



## **Amedeo Resources plc**

Annual Report and Financial Statements  
For the year ended 31 December 2015

Registered Number 05216336

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## CORPORATE INFORMATION

<b>Directors</b>	Ghanim Bin Saad Al-Saad Al-Kuwari (Non-Executive Chairman) Lau Lian Seng Glen (Chief Executive Officer) Zafarullah Karim (Executive Director) Philippe Petitpierre (Non-Executive Director)
<b>Company Secretary</b>	Laura Nuttall
<b>Registered Office</b>	201 Temple Chambers 3-7 Temple Avenue London EC4Y 0DT United Kingdom
<b>Nominated Adviser</b>	WH Ireland Limited 24 Martin Lane London EC4R 0DR United Kingdom
<b>Solicitors to the Company</b>	Druces LLP Suite 425 Salisbury House London Wall London EC2M 5PS United Kingdom
<b>Independent Auditor</b>	Moore Stephens LLP 150 Aldersgate Street London EC1A 4AB United Kingdom
<b>Registrar</b>	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU United Kingdom
<b>Corporate Consultant</b>	ONE Advisory Limited 201 Temple Chambers 3-7 Temple Avenue London EC4Y 0DT United Kingdom
<b>Website</b>	<a href="http://www.amedeoresources.com">www.amedeoresources.com</a>
<b>Country of Incorporation</b>	England and Wales

## CHAIRMAN'S STATEMENT

### Introduction

Progress at Jiangsu Yangzijiang Offshore Engineering Co. Ltd's ("YZJ Offshore") marine vessel yard on its first order, a Le Tourneau Super 116E Class design self-elevating mobile offshore jack up drilling rig ("Explorer 1"), continued and the physical build was completed at the end of the year. Following completion of the physical build, commissioning, a process of extensive testing and certification commenced.

With the fall in the oil price, the rig market remains difficult and while discussions with several potential purchasers are on-going, no new orders have been obtained. While this is disappointing, YZJ Offshore has the capability to build many different vessels and blocks, and with Explorer 1's construction now complete, YZJ Offshore has a completed vessel to showcase.

With the iron ore price depressed, MGR Resources PTE Ltd ("MGR") has had a difficult year and cut back on its activities. Nonetheless, it managed to post a profit of US\$90,000 during the year under review.

Despite the ongoing difficult environment, Amedeo continues to pursue its long term strategy of building a vertically integrated business in the resource and energy and related infrastructure sectors, and on an operational level, it continues to run a tight ship: Administrative expenses for the year were down 20% on the prior period at US\$651,000 compared with US\$812,000 for the 11 months ended 31 December 2014. Cash at the year end was US\$2,340,000 (2014: US\$1,179,000), and increased further following the year end to US\$4,152,000 due to the repayment of a loan by MGR in February 2016 of US\$1,717,000 as well as receipt of interest of US\$300,000 in March 2016, the only remaining loan balance with MGR is the US\$400,000 loan made in 2015.

### YZJ Offshore

YZJ Offshore's first order, Explorer 1, was physically completed in December at the end of the year. Following completion, commissioning commenced, a process of testing and certifying which takes several months, subsequent to which the rig is expected to be delivered. Currently, delivery is expected in the second half of 2016 at the original contract price.

While the rig market in general may be oversupplied, YZJ Offshore's first rig is a Le Tourneau Super 116 Enhanced Class design self-elevating mobile offshore jack. The Le Tourneau is the most established design in the offshore world. It has the a very popular footprint i.e. its legs space dimension is one that has been used for many years and for many wells, therefore as well as being used for new wells it is extensively used for existing wells. Other rig designs do not have this significant advantage.

Le Tourneau was recently purchased by Keppel FELs, which has built and delivered almost half of the world's jack up and semi-submersibles in the past decade, due to the importance and uniqueness of the Le Tourneau design. Moreover, in the current new build market, there are no Le Tourneaus that have been built on speculation. All have been ordered for clients and by clients.

With respect to new orders, YZJ Offshore continues discussions with potential customers for further orders with the benefit that it now has a rig that is physically complete to showcase. This is important from both a marketing perspective and also from a reputational perspective. No new orders, however, have been forthcoming as currently the offshore vessel market remains difficult due to the volatility in the oil price from its high around US\$115 per barrel in July 2014, through below c.US\$30 per barrel, with only a recent recovery. As at the time of writing, the oil price is around US\$50 per barrel, an increase of over 70% from its lows.

While the recovery in commodity prices, including oil, might suffer a setback this year, with the likelihood of rising US interest rates, Amedeo believes that any setback is likely to be temporary, particularly in the oil and gas sector. Accordingly, while the current outlook in the offshore vessel sector may appear challenging, Amedeo believes that the medium to long term outlook is positive with activity set to increase.

YZJ Offshore, having completed its first rig and therefore taken the first step along establishing its reputation, together with being a large and well equipped yard (it has the capacity to build product carriers, specialised platforms, semi-submersibles, amongst other vessels, as well as rigs), it is well positioned to take advantage of the recovery in the offshore fabrication market.

YZJ Offshore is also able to fabricate blocks for container ships and gas carrier vessels, and as such it is absorbing container block overspill from Yangzijiang Shipbuilding (Holdings) Ltd's principal yards. These activities keep YZJ Offshore's yard busy.

Amedeo has an indirect 19.0% stake in YZJ Offshore which it holds through its 47.5% stake in the joint venture company, YZJ Offshore Engineering Pte Ltd ("YZJ JV").

## **MGR**

With the reduced demand for iron ore and depressed iron ore prices (from around US\$70 per tonne at the beginning of 2015 to around US\$40 by the end of 2015), MGR scaled back its iron ore operations, and focused on monitoring that market and exploring opportunities for broking other commodities, along the East and South East Asia, South Asia, Middle East and Africa corridors. Actual broking activities during 2015 were minimal and, in anticipation of reduced activities, in January 2015, MGR repaid Amedeo US\$1,950,100 of its convertible loan that was issued in April 2013.

As at the year end, MGR had a loan of US\$2,177,000 outstanding to Amedeo. With activities remaining, and expected to remain, at low levels, in February 2016, MGR repaid a further US\$1,717,000 of the loan balance to Amedeo. Amedeo has a 49.0% equity stake in MGR.

## **Financial Review**

Revenue for the year ended 31 December 2015 was US\$128,000 (11 months to 31 December 2014: US\$91,000), an increase of US\$37,000 or 41% on the prior period. Amedeo provides various business development and marketing services to MGR, which represents 100% of revenue in both periods.

Administrative expenses were US\$651,000 (11 months to 31 December 2014: US\$812,000), a decrease of US\$164,000 or 20%. The decrease is primarily due to the fact there were a number of one-off items in the prior period (fees related to the investment in YZJ JV and items related to a now settled VAT dispute) amounting in total to US\$149,000.

Amedeo's share of loss in associates was US\$2,014,000 (11 months to 31 December 2014: US\$922,000). This was made up of a loss of US\$2,059,000 (11 months to 31 December 2014: US\$942,000) at YZJ JV and a profit of US\$45,000 (11 months to 31 December 2014: US\$20,000 profit) at MGR. The losses/profits of the associates are non-cash items.

Foreign exchange losses amount to US\$115,000 (11 months to 31 December 2014: US\$197,000). These were predominately due to translating GBP denominated loans into US\$. This is a non-cash item.

Finance income decreased to US\$300,000 (11 months to 31 December 2014: US\$444,000) due to the repayment of US\$1,950,000 of loans from MGR during the year.

Overall loss on ordinary activities before taxation increased to US\$2,610,000 (11 months to 31 December 2014: loss of US\$1,411,000). Basic and fully diluted loss per share for the period was US7.99¢ (11 months to 31 December 2014: US4.40¢).

Excluding non-cash items, loss on ordinary activities before taxation for the year ended 31 December 2015 reduced by US\$57,000 to US\$220,000 (11 months to 31 December 2014: loss of US\$277,000), a 21% reduction.

Foreign exchange translation differences of US\$978,000 (2014: US\$64,000) arose, which relate to Amedeo's indirect investment in YZJ Offshore. The translation of Amedeo's indirect investment in YZJ Offshore is also a non-cash item.

Taking the balance sheet foreign exchange translation differences into account, overall, total comprehensive loss for the period was US\$3,588,000 (11 months to December 2014: loss of US\$1,475,000).

At the period end, the carrying value on the balance sheet of investments in associates fell to US\$16,213,000 (2014: US\$19,205,000), primarily as a result of the share of loss from Amedeo's stake in YZJ JV. Current assets fell to US\$5,044,000 (2014: US\$5,576,000). Cash as at 31 December 2015 was US\$2,340,000 (2014: US\$1,179,000).

Subsequent to the year end, MGR paid back a further loan of US\$1,717,000. Consequently, at the date of these financial statements, the Group had approximately US\$4,152,000 of cash and cash equivalent balances.

Trade payables at the period end decreased to US\$147,000 (2014: US\$344,000) due to timing differences on when invoices were paid around the period end.

Overall, at the period end, net and total assets were US\$21,110,000 (2014: US\$24,437,000) and US\$21,257,000 (2014: US\$24,781,000), respectively.

### **Share Consolidation**

During the year, and following passing of a resolution at the last Annual General Meeting, the shares of Amedeo Resources plc underwent a 1 for 100 consolidation. This had the effect of reducing the number of shares outstanding by a factor of 100 from 3,265,384,300 ordinary shares of 0.1p each to 32,653,843 ordinary shares of 10p each. The Company does not hold any shares in treasury. At the year end and the date of these financial statements, the total number of Ordinary Shares in the Company with voting rights was 32,653,843.

### **Share based payment awards**

During the year under review, and in line with Amedeo's policy of aligning Directors' incentives with those of shareholders as well as keeping cash remuneration modest, Amedeo awarded Glen Lau, the Company's Chief Executive Officer, 2,607,211 warrants to subscribe for new ordinary shares of 10p in the Company. The warrants have share price performance and time vesting conditions. They have an exercise price of 100 pence compared with the share price of 35 pence at the time of the award.

### **Outlook**

With the current difficulties with the rig market, winning new orders at YZJ Offshore has been difficult. Amedeo do not expect this situation to continue in the medium term, and when the recovery does come, YZJ Offshore, having proved itself with Explorer 1 and with its capability to produce advanced, specialised and localised rigs as well as a range of other vessels, is well placed to take advantage of it. Depressed iron ore prices have not helped MGR. It, however, remains profitable and is exploring other opportunities.

Amedeo remains focused on long term strategy of building a vertically integrated business in the resource and energy and related infrastructure sectors.

The Board looks forward confidently to the future.

### **Annual general meeting**

You will find set out at the end of this document a notice convening an annual general meeting of the Company ("AGM") to be held at 201 Temple Chambers, 3-7 Temple Avenue, London EC4Y 0DT at 2:00pm on 8 July 2016. Also enclosed is a proxy form for use by shareholders in respect of the AGM.

Ghanim Al Saad, Non-Executive Chairman

13 June 2016

## STRATEGIC REPORT

### Principal Activities and Review of the Business

The principal activity of the Company is that of an investment company. The Company also provides various services, including marketing and consultancy services to its investee companies. The Company's investment policy is set out below. It remains unchanged from that approved by its shareholders at the Company's Annual General Meeting held on 21 July 2013.

The Company's investment policy is to invest primarily in the resources and energy and related infrastructure sectors worldwide. The investment policy does not preclude investment in other sectors. The Company may acquire controlling or non-controlling stakes and it may be an active or a passive investor. Investments may be either quoted or unquoted and may be in companies, partnerships, joint ventures or direct interests in projects. The investment policy does not preclude the Company making an investment which may be deemed to be a reverse takeover under the AIM Rules. Any transaction constituting a reverse takeover under the AIM Rules will be subject to shareholder approval.

The Company intends to deliver shareholder returns principally through capital appreciation rather than income distribution via dividends.

Given the nature of the Company's business activities, its key performance indicators are its net and total assets. As at 31 December 2015, these were US\$21,110,000 (2014: US\$24,437,000) and US\$21,257,000 (2014: US\$24,781,000), respectively.

The key business highlights of the year were the developments at YZJ Offshore and at MGR:

- In December 2015, Amedeo announced that the physical build of YZJ Offshore's first rig order, the Le Tourneau Super 116E Class design self-elevating mobile offshore jack up drilling rig, Explorer 1, had been completed. Testing, including to American Bureau of Shipping classifications, and commissioning, which constitute a key part of the delivery package, have commenced and are expected to be completed during 2016.
- Importantly, YZJ Offshore has the ability to build advanced and specialised (by locality) rigs for shallow and mid waters and to build various other vessels including semi submersibles and accommodation units. It is also able to fabricate blocks for container ships and gas carrier vessels and, as such, YZJ Offshore is absorbing container block overspill from Yangzijiang Shipbuilding (Holdings) Ltd's principal yards. These activities keep the YZJ Offshore busy while new orders are obtained.
- Trading conditions have been difficult for MGR, whose principal activity is the amalgamation of iron ore from the Middle East and Africa and onward supply to China, with the fall in the iron ore price. Brokering margins have decreased substantially as a result. Nonetheless, MGR has remained marginally profitable during the year.
- With the immediate outlook for iron ore being poor, MGR is utilising its network to explore other opportunities for broking other commodities, including into China.
- In January 2015, MGR repaid a loan to Amedeo of US\$1,950,000. In early August 2015, Amedeo made a further loan of US\$400,000 to MGR and at the year end, MGR still has loans outstanding from Amedeo of US\$2,177,000. Post year end in February 2016, MGR repaid US\$1,717,000 of the loan to Amedeo. Following this, the only remaining loan balance with MGR is the US\$400,000 loan made in 2015.
- During the year and in line with Amedeo's policy of aligning Directors' incentives with those of shareholders, Amedeo awarded to Glen Lau, the Chief Executive Officer of Amedeo 2,607,211 warrants to subscribe for new ordinary shares of 10p in the Company. The warrants have share price performance and time vesting conditions. They have an exercise price of 100 pence compared with the share price of 35 pence at the time of the award.

- During the year, Amedeo completed a share consolidation whereby every 100 Existing Ordinary Shares were consolidated into 1 ordinary share of 10p each.

A review of the business during the year is given in the Chairman's Statement on pages 4 to 7.

We look forward to continuing to assist the existing investee companies in their development and reviewing and making further investments.

### **Risk factors**

The principal risks and uncertainties facing the Company during the year were those relating to the underlying performance of its investments.

YZJ Offshore designs and constructs offshore marine vessels for the oil and gas industries. As such, its performance is dependent on continuing demand for the types of vessels it constructs. The value of the vessels it designs and constructs are measured in the hundreds of millions of dollars and more. YZJ Offshore's ability to construct such vessels is dependent on its ability to obtain credit to fund the builds. YZJ Offshore also has the risk that following the completion of vessels, the purchaser is not able to make the payment (typically 90% of the total price of the vessel) to take delivery. In such cases, YZJ Offshore takes possession of the vessels, and then has to find a buyer or lessee for the vessels. Its ability to resell or lease the vessels is dependent on the nature of the vessels and the demand for the vessels at the time of completion, which may be very different from when the order to build the vessels was placed. YZJ Offshore is a new offshore yard and as such its ability to attract new orders is dependent on the success of its first few builds.

MGR amalgamates disparate supplies of ferrous and related ores and metals, and then sells them into East Asia and China, primarily on a spot or short term contract basis. As such, its performance depends on its ability to source such supplies and then find buyers for them. MGR is exposed to demurrage risk on the ores and metals it purchases and transports. There is the risk of shipments being delayed for any number of reasons, and the risk that between purchase and sale prices change (though this is minimised by the nature of contracts). In addition, there is the risk that purchasers fail to perform on their obligations, in which case MGR has to find other purchasers for its ferrous and related ores and metals. MGR relies on trade credit arrangements to fund purchases of ferrous and related ores and metals. There is the risk that such credit arrangements may not always be available.

As discussed above, the Company's strategy is to build shareholder value making and assisting investments in the resource and infrastructure and energy sectors. While the Company has already made investments, in order to make new investments, the Company needs to sell existing investments or to raise funding in the equity and debt markets. There is the risk that the Company may not be able to sell existing investments to raise funds and the risk that it may not be able to raise funds in equity and debt markets when required.

The Directors are responsible for the Group's system of internal financial control. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately. In carrying out their responsibilities the Directors have put in place a framework of controls to ensure as far as possible that ongoing financial performance is monitored in a timely manner, that corrective action is taken and that risk is identified as early as practically possible, and they have reviewed the effectiveness of internal financial control. Risk management related to financial instruments is set out in note 22 on pages 35 to 38.

### **Outlook**

With the current difficulties with the rig market, winning new orders at YZJ Offshore has been difficult. Amedeo does not expect this situation to continue in the medium term, and when the recovery does come, YZJ Offshore, having proved itself with Explorer 1 and with its capability to produce advanced, specialised and localised rigs as well as a range of other vessels, is well placed to take advantage of it. Depressed iron ore prices have not helped MGR. It, however, remains profitable and is exploring other opportunities.



