INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TUNGSTEN CORPORATION PLC

Report on the audit of the financial statements
Opinion
In our opinion, Tungsten Corporation plc's group financial statements and parent company financial statements (the "financial statements"):
- give a true and fair view of the state of the group's and of the parent company's affairs as at 30 April 2018 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the group and parent company statements of financial position as at 30 April 2018; the group income statements and statements of comprehensive income, the group and parent company statements of cash flows, and the group and parent company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview	
Materiality	• Overall group materiality: £727,500 (2017: £952,000), based on 5% of 3 years' average loss before tax from continuing operations. • Overall parent company materiality: £660,500 (2017: £940,000), based on 1% of total assets.
Audit scope	• Five financially significant components audited by one central team in London. • Obtained 88% coverage of the revenue balance. • Obtained 100% coverage of the goodwill balance.
Key audit matters	• Impairment of goodwill and indefinite life intangible assets for the Group (Group). • Directors' going concern assessment for the Group and parent company (Group and parent).

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters
Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

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Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and indefinite life intangible assets for the Group As stated in note 12 to the consolidated financial statements, management has estimated the recoverable amount of the Tungsten Network Cash Generating Unit (CGU) using a value-in-use model by projecting cash flows for the next five years together with a terminal value using a perpetuity growth rate. The total amount of goodwill and indefinite life intangible assets on the Group balance sheet as at 30 April 2018 is £123.4m. The trading performance of the Group was lower than expected during the year ended 30 April 2018, and in addition the share price at the year end meant that market capitalisation was significantly lower than the net assets of the Group. The directors' annual impairment assessment took these factors into account, and concluded that there was headroom over the carrying value. The key assumptions in this assessment included the forecast future revenue growth, the discount rate, the perpetuity growth rate, corporate overheads allocated and cost growth. Accordingly there is a significant risk that the goodwill and indefinite life intangible assets balance is not supported by the future cash flows of the business.	Our audit procedures comprised the following: Tested that the methodology built into the model produced by management to assess impairment addressed the requirements of the financial reporting framework, and re-performed the calculations; Evaluated the accuracy of prior years' forecasts in light of past performance and actual results achieved to assess the quality and reliability of management's forecasts for the Tungsten Network CGU; Challenged management over the reasonableness of the key assumptions inherent in the model; Agreed information, in particular forecast financial information, to budgets and forecasts approved by senior management; and Used a valuations expert to assess the appropriateness of the discount rate assumption. We also performed sensitivity analysis around the key drivers of the cash flow forecasts, being: • the revenue growth rate for the first five years; • perpetuity growth rate; • the cost growth rate for the first five years; • the allocation of corporate overheads; and • the discount rate. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the goodwill to be impaired for the CGU, we considered the likelihood of such a movement in those key assumptions arising. We did not identify any issues with management's key assumptions based on our evaluation of supporting evidence, together with management's and our own sensitivity analysis performed. We also considered the appropriateness of the related disclosures in note 12 to the financial statements. We found that the disclosures appropriately describe the key judgements and sensitivities in the directors' assessment.
Directors' going concern assessment for the Group and parent company As stated in note 2 to the consolidated financial statements, the Group and parent company going concern assessment is based on forecasts and projections of anticipated trading performance. The assumptions applied are subjective and management applies judgement in estimating the probability, timing and value of underlying cash flows. In the year to 30 April 2018 the business continued to be loss-making and the trading performance of the Group was lower than expected. On 20 July 2018 management negotiated new additional funding through a £4m revolving credit facility with HSBC which management concluded will allow the business to continue to operate for a minimum of 12 months from the approval of these financial statements.	We evaluated the directors' assessment of going concern, including the associated forecast future cash flows based on the most recent approved budgets and forecasts. Our work included the following: • read management's paper to the Board in support of the going concern basis of preparation. • assessed the appropriateness of the Group's cash flow forecasts in light of the accuracy of previous forecasts against actual results. • considered the nature of the mitigating actions that management could take in order to improve cash flow to check that they were within management's control. • sensitised the forecasts using a revenue forecast lower than currently budgeted. • examined the terms of the £4m revolving credit facility. We did not identify any issues with management's key assumptions based on our examination of supporting evidence. Our conclusions in respect of going concern are set out below.

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

The Group has three segments being Tungsten Network, Tungsten Network Finance and Corporate. Tungsten Network operates from the UK, US, Malaysia and other European countries. There are five financially significant components being: Tungsten Network Limited (UK), Tungsten Network Finance Limited (UK), Tungsten Corporation plc (UK), and Tungsten Network Inc. (US), together with the consolidation adjustments which we considered to be a significant component as they are included as a separate component in the Group consolidation. The determination of our scoping was based upon obtaining sufficient coverage of each financial statement line item, which varies depending on the risk assessment. All of the work was performed by the Group engagement team.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall group materiality	£727,500 (2017: £952,000).	660,500 (2017: £940,000).
How we determined it	5% of 3 years' average loss before tax from continuing operations.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, a 3 years' average loss before tax from continuing operations is a generally accepted auditing benchmark and accounts for the fluctuating losses of the Group year on year.	The parent company is a holding company for the Group which does not trade, therefore total assets is considered the most applicable benchmark and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £385,000 and £660,500. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £36,300 (Group audit) (2017: £47,600) and £33,000 (Parent company audit) (2017: £47,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:
- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

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Strategic report and Directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 30 April 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of Directors' Responsibilities set out on page 50, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Brian Henderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

23 July 2018