financial assets are evaluated at their amortized cost using the effective interest rate method.
The principal non derivative financial liabilities include:

• debenture loan notes;
• accrued interest not yet due;
• credit facilities and bank overdrafts;
• financial debts in relation to securities for which the Group bears the credit risk;
• accounts payable.

**Method for fair value determination**

The market value for exchange and interest rate instruments are determined according to well-known valuation models used on market, or through market quotations established by third party financial institutions. Estimations of fair value are derived from valuation models based on the expected future discounted cash flows. These models use parameters extracted from available market data. The fair value of the long term debt is estimated from the stock market value of debenture loans, or from the value of all the future cash flows discounted based on market conditions of similar instruments (in terms of currencies, maturity, interest rate and other factors).

**N) Share capital**

Shares issued by the company are recorded at the net book value, which is the fair value of the consideration received, reduced by the costs incurred for the issuance of these shares. The investment shares held by the Company or its subsidiaries are eliminated by the consolidated equity on consolidation.

**O) Provisions and other non-current liabilities**

As required by IAS 37 « Provisions, contingent liabilities and contingent assets», a provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event for which it is probable that an outflow of resources will be required and when a reliable estimate of the amount can be made in respect of the obligation. The amount of provision recorded is the best possible estimate.

Provisions and non-current liabilities comprised of liabilities for which the amount or the maturity are uncertain, arising from environmental risks, legal and tax risks, litigation and other risks.

### P) Site Restorations

Future expenses for site restoration, resulting from a legal, regulatory, contractual or implied obligation are provided for based on a reasonable estimate, during the period in which the obligation arises.

In consideration of this provision, the costs of site restoration are capitalized and included in the value of the underlying asset and amortized over the useful life of the asset.

When the execution date of this obligation is beyond one year, the amount of the provision for restoration of the sites becomes subject to discounting, the effects of which are recorded in statement of comprehensive income using the effective interest rate.

### Q) Employee benefits and other provisions

In accordance with the laws and practices of each country, the Group participates in employee benefit plans offering retirement, healthcare and special termination benefits. These plans provide benefits based on various factors such as length of service, wages, and contributions made to the governmental bodies responsible for the payment of benefits.

These plans can be either a defined contribution or defined benefit pension plans and may be entirely or partially funded with investments made in various non-Group instruments such as mutual funds, insurance contracts, and other instruments.

For defined contribution plans, expenses correspond to the contributions paid. There are no future obligations under these plans.

Defined benefit obligations are determined in accordance with the Projected Unit Credit Method. Actuarial gains and losses may arise from differences between actuarial valuation and projected commitments (depending on new calculations or assumptions) and between projected and actual return of plan assets. Such gains and losses are recognized in the statement of comprehensive income, with no possibility to subsequently recycle them though profit and loss.

The past service cost is recorded immediately in the statement of income, whether vested or unvested.

The net pension cost of the period is recognized under “Other operating expenses”.

### R) Convertible loan notes

The fair value of the debt component of a convertible loan notes is determined based on the market interest rate equivalent to non-convertible obligation. This amount is recorded as a liability based on its amortized cost until the extinction of the debt upon conversion or reaching maturity. The remainder of the proceeds from the issuance of convertible loan note is allocated to the conversion option and recorded net of taxes in equity or as a debt, depending on whether the conversion option is, or is not, an equity settled instrument.

### S) Significant accounting estimates and judgements

During the process of preparing the Group consolidated financial statements of La Française de l'Energie, the assessment of certain balance sheet or income statement items involves the use of assumptions, estimates or appraisals.

These assumptions, estimates or appraisals were established based on the information or situations existing at the date of the establishment of the financial statements for the year ended June 30, 2016.

The future outcome of these assumptions, estimates or appraisals may turn out to be different from reality at a later stage.

The principal assumptions, estimates and appraisals made by the Group are related to the following: capitalization and depreciation of exploration costs (i), recovery of deferred taxes (ii), valuation of financial instruments and share based payments (iii) and the fair value of financial debts.

(i) Exploration costs

The net book value of the capitalized exploration costs and the eventual impairment of such value are based on certain assumptions and estimates, and in particular on a reasonable estimate of the existence of reserves. The determination of oil and gas reserves is in itself an estimated process based on independent experts reports that may highlight a sufficient hydrocarbons volume to justify, if need be, the launch of production of a well provided that the necessary investments for production are realized. These estimates and assumptions may change when new data becomes available.

(ii) Recognition of deferred tax assets

The deferred tax assets are recognized when future recovery is probable, mainly for tax savings resulting from carry forward tax losses. The use of judgement is necessary in order to estimate the amount of deferred tax assets to be recognized, taking into account, after relying on the amount of deferred tax liabilities of similar maturity within the same tax jurisdiction, the probability of sufficient taxable profits arising in the future accounting periods. The assumptions used by the Group's executive management related to the generation of future taxable profits are based in particular on the cash flow forecast for operating activities (in particular future production and sale volumes, commodity prices, reserves, operating costs, capital expenses, dividends and other capital operations) and also judgement concerning the implementation of the fiscal laws in force in France. The outcome of the assumptions made to determine future cash flows and taxable revenues may later prove to be different, knowing that the current French and Luxembourg fiscal legislation can also change in the future.

(iii) Valuation of financial instruments and share based payments

Share based payments made by the group are equity settled instruments and are described in note 17 of the notes to the consolidated financial statements.

The fair value of the bonus shares are mainly determined by the market price of the shares at the date of their allotment.

(iv) Fair value of financial debts

European Gas Limited (sole shareholder of the Company until June 25, 2015) holds on the company La Francaise de L'Energie, a non-current financial debt resulting from the transfer of exploration licenses it held, that debt being considered as an interest free loan due in December 12, 2019. As part of the reorganization of the Group dated 12 December 2014, La Francaise de L'Energie and European Gas Limited signed an agreement entitled "Reorganization and Cooperation Agreement" under which, subject to meeting certain conditions and reciprocal commitments, this five-year interest-free debt is subject of a partial waiver. Therefore, this waiver should be implemented gradually, as and when the mutual conditions between the two parties are met. These mutual covenants and conditions, particularly includes, for the benefit of European Gas Limited, the commitment of La Francaise de L'Energie, subject to the successful completion of the IPO, to reimburse European Gas Limited an amount equal to the outstanding amount owed by European Gas Limied under the convertible loan note agreement formalised in 2014 as at that date vis-à-vis some of its shareholders in order to ensure equal treatment of shareholders of La Francaise de L'Energie and those of European Gas Limited.

At 13 June 2016, following the introduction of the Company La Francaise de L'Energie onto the stock market, the shareholders' loan was partially repaid in June 2016 for an amount of € 4,668,750. Two debt waivers of € 4 million each were also noted for the 2016 financial year ended totalling to an amount of € 8 million.

At 30 June 2016, this agreement was extended for a further six months until 31 December 2016to implement a share buyback or exchange operation allowing the EGLUK shareholders to become shareholders in La Francaise de L'Energie. At the end of this period, the Company will neither have any obligation to provide financial assistance to European Gas Limited, nor to engage in new share buyback or exchange offer for the benefit of the shareholders of European Gas Limited and the loan balance with EGLUK will (unless otherwise agreed between the parties) be permanently waived. The balance of this loan is classified under financial debts whilst waiting for the conditions to be realised, the fair value being determined as in previous exercises.

## 2. Operating results

| | **Note** | **2016** | **2015** |
|---|---|---|---|
| | | € | € |
| Revenue from ordinary activities | | - | - |
| Purchases net of inventory movements | | - | - |
| Other operating charges | **3** | 5,656,328 | 2,109,679 |
| Amortisation of intangibles | **4** | 11,816 | 16,551 |
| Operating results | | **5,668,144** | **2,126,230** |

The current operating results are intended to present the level of recurring operating performance of the group excluding the non-current events for the period.

### 3. Other Operating expenses

| | 2016 | 2015 |
|---|---|---|
| | € | € |
| Exploration expenses | - | 8,603 |
| Directors and personnel costs (note 23) | 1,573,439 | 1,171,207 |
| Rent | 86,949 | 27,338 |
| Fees | 2,918,082 | 309,560 |
| Advertising | 530,097 | 51,500 |
| Taxes | 13,617 | 2,862 |
| Energy and electricity | 6,309 | 1,191 |
| Other operating expenses | 527,835 | 537,418 |
| **Total** | **5,656,328** | **2,109,679** |

The other operating expenses relate mainly to the operating activities. The employee costs are listed in note 23, <<Administration and executive management remuneration >>, of the consolidated financial statements.

### 4. Depreciation

| | 2016 | 2015 |
|---|---|---|
| | € | € |
| Depreciation of tangible fixed assets | 10,253 | 14,988 |
| Depreciation of intangible fixed assets - software | 1,563 | 1,563 |
| **Total** | **11,816** | **16,551** |

### 5. Cost of net debt and financial result

The main components of the net cost of financial debt are the following:

| | 2016 | 2015 |
|---|---|---|
| | € | € |
| Net cost of financial debt | (1,113,750) | (612,783) |
| Other financial expenses | (1,237,000) | (971,000) |
| **Financial result** | **(2,350,750)** | **(1,583,783)** |

The cost of the net financial debt includes interest expense on the convertible loan notes for a nominal value € 8,000,000 with a maturity of 5 years from the date of issuance, calculated at an annual interest rate of 15% (note 18). On the listing of the Company on the Euronext Paris, these convertible debenture loan notes were automatically converted (for the cumulative amount including the principal and interests up to the date of listing of € 1,100,000) into ordinary shares of the Company.

The other financial expenses relate to the effects of discounting of the EGLUK debt for the financial year 2016 (note 18).

## 6. Income tax

### Analysis of the income tax expense

The income tax expense can be analysed as follows:

| | 2016 € | 2015 € |
|---|---|---|
| Current tax | - | - |
| Deferred tax | 2,666,622 | 1,121,308 |
| **Total income tax** | **2,666,622** | **1,121,308** |
| Theoretical tax rate | 33.33% | 33.33% |

### Reconciliation of the theoretical tax rate and the effective tax rate

The reconciliation between the theoretical tax rate, which is the legal corporate tax rate applicable to French companies, i.e. 33.3% for La Française de l'Energie, and the effective tax rate ascertained in the consolidated financial statements, is as follows:

| | 2016 € | 2015 € |
|---|---|---|
| Operating loss before taxes | (6,831,548) | (3,707,920) |
| Theoretical rate | 33.33% | 33.33% |
| Theoretical tax | 2,276,955 | 1,235,973 |
| Tax effects on permanent differences | 389,667 | (114,665) |
| Deferred taxes | 2,666,622 | 1,121,308 |
| **Total income tax as per the consolidated income statement** | **2,666,622** | **1,121,308** |
| Effective tax rate | 39.03% | 30.24% |

The main source of the permanent difference is made up of the negative goodwill recognised in the Statement of Comprehensive Income whose effect on the income tax is € 396,519.

### Deferred tax

The deferred tax balances are determined on the overall result of the companies in the tax group and disclosed in either assets or liabilities depending on their net position.

Deferred tax is reviewed at each balance sheet date to reflect the impact of changes in tax law and the prospects for recovery.

During the year ended 30 June 2016, deferred taxes were generated on the recognition of the loan with EGLUK at its fair value.

Deferred taxes recorded in the consolidated accounts for the financial year ended June 30, 2016 result from restatements and eliminations, and also from temporary differences arising between the carrying amount of an asset (or liability) and its tax bases.

The recognition of deferred tax assets has been analysed on a company by company basis taking into account deferred tax liabilities with a similar timing of reversals.

Deferred taxes are analysed as follows:

| | 2016 | 2015 |
|---|---|---|
| | € | € |
| Deferred tax assets on carried forward tax losses | 984,000 | 784,579 |
| Deferred tax assets on other temporary differences | 3,092 | 13,095 |
| Deferred tax liabilities on the fair value adjustment of the financial debt with European Gas Limited (note 19) | (642,092) | (2,802,922) |
| **Net amount in the consolidated balance sheet** | **345,000** | **(2,005,248)** |

The change in the net position of deferred taxes is presented below:

| | 2016 | 2015 |
|---|---|---|
| | € | € |
| Opening balance | (2,005,248) | - |
| Deferred tax recognized in the income statement | 2,666,622 | 1,121,308 |
| Deferred tax recognized in other comprehensive income | (316,374) | (3,126,556) |
| **Closing balance** | **345,000** | **(2,005,248)** |

Deferred tax recognized in Shareholders' equity mainly includes deferred taxes on actuarial gains allocated to the revaluation of the non-current financial debt at its fair value (see note 19 of the notes to the consolidated financial statements) and the forgiveness of the debt from EG Limited.

## 7. Goodwill and negative goodwill

### 7.1 Acquisition of Transcor Astra Lux

During the year ended 30 June 2016, the Company acquired the shares of Transcor Astra Luxembourg for an amount of € 1 together with a debt held by the seller on that company for a nominal value of € 37,032,933 for an amount of € 19,872,038. The takeover of Transcor Astra Luxembourg SA by La Francaise de L'Energie S.A. has generated a goodwill amounting to € 18,263,758. The acquisition includes the shares of the company Transcor Astra Luxembourg (now known as La Francaise de L'Energie Internationale SA) and its wholly owned subsidiaries, Transcor Astra France, Gazonor SAS and EGL Benelux ("Transcor Astra LUX Group").

The goodwill has been calculated as the difference between the purchase price of the shares of Transcor Astra Luxembourg and the value of the consolidated equity of the Transcor Astra

LUX Group at the date of acquisition, after taking into account the fair value adjustment of the shareholder loan between Transcor Astra LUX and the seller, Astra Group. The fair value was established as being the actual price paid by Francaise de L'Energie to acquire this loan.

The goodwill relating to the Transcor Astra Luxembourg Group is analysed as follows:

| | € |
|---|---|
| Tangible and intangible assets | 610,150 |
| Inventories | 435,670 |
| Other receivables | 751,259 |
| Cash and cash equivalent | 3,798,373 |
| Total assets | 5,595,452 |
| | |
| Provision for liabilities and charges | (3,303,031) |
| Financial debt | (19,872,039) |
| Other current liabilities | (684,139) |
| Total assumed liabilities | (23,859,209) |
| Net assumed liabilities | 18,263,757 |

The acquisition price of the shares is € 1, generating a goodwill of € 18,263,758, which has not been allocated yet. The group did not recognise the goodwill of € 18,263,758 at 30 June 2016, since the takeover was effective on 27 June 2016. However, this difference should be allocated, in whole or part in the year ended 30 June 2017 against the gas reserves and exploitation permits held by the Group Transcor Astra Luxembourg, which to date have not been subjected to a precise technical evaluation.

The complaint lodged by the company La Francaise de L'Energie on 30 December 2014 before the Arras commercial court against the companies Gazonor and Transcor France for dereliction of their duties in respect of the agreement established on 16 January 2014 between the parties for a total amount exceeding € 30,000,000 was withdrawn following the conclusion of the acquisition of Gazonor by La Francaise de L'Energie.

The Transcor Astra Lux Group generated € 3,656,000 as revenues and incurred a loss of € 388,000 during the year ended 30 June 2016.

### 7.2 Acquisition of Concorde

The acquisition of Concorde can be analysed as follows:

| | € |
|---|---|
| Capitalisation of exploration costs | 1,941,770 |
| Assumed current liabilities | (602,214) |
| Total net asset | 1,339,556 |

The acquisition price being € 150,000, generated a negative goodwill of € 1,189,556. This negative goodwill reflects an underlying gain which has been recognized in the income statement. The fair value of exploration costs capitalized was determined based on the demonstrable financial engagement costs incurred on the relevant permits.

Regarding the value of assets and liabilities acquired, corrections or adjustments can be made within twelve months following the acquisition (the "allocation period") to reflect assessments or circumstances which prevailed at the date of acquisition. These adjustments are measured at their fair value at the date of acquisition by restating directly the opening balance sheet of the newly acquired company. Beyond the period of one year from the acquisition date, any subsequent change in fair value is recognized in the statement of comprehensive income.

**8. Intangible fixed assets**

The intangible fixed assets acquired separately are initially measured at their acquisition cost in accordance with IAS 38. The intangible fixed assets acquired in a business combination are recognized at their fair value separately from goodwill.

Intangible assets – capitalized exploration costs

| **Gross value** | **30 June 2015** | **Change in scope**(1) | **Acquisitions** (2) | **Disposals** | **30 June 2016** |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| Exploration permits | 28,270,753 | 1,941,770 | 1,163,626 | - | 31,376,149 |
| Others | 474,311 | | - | - | 474,311 |
| **Total** | **28,745,064** | **4,501,804** | **1,163,626** | **-** | **31,850,460** |

The exploration permits mainly include exploration expenses and the costs of exploratory drillings which are recognized as intangible fixed assets and are amortized over their usage. However, they may be subject, if appropriate, to an impairment test on an individual basis.

A provision of € 474,311 has been recognized to cover the costs of abandonment of wells and restoration of the Tritteling site in case of cessation of exploration and drilling activities and site decommissioning.

The movements of these intangible assets are presented below:

The changes in scope recognized during the year mainly relate to:

- the acquisition of Concorde Energy Inc.: € 1,941,770 in gross value, no amortisation has yet been recognised.

- «Acquisitions» include mainly the costs of exploratory drillings recognised during the financial year ending 30 June 2016 in Lorraine for an amount of € 1,163,626.

At 30 June 2016 the components of exploration assets are as follows, by exclusive exploratory license, before provisions for site restoration:

| | | **2016** | **2015** |
|---|---|---|---|
| | | € | € |
| Bleue Lorraine | Renewed until 30 Nov. 2018 | 27,854,409 | 26,694,283 |
| Bleue Lorraine Sud | Renewed until 7 Nov. 2016 | 295,603 | 292,103 |
| Bleue Lorraine Nord | Awarding request in progress | - | - |
| La Grande Garde | Awarding request in progress | - | - |
| Lons-le-Saunier (Jura) | Request 2nd period applied for (reject (1)) | 220,061 | 220,061 |
| Gardanne | Request 3rd period applied for | 74,259 | 74,259 |

| | | | |
|---|---|---|---|
| | (reject [1]) | | |
| École supérieure | In progress (Implicit rejection [1]) | - | - |
| Chéroy | In progress (Implicit rejection [1]) | - | - |
| Courgivaux | In progress (Implicit rejection [1]) | - | - |
| Deux-Nanteuil | In progress (Implicit rejection [1]) | - | - |
| Dormans | In progress (Implicit rejection [1]) | - | - |
| La Folie de Paris | Renewed until 7 Aug. 2016 | 1,941,770 | - |
| La Sole | In progress (Implicit rejection [1]) | - | - |
| Les Chollets | Reject [1] | - | - |
| L'Ourcq | Reject [1] | - | - |
| Marigny | In progress (Implicit rejection [1]) | - | - |
| Ozoir | In progress (Implicit rejection [1]) | - | - |
| Valenciennois (NPC) (*) | Being renewed | 229,080 | 229,080 |
| Sud-Midi (NPC) (*) | Being renewed | 366,684 | 366,684 |
| Poissonière (NPC) (*) | Renewed on 29/05/2015 | 394,283 | 394,283 |
| Desiree (NPC) (*) | Renewed on 29/05/2015 | | - |
| **Exploration Assets** | | **31,376,149** | **28,270,753** |

(*) FDE holds an economic interest of 70% on the projects, other than CCMM, for these licenses.

(1) In accordance with Article 23 of Decree No. 2006-648, an implicit rejection decision occurs on the expiry of a period of two years from the original application. This implicit rejection decision can be appealed with the Minister and / or have recourse before the administrative courts. Given the recurrent delays of the government departments in the processing of applications for extension or granting of mining permits in France, and with experience on previous permit applications, the Group's management considers that it is not necessary to write down these assets at this stage of the administrative process, as no explicit refusal decision of the application has been obtained from the French government to date. Therefore, management believes that there is still a chance, the permit could be granted as in practice, even after expiry of the applicable time limits and rejection situation, the administration may take a decision to grant the permit applied for.

**Other intangible fixed assets**

Software is recognized as intangible fixed assets for a net book value of € 1,562 at 30 June 2016 (€ 3,125 at 30 June 30 2015).

## 9. Property, plant and equipment

Property, plant and equipment acquired separately are initially measured at their acquisition cost in accordance with IAS 16. The cost includes expenditures that are directly related to the acquisition of the asset and the estimated cost of restoration of a portion of the assets if necessary. Tangible assets acquired in a business combination are recognized and value at their fair value separately from goodwill.

Property, plant and equipment can be detailed as follows:

| **Gross amount** | **30 June 2015** | **Change in scope** (1) | **Acquisitions** | **Disposals** | **30 June 2016** |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| Land | - | 24,113 | - | - | 24,113 |
| Constructions | - | 300,044 | - | - | 300,044 |
| Equipment, fixtures and fittings | 40,043 | 175,966 | 1,508 | - | 217,517 |
| Other fixed assets | - | 110,027 | - | - | 110,027 |
| **Total** | **40,043** | **610,150** | **1,508** | **-** | **651,701** |

| **Depreciation** | **30 June 2015** | **Changes in scope**(1) | **Increase** | **Others** | **30 June 2016** |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| Land | - | | - | - | |
| Constructions | - | | - | - | |
| Equipment, fixtures and equipment | 14,988 | | 10,253 | 395 | 25,636 |
| Other fixed assets | - | | - | - | |
| **Total** | **14,988** | **-** | **10,253** | **395** | **25,636** |
| **Net Value** | **25,055** | | | | **626,065** |

(1) In 2016, the increase in property, plant and equipment is mainly related to changes in the scope of consolidation which includes property, plant and equipment recognized in the accounts of Transcor Astra Luxembourg Group for a net amount of € 610,150.

No property, plant and equipment have been pledged as security for debts and none are subject to finance lease contracts.

## 10. Inventories

The inventories consist mainly of maintenance parts for the servicing of the station at Avion and are valued at the lower of purchase cost or net realizable value. Impairment is recognized when the net realizable value is lower than cost. No impairment has been recognised for the financial year ending 30 June 2016. The movement of inventory is analysed as follows:

| | 30 June 2015 | Changes in scope | 30 June 2016 |
|---|---|---|---|
| | € | € | € |
| Maintenance parts | - | 435,670 | 435,670 |
| **Total** | **-** | **435,670** | **435,670** |

The changes in scope realised during the year relate mainly to the acquisition of the company Gazonor for a gross amount of € 435,670.

## 11. Other financial assets

The other financial assets are made up mainly of security deposits and bank guarantees required for the operating lease agreements and the own shares held via the contract of liquidity (see contract of liquidity in note E of the accounting principles in the notes to the consolidated accounts) with the company Parel/Aurel for an amount of € 91.138 at 30 June 2016. The total of other financial assets amounted to € 104.498 at 30 June 2016 (€ 11.850 at 30 June 2015).

## 12. Other receivables

The other receivables are valued at their nominal net book value and fall due within one year. An impairment is recognised when a litigation is identified or when the carrying value of these receivables, based on the probability of their recoverability, is lower than their net book value.

| | 2016 | 2015 |
|---|---|---|
| | € | € |
| Accounts receivable | 244,605 | - |
| Prepayments | 91,995 | - |
| Tax receivables (TVA France) | 826,156 | 157,758 |
| Other receivables | 257,586 | - |
| **Total** | **1,420,342** | **157,758** |

## 13. Cash and cash equivalents

The components of « Cash and cash equivalents » are detailed below:

| | 30 June 2016 | | 30 June 2015 | |
|---|---|---|---|---|
| | Balance Sheet value € | Fair value € | Balance Sheet value € | Fair value € |
| Cash in hand and at bank[1] | 8,406,531 | 8,406,531 | 2,044,849 | 2,044,849 |
| Cash equivalents – short term investments[2] | 3,555,641 | 3,555,641 | - | - |
| **Total Net book value** | **11,962,172** | **11,962,172** | **2,044,849** | **2,044,849** |

(1) At the Balance Sheet date, Cash in hand and at bank includes a bank balance amounting to € 8,147,669 and the closing balance of € 258,862 in relation to the liquidity contract with Parel/Aurel.

(2) At the end of the financial year ended 30 June 2016, the Company has acquired the short term security investments held by Gazonor SAS following the acquisition of Transcor Astra Luxembourg. The market value of the principal elements in the portfolio at 30 June 2016 amounted to € 3,555,659 with a net book value of € 3,555,641.

## 14. Share capital

At 1 July 2015, the share capital of La Francaise de L'Energie SA amounted to € 3,226,620 and was divided into 3,226,620 ordinary shares of € 1 nominal value each and fully paid.

At 30 June 2016, the share capital of La Francaise de L'Energie SA amounted to € 5,065,175 and was divided into 5,065,175 ordinary shares of € 1 nominal value each and fully paid.

During the year ended 30 June 2016, the movement in the share capital of La Francaise de L'Energie were as follows:

### IPO on 13 June 2016

On 13 June 2016, the introduction of the company La Francaise de L'Energie SA on EURONEXT, Paris was accompanied by an increase in the share capital by way of a public offering with no preferential rights to subscription, for an amount (inclusive of share premium) of € 37,500,000 through the issue of 1,388,889 new ordinary shares at a nominal value of € 1 each, and a unit price of € 27, resulting in a share premium of € 36,111,114.

The costs and fees relating to the listing on EURONEXT, Paris and to the related share capital increase were offset against the amount of the share premium related to the capital increase. The costs net of tax was € 1,204,60.

Conversion of the convertible loan notes into new ordinary shares

Following the IPO of the company La Francaise de L'Energie SA on Euronext, Paris, the convertible loan notes formalised in January 2015 for an amount of € 8,000,000 by means of 160 share warrants ("OCABSA"), have automatically been converted into ordinary shares of the company for the aggregate amount of their cumulative principal and interest (annual interest rate of 15%) accrued until 31 May 2016 for a total amount of € 9,712,783 into ordinary shares paid in full based on a value equal to 80% of the IPO price, set at € 27 per share, resulting in the issue of 449,665 new ordinary shares at € 20.6 per share and fully compensated by the waiver of the debt and interests accrued up to 31 May 2016. The capital increase resulting from the conversion of the 160 OCABSA, which the board approved on 14 June 2016, amounted (including share premium) to € 9,712,783. This resulted in the issuance of 449,665 new ordinary shares at a nominal value of € 1 per share and a share premium of € 9,263,118 equal to € 20.6per share, or a total value of € 21.6 per share, fully compensated by the convertible loan notes in principal and accrued interest until 31 May 2016.

**Change in the number of shares and share capital**

The movements in share capital, in terms of the number of shares and nominal value, are detailed below:

| | **Number** | **Nominal value** | **Amount** |
|---|---|---|---|
| | | € | € |
| **At 30 June 2014** | **75,831** | **10** | **758,310** |
| Reduction of capital | (75,831) | (10) | (758,310) |
| Increase of capital | 322,662 | 10 | 3,226,620 |
| Reduction in the nominal value | 3,226,620 | 1 | 3,226,620 |
| At 30 June 2015 | 3,226,620 | 1 | 3,226,620 |
| Shares issued by Initial Public Offering | 1,388,889 | 1 | 1,388,889 |
| Shares issued following conversion of debentures into ordinary shares | 449,666 | 1 | 449,666 |
| **At 30 June 2016** | **5,065,175** | **1** | **5,065,175** |

**15. Share premium**

The share premium amounting to € 44,169,670 represents the difference between the sum of all premiums linked to operations already presented, such as the introduction of the Company onto the market and the conversion of the obligations, for a total premium of € 45,374,231 and the amount, net of tax, of the costs incurred by the company during the completion of the Initial Public Offering transaction for an amount of € 1,204,561.

## 16. Consolidated retained earnings

The Consolidated retained earnings are made up of the following:

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| Accumulated reserves and losses | 5,682,601 | (521,305) |
| Share premium | 44,169,670 | - |
| Fair value adjustments | (5,247,000) | 9,382,000 |
| Forgiveness of debt | 8,000,000 | 2,200,000 |
| Share-based payment | - | 335,074 |
| Deferred tax liabilities on fair value adjustments | (918,005) | (3,126,556) |
| **Total** | **51,687,266** | **8,269,213** |

Additional explanation concerning the items « fair value adjustments » and « forgiveness of debt » is provided in note 18 of these consolidated financial statements, with additional explanation concerning share based payments provided in note 17.

## 17. Share subscription options issued to employees

Cancellation of share subscription options

The 100,750 share subscription options awarded to the officers and employees of the Company, whose issue was approved by the sole shareholder on 24 June 2015, have not been subscribed by the beneficiaries. The General Meeting of 23 March 2016 noted the renunciation made by each of the beneficiaries of the share subscription options in return for the establishment of a free shares plan.

Free share attribution plan to executives and employees

The General Meeting of 23 March 2016 authorised the Board of Directors to proceed with the award of free shares to employees and corporate officers up to 5% of the Company's share capital. This operation will be realised by an increase in share capital through the reserves or share premium.

On 30 June 2016, under this authority, the Board of Directors authorised and approved the free share attribution plan to the executives and employees as well as agreeing the terms, allocation and the conditions of the Plan in favour of the employees and officers and has delegated the Chief Executive Officer of the company all the necessary powers to implement the Plan.

As such, the Chief Executive Officer of the company allocated and awarded 85,601 ordinary shares at a par value of 21 euros each to each of the eligible beneficiaries, representing 1.64% of the share capital and in conformity with the awarding conditions as defined by the Board of Directors on 30 June 30 2016.

The definite issue of these free shares will take effect at the end of a minimum period of 2 years following the initial date of acquisition. The definite issue of the free shares could be subordinated by the Board of Directors, subject to the presence of the beneficiary in the group during the acquisition period or any other conditions which the Board of Directors could decide

No associated costs have been accounted for as the free shares were issued on the 30 June 2016.

**18. Financial liabilities**

The Non-current financial liabilities are presented below:

| | 2016 | 2015 |
|---|---|---|
| | € | € |
| Non-current financial debt | 3,053,778 | 9,604,711 |
| Convertible loan notes | - | 8,612,783 |
| Total non-current financial liabilities | **3,053,778** | **18,217,494** |

The non-current financial debt represents a loan from the former parent company, European Gas Limited (sole shareholder until June 25, 2015) falling due within 5 years at an interest-free rate.

Following the agreement of 12 December 2014, this debt was converted into an interest free loan with a maturity date of 12 December 2019.

This interest-free loan with a nominal value of € 4,979,778 at 30 June 2016 (2015: € 18,014,711) was assessed by discounting future payments at a market rate of 15% over a period of 3.5 years from its original maturity date. Consequently, an amount of € 1,927,000 (2015: € 9,382,000) was recognised in order to bring the loan to its fair value and the corresponding entry recorded in shareholders' equity in line with reorganization of EGLUK group during the financial year ended 30 June 2015. The decision to set the maturity to five years and a zero percent interest rate was taken by the executives of both companies prior to completion the reorganization of the European Gas group to align the interests of both companies and ensure equality between the shareholders participating in the reorganization and those remaining shareholders of European Gas Limited. The executives of the two companies believe that a zero percent interest rate was logical insofar as this debt was before the reorganization, Interest-free loan to the shareholder, and that a period of five years was reasonable to help organize a gradual separation of the two companies and in line with the development plan approved by the Group.

According to the "Reorganization and Cooperation Agreement", European Gas Limited is committed, among other provision and subject to the realisation of an IPO by the company, to gradually waive the debt relating to the transfer of exploration assets it held.

As part of the IPO of La Francaise de L'Energie, the two entities have agreed that the EGLUK loan would be waived over a period of three and a half years in return of the settlement of the EGLUK shareholder loan amounting to € 4,668,750 at 31 May 2016. This amount was settled on 15 June 2016.

At 30 June 2016, this agreement was extended for a further six months until 31 December 2016, so in order to implement a share buyback or exchange operation allowing EGLUK shareholders to become shareholders in La Francaise de L'Energie. At the end of this period, the Company will neither have any obligation to provide financial assistance to European Gas Limited, nor to engage in new buyback or exchange offer for the benefit of the shareholders of European Gas Limited and the loan balance with European Gas Limited will (unless otherwise agreed between the parties) be permanently waived.

As per the agreement, the following loan write-offs were made: € 2,200,000 for the year ended 30 June 2015 and a total of € 8,000,000 during the year ended June 30 2016.

The table below presents the nature and maturity dates of the financial indebtedness at 30 June 2016 and 2015:

| | **Interest** | **Maturity** | **2016** | **2015** |
|---|---|---|---|---|
| | | | € | € |
| Non-current financial debt | 15% | 12 December 2019 | 3,053,778 | 9,604,711 |
| | | | 3,053,778 | 9,604,711 |

The impacts of the various operations on the loan for the year ended 30 June 2016 are detailed below:

| | **Liabilities** | **Equity** | **Income Statement** | **Cash flow** |
|---|---|---|---|---|
| | € | € | € | € |
| **EGLUK loan (fair value) - 30 June 2015** | 9,604,711 | - | - | - |
| Cash movements between July 2015 and June 2016(1) | (366,183) | - | - | (366,183) |
| Repayment of the shareholder loan of EGLUK(2) | (4,668,750) | - | | (4,668,750) |
| Forgiveness of debt(3) | (8,000,000) | (8,000,000) | - | - |
| Fair value adjustment at 30 June 2016(4) | 5,247,000 | 5,247,000 | - | - |
| Accretion of loan for the year ended 30 June 2016(5 | 1,237,000 | - | 1,237,000 | - |
| **EGLUK loan (fair value) – 30 June 2016** | 3,053,778 | (2,753,000) | 1,237,000 | (5,034,933) |

(1) The cash movements between July 2015 and June 2016 for an amount of € 366,183 correspond to the payments consideration made by FDE on behalf of EGLUK commitments.
(2) The amount of € 4,668,750 paid to EGLUK during the financial year ending 30 June 2016 relates to the repayment of the shareholder loan of EGLUK as described in the « Reorganisation and Corporate Agreement ».
(3) The amount of € 8,000,000 corresponds to a debt waiver as part of the "Restructuring and Cooperation Agreement".
(4) The amount of € 5,247,000 corresponds to the impact of the fair value adjustment movements occurred between 1 July 2015 and 30 June 2016 as mentioned above.
(5) The amount of € 1,237,000 corresponds to the impact of the discounting of the loan with EGLUK for the period ended 30 June 2016.

The convertible debenture loan contracted by the company Francaise de L'Energie dated 24 December 2014 for an amount of € 8,000,000 by way of 160 share options ("OCABSA") with an annual interest rate of 15% and a maturity of five years have automatically been converted into ordinary shares of the company for the aggregate amount of their cumulative principal and interest (annual interest rate of 15%) accrued until 31 May 2016, that is for a total amount of € 9,712,783 into ordinary shares according to a parity calculated based on a value equal to 80% of the IPO price, set at € 27 per share (see Note 15 of the notes to the consolidated financial statements).

**19. Accounts payable and other current liabilities**

Accounts payable and other current liabilities are comprised of the following:

| | **2016** | **2015** |
|---|---|---|
| | € | € |
| Accounts payable | 4,605,268 | 1,236,418 |
| Social liabilities | 826,490 | 100,220 |
| Tax liabilities | - | 1,566 |
| Other liabilities | 150,000 | 3,010 |
| **Total accounts payable and other current liabilities** | **5,581,758** | **1,341,214** |

The components of accounts payable are as follows:

| | **2016** | **2015** |
|---|---|---|
| | € | € |
| Suppliers of goods and services | 1,863,682 | 486,073 |
| Suppliers of fixed assets | 669,360 | 645,745 |
| Accrued invoices | 2,072,226 | 104,600 |
| **Total Accounts Payable** | **4,605,268** | **1,236,418** |

Accounts payable and other current liabilities are due within one year at 30 June 2016.

## 20. Consolidated statement of cash flows

The change in working capital during the financial year ended 2016 and 2015 presented in the Consolidated Statement of Cash Flows can be analysed as follows after eliminating the intercompany transactions arising as a result of the acquisitions:

| | **2016** | **2015** |
|---|---|---|
| | € | € |
| Inventories | (435,670) | - |
| Accounts receivable | (74,347) | (149,806) |
| Accounts Payable (except for fixed asset suppliers) | 2,503,346 | 548,568 |
| Others current liabilities | 298,992 | 52,998 |
| **Change in working capital** | **2,292,321** | **451,760** |

## 21. Lease commitments

### Property lease

The Company « La Française de l'Energie » leases office space in the town of Forbach (Moselle) on the basis of a 9-year lease expiring on June 30, 2022, with an option to terminate the lease at the end of each triennial period. Rental payments under the property lease are accounted for on a straight-line basis throughout the life of the lease.

The future minimum lease commitments arising from this property lease contract is as follows:

| | **2016** | **2015** |
|---|---|---|
| | € | € |
| **Operating lease (Property)** | | |
| Less than one year | 45,000 | 45,000 |
| Between one and five years | 180,000 | 180,000 |
| More than five years | 45,000 | 90,000 |
| **Total** | **270,000** | **315,000** |

### Other operating lease agreements

As part of its activity, the company finances part of its equipment through operating lease agreements. These contracts mainly concern the rental of vehicles, for which payments are booked on a straight-line basis over the term of the contracts.

The contracts have a life of between 2 and 5 years and are subject to cancellation.

| | **2016** | **2015** |
|---|---|---|
| | € | € |
| **Other Operating lease** | | |
| Less than one year | 12,737 | 12,737 |
| Between one and five years | 9,421 | 22,158 |
| More than five years | - | - |
| **Total** | **22,158** | **34,895** |

## 22. Management and executive remuneration (Related parties)

The Executive board of the Group includes members of the Executive Committee of the Company La Française de l'Energie, constituted a related party as per IAS 24, being a person having direct or indirect authority and responsibility for the planning, directing and controlling of the activities of the Group La Française de l'Energie.

The remuneration allocated to the executives who are members of the Executive Committee of Française de l'Energie, is detailed as follows:

| | **2016** | **2015** |
|---|---|---|
| | **€** | **€** |
| Direct remuneration | 545,034 | 52,906 |
| | 545,034 | 52,906 |

The increase in the overall remuneration allocated to management can be explained as follows:

- Recruitment of an Operations Director on 1st November 2015
- Taking in charge management of the former parent company, European Gas Limited, on the 24 June 2015 as agreed by the tripartite agreement.

As a result of the listing of the company on the Stock Exchange on 13 June 2016 and as described in the ''Document de base'', the following terms have been approved in favour of the Chief Executive Officer by the board of directors:

- An annual variable remuneration for the Chief Executive Officer subject to performance measurement such as the funds raised for the Company or an increase in the valuation of the Company.
- A severance payment equal to two (2) years of annual gross fixed remuneration in the case of termination of the mandate of the Chief Executive Officer.
- As part of the allocation of free shares (Note 17) 6,724 shares were granted to executives of the Company.

An amount of € 120,000 was expensed for the year ended 30 June 2016 in respect of attendance fees allocated to members of the Board of Directors.

## 23. Group headcount and employee costs

Employee costs incurred in the Statement of Comprehensive Income are made up of the following:

| | **2016** | **2015** |
|---|---|---|
| | € | € |
| Wages and salaries (1) | 1,143,026 | 579,063 |
| Social contributions and related amounts | 430,413 | 257,070 |
| Share based payment | - | 335,074 |
| **Total** | **1,573,439** | **1,171,207** |

During the year ended 30 June 2016, an income receivable under the “Crédit d’Impôt pour la Compétitivité et l’Emploi “(CICE) and a write back of retirement provision allowance amounting to € 10,242 (2015: € 7,024) and € 30,939 (2015: € 10,532) respectively have been accounted as deductions against staff costs incurred during the year.

**Year-end headcount**

The total headcount of La Française de l’Energie Group as at June 30, 2016 is 16 employees, being a 14% increase compared with 2015. The split by role is as follows:

| | **2016** | **2015** |
|---|---|---|
| Executive management | 10 | 5 |
| Workers and employees | 6 | 9 |
| **Total** | **16** | **14** |

**Retirement indemnities**

The employees of La Française de l’Energie Group benefit from a defined-contribution pension plan in France. These contributions are recognized as an expense in the financial period in which they are incurred. Being not committed beyond these contributions, no provision is recognized regarding these pension plans.

The only exception to these defined-contribution system concerns the advantages of long-term employment, notably regarding legally required retirement indemnities granted to employees upon the date of their voluntary retirement (defined benefit plan). These plans are usually based on a percentage of the final salary, according to the seniority of the employee and the relevant employee collective bargaining agreements. The liability is calculated on the basis of a actual valuation for the relevant company, incorporating notably a discount rate, salary increases, inflation, life expectancy and staff turnover.

The amount derived from this actuarial valuation gives rise to a provision in the balance sheet, the variation of this provision being recognized in the operating income of the financial year for the part corresponding to pension rights acquired by employees during the financial year and in net financial costs of the financial year, and in gains and losses recorded in other comprehensive income for the part related to the effect of changes in actuarial assumptions, in accordance with the amendment to IAS 19 applicable from the 1st of January 2013.

The actuarial assumptions for the valuation of the provision for retirement indemnities as at June 30, 2016 are the following:

- Discount rate: 1,05%
- Salary increase: 2%
- Average staff turnover: 5%

The provision recognized in the balance sheet and the expenses recorded for each financial year are presented below:

| | 2016 € | 2015 € |
|---|---|---|
| Provision for retirement indemnities | 9,275 | 40,213 |
| Income / Expense for the year | (30,939) | 10,532 |

No plan assets have been hedged to be recognized at 30 June 2016 and 30 June 2015.

## 24. Related parties

La Francaise de L'Energie Group has been engaged in a number of transactions with related parties for the year ended 30 June 2016.

- Interest free loan agreement with European Gas Limited, for a nominal value of € 4,979,778 at 30 June 2016, with an initial maturity of five years to 12 December 2019. Following the IPO of La Francaise de L'Energie, the Company reimbursed part of the loan for an amount of € 4,668,750, the remaining balance under certain conditions would be waived. Two debt waivers were also agreed during the year for a total amount of € 8,000,000.
- Service delivery contract has been agreed on 24 June 2015 between the company La Francaise de L'Energie and the company Nebula Resources Company Limited, a UK company, consisting of providing services such promoting particularly the activities of La Francaise de L'Energie to the European Commission in charge of the file regarding the energy sector and with banks and investment funds. In return, La Francaise de L'Energie has been paying a monthly fee of € 10,000 excluding taxes to Nebula Resources Limited until March, 2016.
- On 24 June 2015, La Francaise de L'Energie have agreed to an amendment to the service contract signed on 15 July 2011 with the company Karlin Limited SDN BHD ("Karlin"), consisting of providing services such as mergers and acquisitions opportunities in the energy sector on behalf of the Company and to provide advice in relation to the negotiation and conclusion of future markets in the energy sector. In consideration for its services, La Francaise de L'Energie has paid the company Karlin an annual fee of € 50,000 excluding taxes.
- In the meeting of 23 March 2016, the Board of Directors of La Francaise de L'Energie had decided to award to its Chief Executive Officer an exceptional pre-tax remuneration of € 250,000 in case of a successful IPO of the company and an additional pre-tax amount of € 250,000 in the event of funds raised in excess of € 20,000,000. An accrual amounting to € 600,000 including the charges related to the remuneration were recorded at the end of June 2016 in the consolidated financial statements of La Francaise de L'Energie for the benefit of the companies Nebula Resources Limited and Next Gen NRJ Limited.
- A contract for services between the company LFDE Internationale (formerly Transcor Astra Luxembourg) and the company NextGen NRJ Limited, a company domiciled in the United Kingdom and a personal holding of the Chief Executive Officer of La Francaise de L'Energie, based on the promoting the activities, notably to the European

Union institutions and seeking potential acquisitions and sources of financing. No expenses were recorded for the year ended 2016.

- A contract for provision of services between the company LFDE International and the company Karlin Limited, a company domiciled in the United Kingdom and controlled by the Financial Director of La Francaise de L'Energie Group for the provision of consultancy services primarily in seeking potential acquisition opportunities on behalf of the Company. No expense was recorded for the year ended 30 June 2016.

The Executive Committee members of the company La Francaise de L'Energie and the Executive Committee members of the company European Gas Limited are also related parties. Transactions with these related parties primarily relate to the remuneration and benefits granted to the Chief Executive Officer and other executives of La Francaise de L'Energie (see note 22).

The members of the Executive Committee of the company La Française de l'Energie and those of the company European Gas Limited constitute related parties. In conformity with IAS 24, persons having a direct or indirect authority and responsibility for the planning, directing and controlling of the activities, including the executive and non-executive directors of the Group La Française de l'Energie. The related party transactions relate mainly to the remuneration and benefits bestowed to the Chief Executive Officer and Finance Director of La Francaise de L'Energie.

## 25. Contractual obligations

### Debts

The non-current debts are included in the section "Long-term borrowings" of the consolidated balance sheet as at 30 June 2016.

The information related to contractual obligations regarding debts appear in note 18 of the notes to the consolidated financial statements and specify the individual contractual commitments made by the Company and European Gas Limited.

### Lease contracts

The information related to obligations linked to operating lease contracts are described in note 21 of the consolidated financial statements.

### Purchase commitments

The purchase obligations are obligations to purchase goods or services, including the acquisition of fixed assets, on the basis of contractual terms negotiated with the suppliers of the Française de l'Energie Group. At 30 June 2016, to the best of the Group's knowledge, there are no other purchase commitments or obligations other than those which are described in the notes related to lease contracts and financial debts.

The table below describes the financial commitments made by the Group in respect of two key licenses currently operated by the company at 30 June 2016:

| Exclusive licence research (PER) | Initial financial commitment | Realized investments | Residual commitment |
|---|---|---|---|

| | | | |
|---|---|---|---|
| | € | € | € |
| Bleue Lorraine | 7,700,000 | 27,854,409 | Nil |
| Bleue Lorraine Sud | 7,250,000 | 295,603 | 6,954,397 |

Each exploration license awarded to the Group includes financial commitments in terms of exploration expenditures to be incurred during the term of the license. However, in practice, the Group may decide to spend far more in excess of its original financial commitments. On the other hand, the Group may decide to delay these expenses depending on the circumstances and exploration programs. Furthermore, it is important to clarify that the expenses recorded on the PER of Bleue Lorraine also cover studies on well architectures, the quality and resistance of equipment and drilling tools and the characteristics of the Lorraine coals that can be useful for the PER of Bleue Lorraine Sud.

## 26. Financial instruments and risk management

The main financial assets and liabilities of the group include cash, other receivables, payables and convertible debenture loan notes.

### Fair value of financial assets and liabilities

The financial assets and liabilities can be ranked according to the following three levels of fair value:

Level 1, prices (non-adjusted) quoted in active markets for identical assets and liabilities, for which the company can obtain the market value at a specific date;

Level 2, other data than those regarding the quoted prices mentioned in Level 1, observable directly or indirectly in the market;

Level 3, data related to assets or liabilities that are not observable in the market.

The fair value of financial assets and liabilities is determined as follows:

- The fair value of accounts receivable, payables as well as the other current miscellaneous receivables and payables, is deemed to be the same as their carrying value in the balance sheet, considering their very short-payment terms;
- The fair value of the non-current financial debts that concerns a loan from the company, European Gas Limited (Level 2 in the hierarchy of the fair value as per IFRS 13) is estimated by discounting the future payments to be made at the balance sheet date, using the market rate of 15%.
- The fair value of the bonus shares is determined in accordance with IFRS 2, taking into account the market price at the date of issue to the beneficiaries.

Derivative financial instruments are initially recognized at their fair value at the date of the conclusion of the derivative contract and then, they are reassessed to their fair value at each year-end closing.

### Financial risks management

The main financial liabilities of the Group include payables, as well as the debt due to European Gas Limited. The main financial assets of the Group include cash and the other receivables.

The various risks to which the group can be exposed are managed centrally by Française de l'Energie. The Executive Committee of the group has set up a strict policy of follow-up in order to manage, measure and control the various risks that are detailed below.

**Market risk**

The exposure of the Française de l'Energie group to market risk and in particular to the fluctuations in gas price is not considered as significant. At the date of preparation of the consolidated financial statements of June 30, 2016, the group is still involved in an exploration phase and not in the marketing of gas reserves. The group is considering the creation of a Risk Committee which will be responsible for overseeing these market risks.

**Interest rate risk**

The objective of management policy is to adapt the debt profile to the profile of the assets, to contain financial costs and to protect the net result against a significant change in interest rates. The group is currently committed to fixed-rate financing transactions and Française de l'Energie does not consider that a change in interest rates would have a significant impact on the group's cash balances. The fixed rates financial assets and liabilities are not subject to be converted to variable rates.

**Currency risk**

Currency risk is based on the fact that the fair value or future cash flows of an asset or a financial liability fluctuates due to variations in exchange rates. Cash held and concluded transactions are in euros because the operations and substantially all of the expenses of the Group are incurred in France. The Group does not use currency hedging instruments. The trading volumes in foreign currency are not significant and do not justify the use of any such hedging instruments.

**Liquidity risk**

The exposure of the Group to liquidity risk can be measured by reference to the amount of its financial debt falling due within one year before taking into account any derivative instruments, net of cash and cash equivalents.

The liquidity of the Company is also based on its ability to generate financing, the diversity of its investors and the quality of its banking relationships, allowing the Company to meet its deadlines maturity and to pursue its exploration activities. The executive management of the Française de l'Energie Company reviews on a regular basis its financing options to ensure a going concern, particularly in connection with the payment due dates of its various assets and liabilities.

The Group aims to maintain a broad access to liquidity in order to meet its commitments and financial obligations. At 30 June 2016 the Group had cash amounting to € 11,962,172. Management is also considering other means of external financing, in particular, the establishment of lines of credit for the various Group companies with banking institutions or seeking new investors in order to meet its cash requirements. The agreement in principle signed with RGreen Invest in May 2016 to finance up to € 60 million of expenditure (as debenture loans) and extended in October 2016 aim to maintain a significant cash flexibility. See also Note 32.

The table below represents the maturity of financial assets and liabilities of the Group as at June 30, 2016 and 2015:

| **As at 30 June 2016** | **Within 1 year** | **From 1 to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|
| | € | € | € | € |
| Trade Payables | (4,605,268) | - | - | (4,605,268) |
| Other current liabilities | (976,490) | - | - | (976,490) |
| Financial debt EG Limited | - | (4,979,778) | - | (4,979,778) |
| Other receivables | 1,420,342 | - | - | 1,420,342 |
| **Net amount** | **(4,161,416)** | **(4,979,778)** | **-** | **(9,141,194)** |
| | | | | |
| **Au 30 June 2015** | | | | |
| Trade Payables | (1,225,215) | (11,203) | - | (1,236,418) |
| Other current liabilities | (104,796) | - | - | (104,796) |
| Financial debt EG Limited | - | (18,014,711) | - | (18,014,711) |
| Convertible debenture loan notes | | (8,612,783) | - | (8,612,783) |
| Other receivables | 157,758 | - | - | 157,758 |
| **Net amount** | **(1,172,253)** | **(26,638,639)** | **-** | **(27,810,950)** |

## 27. Individual training entitlement for employees

As of the 1st of January 2015, the « Compte Professionnel de Formation (CPF) » (Professional Training Account) has replaced the DIF and enables every employee to benefit from the right to training. The maximum cumulative training hours have increased from 120 to 150 hours over 9 years (20 hours per annum for the first 6 years and then 10 hours per annum for the remaining 3 years).

The employees' rights to DIF have been preserved and continue to exist together with the CPF: the rights to DIF can be exercised until fully utilised and must be used before 31 December 2020.

No obligation has been recognised as such.

## 28. Provisions for liabilities and charges

### Provision for site restoration

At 30 June 2015, La Française de l'Energie recognized a provision of € 474,311 to support the costs of abandonment of wells and the restoration costs of the Tritteling site in the event of a cessation of the exploration activity. This amount has been based on technical expertise and information available to La Francaise de L'Energie at the date of signing of the accounts for the financial year ending 30 June 2015. This provision remains unchanged at 30 June 2016.

This provision is capitalized and incorporated in the value of the underlying fixed assets, namely the capitalized exploration costs recognized as intangible assets.

As part of the acquisition of Transcor Astra Luxembourg (now known as LFDE International S.A), an amount of € 2,526,034 has been recorded as provision for the shutdown and closure of a site, dismantling and restoration of pipes, for the permits and concessions zone of Gazonor. A provision in the amount of € 758,664 relating to the operating activities of Gazonor has also been recognized to cover the costs of multi-year maintenance.

## 29. Other litigations and ongoing legal procedures

At the date of the establishment of the consolidated accounts for the Group La Francaise de L'Energie, there were no administrative, judicial or arbitration procedures which the Group is aware of which is either pending or threatened, likely to have or have had over the past twelve months significant effects on the financial position or profitability of the Company and / or the Group.

## 30. Segmental Information

Following the acquisition of Transcor Astra Luxembourg SA (henceforth La Francaise de L'Energie Internationale SA), a company incorporated in Luxembourg holding 100% of the company Gazonor SAS. The Group's management strategic analysis and decision making (concept of chief operating decision maker for the purposes of IFRS 8) is structured around the indicators of the costs of exploration, production and EBITDA by operating segment. These operating segments are:

- Lorraine (exploration of gas reserves) whose costs are divided according to permits and geographical areas presented in Note 8 of the consolidated financial statements.
- Avion (gas production) which represents activities such as the operation and commercialisation of coal mine methane by the company Gazonor SAS. No information is presented in the consolidated financial statements since the acquisition of Transcor Astra LUX was carried out on 27 June 2016 by La Francaise de L'Energie.

## 31. Subsequent events

In July 2016, the Company began the integration of the legal entities it acquired during the financial year 2016, namely Transcor Astra Luxembourg, a company based in Luxembourg and owning 100% of the share capital and voting rights of Transcor Astra France ("TAF"), which itself owns 100% of the share capital and voting rights of Gazonor and Concorde Energy Inc., a company incorporated in the state of Delaware holding 100% of the share capital and voting rights of Concorde Energies Paris SARL.

On 11 August 2016, following an Extraordinary General Meeting, the chairman of Transcor Astra Luxembourg decided to rename Transcor Luxembourg to « LFDE Internationale S.A » and to change the year end date of that company from December to June in order to facilitate the group consolidation.

On 22 September 2016, the framework of finance agreement with RGreen Invest for € 60,000,000 initially signed in May 2016, has been extended until 31 December 2016, as the