Registration number: 10699593

i3 Energy plc

Annual Report and Financial Statements
for the Year Ended 31 December 2017

i3 Energy plc

Contents of the Consolidated Financial Statements

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i3 Energy plc

Highlights and Outlooks

For the Year Ended 31 December 2017

2017 HIGHLIGHTS

- Successfully completed a private placement raising £4.2m through Convertible Loan Notes before expenses to fund Liberator front-end engineering and design, project management, site survey, environmental statement development, and general corporate purposes
- Remained focused on the safe and efficient development of the Liberator field:
  - Worked with the supply chain on development design and engineering
  - Continued to advance proposals with the suppliers regarding the provision of a rig, well services, and well services project management related to the development of Liberator
  - Positively engaged the Blake field partners regarding Liberator offtake terms across the producing Blake infrastructure, with feasibility and engineering studies commissioned and completed
  - Conducted a site survey over multiple areas and completed an environmental statement for two development drill centres at Liberator
  - Submitted the Liberator Field Development Plan ("FDP") to the UK Oil & Gas Authority ("OGA")
  - Received a reclassification and upgrade of Liberator resources to 11.7MMboe
  - 2P Reserves with pre-tax net present value, discounted at 10%, of US$328 million
- Admitted i3 Energy plc to the Alternative Investment Market ("AIM") of the London Stock Exchange with first day of dealings on 25th July 2017
- Appointed David Knox as Non-executive Chairman and welcomed Richard Ames and Majid Shafiq as Non-executive Directors
- Assessed several North Sea asset opportunities
  - Purchased seismic covering 830 km^2 across multiple blocks
  - Submitted firm-well bid application and arranged appraisal well funding for high-impact acreage in the UK's 30th Offshore Licensing Round
  - Engaged AGR Tracs International Limited ("AGR") to conduct an independent assessment of i3's 30th Round application target with the resulting report attributing 22MMBO 2C Mid-case Contingent Resources and 47MMBO Mid-case Prospective Resources to the asset
- Continued to explore numerous funding options to develop Liberator including accessing equity and debt capital markets, joint venture partnering and supply chain financing
  - Received non-binding terms from UK-based lenders for a US$25 million credit facility for Liberator development funding
  - Arranged and entered into a financing agreement with an i3 investor to fund the Company's 30th Round work commitment (c. US$14 million appraisal well and seismic programme)
  - Advanced Joint Venture discussions with multiple industrial partners relating to i3's Liberator development and 30th Round target, with indicative commercial interest received for a full carry on a multi-well development with potential capital commitment estimated to be US$200 million.

POST PERIOD AND OUTLOOK

On 31st January 2018 the Company announced that it had raised £2.57 million through the placing of 8,563,630 new ordinary shares in the capital of the Company to new and existing investors at an issue price of 30 pence per share, representing a 0.4% premium to the 30-day average for the week ending 26th January 2018. The proceeds of the funding are being used towards prerequisite engineering, trees and wellheads for the Liberator development, and general corporate purposes.

On 6th February 2018 the Company amended the terms of certain outstanding zero-coupon unsecured convertible loan notes. The amended loan instrument replaced an existing loan note instrument dated 17th July 2017 and the principal amendments were detailed in the Company's news release dated 6th February 2018.

On 2nd March 2018, 20th March 2018, and 25th May 2018 the Company announced that, in relation to the amended Loan Note Agreement as announced 6th February 2018, it received notices of exercise from James Caird Asset Management ("JCAM") to convert part of the loan with an aggregate par value of US$1,500,000, into shares. Following the conversions the value outstanding on the loan was US$1,000,000. The Company allotted 3,368,728 ordinary shares to JCAM which rank pari passu in all respects with the existing ordinary shares. Following Admission of these shares, the Company's enlarged issued share capital was comprised of 37,623,250 ordinary shares.

i3 Energy plc

Highlights and Outlooks

For the Year Ended 31 December 2017

On 23rd May 2018 the Company announced it had been awarded its sole 30th Offshore Licensing Round application target, Block 13/23c (123 km^2), on a 100% interest basis. Block 13/23c contains a material extension of the Liberator field, referred to by i3 as Liberator West, with further prospectivity identified by the Company outside the Liberator trend. The award delivers a significant increase in i3's combined Reserve & Resource Base, now totalling an independently verified 80MMBO.

The Company's focus for the remainder of 2018 will be on 4 key areas:

1. Continued advancement of a safe and robust Liberator development with targeted first oil in 2019.
2. Target a high-impact 2018 appraisal programme on the Company's 30th Round Award Block 13/23c (Liberator West).
3. Efficient funding of the Company's development and appraisal efforts, with a focus on joint venture partnerships.
4. The sourcing and capture of accretive development and production assets, and consideration of transactions that enhance capital efficiency.

The Company continuously evaluates opportunities to strengthen its balance sheet whilst maintaining tight control of its costs and working capital position.

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

2017 was a landmark year for i3 Energy.

We were delighted to complete our acquisition of the Liberator oil field on 28th December 2016 from Dana Petroleum as it furnished i3 with a high-quality, low-cost development opportunity, and a strong foundation for growth. Development activities started immediately and following successful delivery of early milestones and subsequent upgrading of Liberator's reserves, i3 Energy will be well placed to deliver first oil in 2019 upon the completion of certain funding initiatives currently being undertaken by the team.

A successful issue of loan notes was made in early 2017 and with a subsequent conversion to ordinary share capital, i3 was able to conclude its admission to AIM in July. This was a significant achievement for the Company, providing us with greater funding flexibility for both Liberator and our future growth plans. The first step of that growth was taken in November 2017 when we made a firm-well bid application for highly attractive acreage in the UK's 30th Offshore Licensing Round. The Board and management team were thrilled to be awarded the Company's sole 30th Round application target, Block 13/23c (Liberator West), on 23rd May 2018. With the addition of Liberator West, i3 has seen an independently verified increase from its previous 2P Reserves base of 11MMBO, to 80MMBO of combined reserves, contingent and prospective resources, post the award.

Successful funding and AIM listing

During the early part of 2017 and on the back of the Liberator acquisition, we were pleased to issue approximately £4.2 million of convertible loan notes through a private placement. We then positioned ourselves for a concurrent IPO and listing to AIM. A softening in commodity prices during that period combined with a backdrop of numerous other factors prevented us from attaining the necessary commitment levels required to fully fund the Liberator development and, as such, i3 did not raise additional capital at that time. However, a majority of i3's Loan Noteholders agreed to convert their Notes to ordinary share capital in the Company, permitting us to conclude our admission to AIM. i3 Energy plc began trading on 25th July with circa 25.7 million shares in issuance, with Management and Board holding 65%. Listing the Company was crucial to preserving the option to conduct future fundraising from capital markets on our timing and when market conditions were more favourable.

Post year-end, the Company raised a further £2.57 million through the placing of approximately 8.6 million shares in the capital of the Company to new and existing investors. Additionally, an election by an existing investor to a partial conversion of their Loan Notes into shares has resulted in the issuance of a further 3.37 million shares such that the Company's current enlarged issued share capital comprises circa 37.6 million ordinary shares.

The proceeds of the funding have to-date been used towards engineering and development costs for Liberator, and for general corporate purposes. The Company continues to explore all potential funding avenues including, but not limited to, joint venture partnering, capital markets, debt facilities, and vendor financing.

Early development milestones met, and good progress made towards Liberator first oil

Preliminary work to develop Liberator started in early 2017. This work had several components: progression of the technical definition of the Liberator Project including studies for a tie-in (with associated commercial arrangements) to the nearby producing Blake and Ross facilities operated by Repsol Sinopec Resources UK Limited (RSRUK), pre-ordering of long lead items required for the drilling of two development wells, and advancement of a Field Development Plan with the Oil and Gas Authority (OGA). This work continues to progress with the programme on track to deliver first oil from Liberator in 2019. Key highlights included:

- Engagement with the Blake and Ross operator, RSRUK. Host engineering studies to accommodate the introduction and processing of Liberator fluids have been largely completed. These studies will confirm the technical requirements and construction schedule, enabling final engineering design to be completed and commercial arrangements for an offtake agreement to be finalised.
- Completion of a site survey and pipeline route sampling operations over two areas close to the Liberator field that have been identified as potential development drill centres.
- Sourcing of necessary equipment and services to conduct the Liberator drilling campaign, with time-critical components procured to avoid potential schedule disruption.
- Submission of the Environmental Statement addressing potential environmental impacts from the Liberator development.
- At the request of the OGA, submission of the Liberator Field Development Plan following a peer review by their technical team.

We strongly believe that projects such as Liberator – yet to be developed satellites near later life but well-maintained infrastructure – are a prime example of the type of collaboration that's required now and in the future between smaller operators and large infrastructure owners to maximise economic recovery in the UK and that this development closely adheres to the guidance given by the OGA in that regard. We are therefore pleased with the progress made with RSRUK.

i3 Energy plc

Chairman's and Chief Executive's Statement

For the Year Ended 31 December 2017

Significant upgrade and reclassification of Liberator reserves

As part of the AIM Admission Document, i3 Energy engaged Gaffney, Cline & Associates (GCA) as its Competent Person to opine on the hydrocarbon resources in the Liberator field. Their assessment was that the 2C Contingent Resources attributed to the on-licence portion of Liberator was 9.4MMboe, producing a pre-tax net present value, discounted at 10%, of US$249 million.

In the fourth quarter, following further technical and commercial progress on the Liberator field, we commissioned AGR TRACS International Limited ("AGR") as a Competent Person to provide an updated Reserves Report over Liberator. In summary, the Reserves Report reclassified the 2C Resources to 2P Reserves and increased the recoverable volume to 11.7MMboe. The pre-tax net present value, discounted at 10%, is now US$328 million.

The i3 team is extremely encouraged by this assessment and believe it is a testament to the quality of the Liberator field and our continued progression of the Liberator development.

Fully-funded application submitted for highly attractive asset in the UK's 30th Offshore Licensing Round

In November 2017, i3 applied for strategic acreage in the UK's 30th Offshore Licensing Round on a 100% basis. Our confidence in bidding a firm well commitment had followed an extensive evaluation of seismic and well data by our technical team. The bid was underpinned by a funding agreement entered into between the Company and an existing investor, post their engagement of an independent third-party to conduct due diligence on i3's current and potential asset portfolio.

In advance of its bid, i3 also commissioned AGR to independently assess the target opportunity and the resulting Resources Report indicates that the main target contains recoverable Contingent Resources of 22MMBO with a 70% chance of commercial success due to the low risk nature of the discovery, reservoir properties, oil quality, and proximity to infrastructure. A further opportunity exists in the bid acreage with potential recoverable Prospective Resources of 47MMBO to which AGR attributes a 56% chance of success.

On 23rd May 2018, the OGA announced that i3 had been awarded Block 13/23c during the UK's 30th Offshore Licensing Round. We believe that this highly attractive asset is material to the Company and can be rapidly appraised and thereafter brought into production. The award of this acreage marks i3's first step to further grow the Company and demonstrates our belief that attractive opportunities remain accessible within the UK North Sea.

Disciplined management of cash resources

During the year ended 31 December 2017, the Company incurred a net loss of £2,935,692 (31 December 2016 – net loss of £404,834). The majority of the loss resulted from the Company's ongoing development of its Liberator asset and consisted of expenses relating to i3 Energy plc's AIM listing, expenses relating to day-to-day operations, and accrued interest in relation to i3's Loan Notes.

A total of £4,195,869 (before expenses) was raised during 2017 through the private placement of Loan Notes, with the proceeds being used to fund Liberator engineering, offtake studies, project management, environmental statement, site survey, FDP and general corporate purposes.

Moving forward, we will continue to tightly manage our existing cash resources, which stood at £628,389 at the end of December 2017 (before the placement of new shares subsequent to year-end), as we progress the funding and development of an asset that has the potential to deliver substantial shareholder value.

Outlook

2017 was a landmark year for us. Significant progress was made towards our goal of delivering material returns through the development of high-quality, low-cost, deliverable assets. We are now poised to make major steps in the Liberator development whilst continuing to pursue growth opportunities beyond our existing portfolio. The continuing increase in commodity prices will help to support both the value of Liberator and the commerciality of other satellite developments which will remain a focus of our future strategy.

We would like to offer our thanks to i3 Energy's team. Each member continues to work at a reduced salary while demonstrating great commitment to our shareholders as they work under the ever-present constraints placed upon a start-up oil and gas venture. With ingenuity, creativity and energy they diligently work to advance the Company and its developments.

We also extend thanks and gratitude to our shareholders for their continued support, appreciating the patience and steadfastness required to endure value creation during the early stages of our venture. We've found ourselves better positioned this year than last and are looking ahead with great expectation.

David Knox
Non-Executive Chairman
31 May 2018

Neill Carson
Chief Executive Officer
31 May 2018

Strategic Report

Business Review and Strategy

2017 saw good progress towards development of the Liberator Field with the following achievements enabling the Company to be well-positioned for an early final development decision and subsequent first oil in 2019.

- Near completion of the host engineering studies to confirm the technical requirements and construction schedule for the introduction and processing of Liberator fluids.
- Completion of a site survey and pipeline route sampling operations over two areas close to the Liberator field for drill centre placement.
- Sourcing of equipment and services for the Liberator drilling campaign, with long-lead items procured.
- Submission of the Environmental Statement addressing potential environmental impacts from the Liberator development.
- Submission, at the request of OGA, of the Liberator Field Development Plan following a peer review by their technical team.

Later in the year the Company applied for acreage in the UK's 30th Offshore Licensing Round on a 100% basis. This marked the first step in the Company's growth beyond its current portfolio.

The Company's strategy is founded on:

- Pursuit of high quality assets where cycle, situation or geography offer disproportionate opportunity.
- Purchase of producing or discovered resources where opportunities exist to extract and add value through technical excellence and beneficial financing.
- Maximize shareholder value during times of cyclical strength and market sentiment, remaining equally strategic when large valuation gaps exist.
- Actively participate in production and development partnerships to optimise operations, mitigate delivery risk and enhance project value.

The acquisition of Liberator was based on these criteria and the progress made during 2017 has further demonstrated that additional value can be unlocked.

The strong focus on Maximising Economic Recovery ("MER") led by the Oil and Gas Authority ("OGA") has enhanced the prospectivity of the UKCS with greater opportunity to quickly and economically develop relatively small satellites. These are often opportunities overlooked by larger companies which may offer significant value to shareholders if managed at the right investment level and across the right timescale. Similar opportunities were made available during the 30th Offshore Licensing Round.

Critical to success is the right level of experience within the Company. i3 Energy's Board and Executive team is especially well placed in that regard with the management team having 300 years of experience, mainly focused on the UK North Sea but with significant exposure to other basins. This experience will allow the Company to develop its core business in the UK while looking further afield to diversify risk and capitalise on opportunities where the Company's skillsets can create additional shareholder value.

Key Operating and Financial Risks

The Company operates in the oil and gas industry which is an environment subject to a range of inherent risks and uncertainties. The current focus of the Company's risk management processes is in the regulatory, financial and growth areas for the Company but as the Company evolves this will shift towards a greater focus on the full range of operational risks.

The current key risks and associated mitigation are set out below.

Key Risk	Mitigation
Sub-surface assessment and reserve, resource estimation	• Experienced sub-surface professionals with deep knowledge of the UKCS and different play types. • External assessments and development of Competent Persons Reports.
Ability to raise funds	• Admission to AIM, capital markets access and potential loan arrangements provide avenues for future funding requirements. • Discussions with industry partners ongoing.
Access to UKCS third party infrastructure at appropriate cost	• Experienced technical and commercial professionals. • Working with OGA to ensure consistent application of MER and the Infrastructure Code of Practice (ICOP).

Commodity price volatility	• With no production, there is no current exposure to commodity price volatility. • Planning based on a range of commodity prices. • Future price mitigation strategies at the point of investment including the possibility of hedging if appropriate.
Health, Safety, Environment and Security	• Integrated Management System (IMS) set up to ensure all regulatory requirements are met, appropriate training is in place and compliance verified. • IT security is ensured through an external service provider.
Loss of Liberator license and/or failure to secure new licences in the UKCS	• Strong focus on meeting the Liberator license stipulations. • Good availability of prospective licences made available by OGA. Strong focus on quality and competitiveness of license applications.
Availability and delivery of growth opportunities	• Engagement with a range of advisors and active competitor monitoring provide a range of opportunities for screening. • Experienced professionals spanning key disciplines screen and fully assess opportunities. • Extension of focus area beyond the UKCS to provide additional opportunities and diversification of risk.
Adverse taxation and legislative changes	• Appropriate tax planning and support to industry bodies. • Extension of focus area beyond the UKCS to diversify risk.
Staff retention and access to future skills	• Strong alignment to Company success through significant equity ownership and options held by key employees. • Remuneration Committee set up to provide governance and ensure market competitiveness.
Balancing Liberator pre-development activities and other growth initiatives with available funds	• Disciplined management of cash resources • Equity funding provided sufficient resources to progress Liberator pre-development • Full range of fund raising initiatives (equity, debt, supply chain, industry joint venture partners) available once growth options are triggered

It should be noted that the risks set out above are not exhaustive and it is likely that the risks identified will evolve and that additional risks will arise in the future. Any of these risks could have a material adverse effect on the business.

Cash Resources
As at 31 December 2017, the Group had approximately £628,389 of cash in the bank. Management continues to remain lean and cost efficient while it continues to develop the Liberator Field.

Consolidated Statement of Comprehensive Income
During 2017, to facilitate its development of the Liberator asset, the Company incurred a loss of £2,935,692 comprised of day-to-day operating expenses, accrued interest in relation to i3's Loan Notes and expenses relating the Company's AIM listing.

Financing
In early 2018, the Company raised approximately £2.57 million through a share issuance from which the proceeds will be used toward prerequisite engineering, trees and wellheads for the Liberator development and general corporate purposes.

Key Performance Indicators ("KPIs")
As an early stage company, the Board does not deem industry benchmarked KPIs an appropriate measure of performance. I3 is now developing an appropriate list of KPIs to measure corporate and individual performance.

BOARD OF DIRECTORS

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

David Knox
Non-Executive Chairman
Mr. David Knox, BSc (Hons) Mech Eng, MBA, FIEAust, FTSE, GAICD, served as the Chief Executive Officer and Managing Director of Santos Limited from 2008 to 2015, after joining the company in 2007 as the Executive Vice President of Growth Businesses. Mr. Knox has global experience in the Petroleum Industry. Joining Santos in 2007, he was responsible for growth of new businesses including Geoscience and New Ventures, Indonesia and other strategic projects. Prior to Santos, Mr. Knox served as the Managing Director of BP Exploration and Production in Australasia, having previously held management and engineering roles at BP, ARCO and Shell across Australia, United Kingdom, Pakistan, United States, the Netherlands and Norway. He served as Director of Santos, the Santos Group Companies, and Santos Finance until November 2015. He was also an Executive Member of the Australian Petroleum Industry Peak Body, and the Australian Petroleum Production and Exploration Association (APPEA). Originally from Edinburgh, Scotland. Mr. Knox holds a first-class honours degree in Mechanical Engineering from Edinburgh University and a Masters of Business Administration from the University of Strathclyde. Mr. Knox has also been a director on the board of the Botanic Gardens and State Herbarium in South Australia, a director of the Adelaide Festival, a Fellow of the Australian Institute of Mechanical Engineering and also a Fellow of the Australian Academy of Sciences ATSE. He is currently a Director of the Commonwealth Science and Industry Research Organisation, deputy chair of the Economic Development Board of South Australia and chair of The Australasian Centre for Social Innovation. Mr. Knox has also been a director of Redflow Limited since March 2017.

Neill Carson
Chief Executive Officer
Mr. Carson has 31 years of management and international project experience in the oil & gas industry. On completion of his Bachelors (with First Class Honours) and Master degrees in the geosciences from Ulster University and Birmingham University respectively, he joined Amoco in 1981. During his 14 years with Amoco he was responsible for numerous exploration and production projects within the UKCS. His international career widened through exploration management positions for BP Amoco in the Netherlands, Bolivia, and Pakistan. As Performance Unit Leader for BP Pakistan, Mr. Carson was responsible for the delivery and growth of approximately 12,000 boe/day and capital budgets in excess of US$50m. Through his career with BP Amoco, Mr. Carson executed growth plans through successful oil and gas discoveries, and the development and management of commercial portfolios. He contributed as a select member of a targeted team to BP's world-wide new venture screening initiative in 2003. In early 2004, Mr. Carson co-founded Ithaca Energy Inc. (''Ithaca'') where he served as its President and a Director from April 2004 and acted as Chief Operating Officer until late 2007. While at Ithaca, Mr. Carson was responsible for asset acquisitions, all aspects of operations and safety, general corporate strategy, and the drilling of four successful oil wells. Across his 4 years with Ithaca, the portfolio grew to 39MMboe of 2P reserves and was on plan to deliver 8,000 boe/day of production. Mr. Carson founded Iona Energy Inc. (''Iona'') in late 2007 where he served as Chief Executive Officer until his departure in mid 2014 to form i3. Responsible for all aspects of corporate strategy and portfolio development, he grew Iona to 40MMboe of 2P reserves and saw peak production of 6,700 boe/day.

Graham Heath
Chief Financial Officer
Prior to co-founding i3 in late 2014, Mr. Heath served as VP Corporate Development and later as Interim CFO at Iona Energy from December 2010 alongside Mr. Carson. During his time at Iona, Mr. Heath worked with the senior management team to build the company from infancy to 40MMboe of 2P reserves and production above 6,000 boe/day, listing the company on the Toronto Venture Exchange, and structuring equity, debt, and derivative financings in excess of US$670 million. As VP Corporate Development he was a proactive engager of all external stakeholders and as Interim CFO led a finance and administration team that expanded internal financial controls while improving quarter-on-quarter quality and delivery of financial reporting. Before joining Iona, Mr. Heath's 14 year career focused on energy-related tech startups and consulting within Alberta's Oil and Gas Industry. Between 1998 and 2010, Mr. Heath consulted to Colt Engineering, PanCanadian Petroleum, EnCana Corporation and Cenovus Energy. From 2002 to 2006, Mr. Heath was Cofounder and VP of Strategic Development for The CO2 Hub – a marketplace created to facilitate the sale and purchase of carbon dioxide and its related purification, compression, storage, and transportation services – designed to foster the aggregation of CO2 supply and demand for its use in enhanced oil recovery. Mr. Heath holds a Bachelor of Commerce from the University of Calgary.

Majid Shafiq
Non-Executive Director
Mr. Majid Shafiq has 29 years of technical and investment banking experience focused on the global E&P sector. Prior to founding Argentil Capital Partners (UK) Limited as CEO in 2015, Majid spent twelve years in energy investment banking advising on asset level acquisitions and divestments, corporate M&A and equity financing for the private and public, small to mid-cap oil and gas sector. During that time, he worked for Waterous and Co, Tristone Capital Ltd and latterly with FirstEnergy Capital LLP as Managing Director, Corporate Finance. Prior to his investment banking career, he worked for Mobil Oil Corporation for 13 years in various

petroleum engineering and commercial roles in the UK and the Netherlands. Majid holds a Bachelors degree in Nuclear Engineering from Manchester University, a Masters degree in Petroleum Engineering from Heriot-Watt University and an MBA from London Business School.

Richard Ames
Non-Executive Director
Mr. Richard Ames brings to the Board 34 years of broad range experience in the oil and gas industry with senior executive roles in full-cycle oil and gas exploration and production, information technology and oil and gas services. He has held several Vice President positions in TNK-BP, Sidanco, and Amoco in Russia & Kazakhstan, where he was responsible for government liaison, the implementation of business strategies and the management of exploration and new venture projects. He has recently held Board and Advisory Board of Director positions in Iona, Accenture Russia, the Kiawah Conservancy, and DataSpace. Mr. Ames graduated from Duke University with a Bachelor of Science degree in Geology, and from the University of Georgia with a Master of Science in Geology. He joined Amoco in 1981 and worked as a geologist responsible for reserve definition in several international petroleum basins including the North Sea.

DIRECTORS' REPORT

The Directors are please to present this year's annual report together with the audited consolidated financial statements for the year ended 31 December 2017.

Principal Activities

The principal activities of the Group consist of the development and production of oil and gas in the UK North Sea. The Company's wholly-owned subsidiary, i3 Energy North Sea Limited, is an independent oil and gas company with assets in the UK. The Company's principal activity is that of a listed holding company.

Business Review and Future Developments

Despite the tight budget constraints and the challenging market conditions, the Group has continued to progress the development of its Liberator asset and other potential projects.

The Business Developments during the year are highlighted in the Chairman's and Chief Executive Officer's Statement.

Results and Dividends

The loss on ordinary activities of the Group after taxation amounted to £2,935,692 (2016: £404,834). There were no dividends paid in 2017 (2016: Nil).

Events after the reporting period

On 31 January 2018 the Company announced that it had raised £2.57 million through the placing of 8,563,630 new ordinary shares in the capital of the Company to new and existing investors at an issue price of 30 pence per share, representing a 0.4% premium to the 30-day average for the week ending 26th January 2018. The proceeds of the funding will be used towards prerequisite engineering, trees and wellheads for the Liberator development, and general corporate purposes.

On 6 February 2018 the Company amended the terms of the loan notes. The amended loan note instrument supersedes the existing loan note instrument dated 17 July 2017 and the principal amendments to the Existing Loan notes are detailed in the Company's news release dated 6 February 2018.

On 2nd March 2018, 20th March 2018, and 25th May 2018 the Company announced that, in relation to the amended Loan Note Agreement as announced 6th February 2018, it received notices of exercise from James Caird Asset Management ("JCAM") to convert part of the loan with an aggregate par value of US$1,500,000, into shares. Following the conversions the value outstanding on the loan was US$1,000,000. The Company allotted 3,368,728 ordinary shares to JCAM which rank pari passu in all respects with the existing ordinary shares. Following Admission of these shares, the Company's enlarged issued share capital was comprised of 37,623,250 ordinary shares.

On 23rd May 2018 the Company announced it had been awarded its sole 30th Offshore Licensing Round application target, Block 13/23c (123 km^2), on a 100% interest basis. Block 13/23c contains a material extension of the Liberator field, referred to by i3 as Liberator West, with further prospectivity identified by the Company outside the Liberator trend. The award delivers a significant increase in i3's combined Reserve & Resource Base, now totalling an independently verified 80MMBO.

Directors

The names of the Directors who served to the date of this report are set out below:

Director	Date of Appointment
Executive Directors:	
Neill Carson	30 March 2017
Graham Heath	30 March 2017
David Knox	18 July 2017
Majid Shafiq	18 July 2017
Richard Ames	18 July 2017

Directors' Remuneration

The Group remunerates the Directors at levels commensurate with its size and the experience of its Directors. The Remuneration Committee has reviewed the Directors' remuneration and believes the levels uphold these objectives. Details of the Directors' emoluments and payments made for professional services rendered are set out in note 10 to the financial statements.

Directors' Interests

The beneficial interests of the Directors in the shares and options of the Company are as follows:

Director	2017 Shares	2016 Shares	2017 Options	2016 Options
David Knox	138,871	Nil	311,318	Nil
Neill Carson	6,500,000	6,500,000	311,318	Nil
Graham Heath	6,500,000	6,500,000	311,318	Nil
Majid Shafiq	Nil	Nil	311,318	Nil
Richard Ames	Nil	Nil	311,318	Nil

None of the Directors exercised any share options during the year.

In 2016, N Carson and G Heath held shares in i3 Energy North Sea Limited (formerly i3 Energy Limited). See Note 1 – Share for Share Exchange for detail.

Directors' Third-Party Indemnity Provisions

The Company maintained during the period and to date of approval of the financial statements indemnity insurance for its Directors and Officers against liability in respect of proceedings brought by third parties, subject to the terms and conditions of the Companies Act 2006.

Share Capital

At 31 December 2017, 25,690,892 ordinary shares with a nominal value of £0.0001 each and 5,000 deferred shares of £10 each were issued and fully paid. Each ordinary share carries one vote and the deferred shares do not confer any voting rights.

Substantial Shareholders

At 31 December 2017, notification had been received by the Company of the following who had a disclosable interest in 3% or more of the nominal value of the ordinary share capital of the Company:

Neill Ashley Carson	25.30%
Graham Andrew Heath	25.30%
City Financial Investment Company Limited, acting as Investment Manager and Authorised Corporate Director of the City Financial Absolute Equity Fund ("City Financial")	13.62%
Mihai Butuc	3.89%
Iain Campbell	3.89%
John Woods	3.89%

Save for Messrs Carson and Heath, this does not include the shareholdings of the Directors which are disclosed separately. As at 31 December 2017 the Company had not been notified of any other person who had an interest in 3% or more of the nominal value of the ordinary share capital of the Company.

Subsequent to the year-end, City Financial announced that its shareholding had fallen below the 3% reporting threshold. Up-to-date details of substantial shareholders are contained on the Company's website (www.i3.energy).

Corporate Governance

A statement of Corporate Governance is set out on pages 15 to 17.

Key Performance Indicators

At this stage in its development, the Directors do not consider that standard industry key performance indicators are relevant. The Group currently has no oil and gas production and therefore has no income. The Group is not expected to report profits until it develops its exploration and development projects.

Health and safety – number of reported incidents

Health and Safety:	Measure	2017	2016
	No of incidents	0	0

There were no reportable incidents in the current or prior year.

Principal Risks and Uncertainties
Set out below are the principal risks and uncertainties facing the Group:

Material risks that could negatively affect the Company's results and performance include:

- The Company's business involves significant capital expenditure and given the current liquidity position of the Company as at the date of this report the Company will require additional funding to meet its planned work programme. There is no guarantee that such additional funding will be available on acceptable terms at the relevant time.
- Oil and gas exploration and development activities are dependent on the availability of skilled personnel, drilling and related equipment in the particular areas where such activities will be conducted. Demand for such personnel or equipment, or access restrictions may affect the availability to the Company.
- Oil and gas prices are highly volatile, and lower oil and gas prices will negatively affect the Company's financial position, capital expenditures and results of operations.
- Oil and gas drilling is a speculative activity and involves numerous risks and substantial and uncertain costs that could adversely affect the Company.
- Instability in the global financial system may have impacts on the Company's liquidity and financial condition that currently cannot be predicted.
- The "Brexit" Referendum and the resulting uncertainty about the status of the UK could adversely affect the Company's business.
- Reserve data and estimated discounted future net cash flows are estimates based on assumptions that may be inaccurate and are based on existing economic and operating conditions that may change in the future.
- The Company is dependent on the successful development of its oil and gas assets.
- Actual production rates may be significantly lower than estimated peak production rates.
- The Company is subject to various environmental risks and governmental regulations and future regulations may be more stringent.
- Climate change and climate change legislation and regulatory initiatives could result in increased operating costs and decreased demand for oil and gas.
- Offshore operations are subject to various operating and other casualty risks that could result in liability exposure.
- The Company may not have enough insurance to cover all of its risks.
- The Company may record impairments of oil and gas properties that would reduce its shareholders' equity.
- Currency restrictions and exchange rate fluctuations could have a negative effect on the Company's financial position, capital expenditures and results of operations.

Environmental Responsibility
The Group is aware of the potential impact that its subsidiary and investments may have on the environment. Accordingly, the Group ensures that with regard to the environment, it and its subsidiaries and associated companies at a minimum comply with applicable European Union and local regulatory requirements.

Employment Policy
The Group is committed to promoting policies to ensure that high calibre employees are attracted, motivated and retained for the ongoing success of the business. Employees and those who seek to work within the Group are treated equally regardless of sex, marital status, creed, colour, race or ethnic origin.

Health and Safety
The Group's aim is to maintain a high standard of workplace safety. In order to achieve this, the Group provides training and support to employees and sets demanding standards for workplace safety.

Insurance
The Group maintains insurance in respect of its Directors and Officers against liabilities in relation to the Company and the Group. The Group maintains insurance in respect of its exploration and development and operational projects in the North Sea.

Statement of Disclosure of Information to the Auditor
As at the date of this report the serving Directors confirm that:

- So far as each Director is aware, there is no relevant audit information of which the Group's auditor is unaware, and
- The Directors have taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor
PKF Littlejohn LLP has signified its willingness to act as the Company's auditor.

Going Concern
Notwithstanding the loss incurred during the year under review, the Directors have a reasonable expectation that the Group will be able to raise funds to provide adequate resources to continue operations for the foreseeable future. It will therefore continue to adopt the going concern basis in preparing the Annual Report and Financial Statements. Further details on their assumptions and their conclusion thereon are included in the statement on going concern included in note 2 to the Financial Statements. It should be noted however, that the auditors have drawn attention to a material uncertainty in relation to going concern within their audit report.

Board Committees
Information on the Audit Committee, Corporate Governance Committee, Reserves Committee and Remuneration Committee is included in the Corporate Governance section of the Annual Report.

Statement of Directors' Responsibilities
The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

The Directors are required to prepare financial statements for each financial year. The Directors have elected to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing these Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. The Group is compliant with AIM Rule 26 regarding the Group's website.

A resolution to reappoint PKF Littlejohn LLP as Auditors will be proposed at the forthcoming Annual General Meeting at a fee to be agreed in due course by the Audit Committee and the Directors.

Annual General Meeting
The Annual General Meeting will be held on 28 June 2018 as stated in the Notice of Meeting.

Independent Auditors
This report was approved by the Board and was signed on its behalf:

David Knox
Non-Executive Chairman
31 May 2018

CORPORATE GOVERNANCE STATEMENT

The Company is quoted on AIM and is not required to comply with the requirements of The UK Corporate Governance Code ("the Code"). However, the Board is committed to the high standards of good corporate governance prescribed in the Code and seeks to apply its principles where considered appropriate having regard to the current size and structure of the Group.

Board of Directors

The Board of Directors comprises of two Executive Directors and three Non-Executive Directors and is deemed to have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties effectively.

The Board maintains regular contact with its advisers and public relations consultants in order to ensure that the Board is aware of the views of shareholders.

The Company considers that it is important that where possible its Non-Executive Directors maintain a strong element of independence.

The Executive Directors are employed under contracts for service.

Whilst the non-executive chairman of the board holds shares in the Company, all of the non-executive directors hold options to acquire shares in the Company and one of the non-executive directors holds convertible loan notes in the Company, none are considered to be a significant threat to their independence. The board has considered, in conjunction with its advisors, whether these have any impact on their independence and have concluded that they do not. Apart from these matters and their directors' fees the non-executive directors have no other financial interests in the Company or business relationships that would interfere with their independent judgement.

Board Meetings

The Board meets regularly throughout the year. For the year ended 31 December 2017, the Board met 6 times in relation to normal operational matters. The Board is responsible for leading and controlling the Company and, in particular, for formulating, reviewing and approving the Company's strategy and budget. Day to day management is devolved to the Executive Directors who are charged with consulting the Board on all significant financial and operational matters.

All Directors have access to the advice of the Parent Company's solicitors. Necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively, and all Directors have access to independent professional advice, at the Group's expense, as and when required.

Board Committees

Audit Committee

The audit committee comprises Majid Shafiq (committee chairman), and David Knox. The board considers the two members of the committee to be independent and is satisfied that the committee chairman has recent and relevant financial experience.

The role and responsibilities of the audit committee have been set out in written terms of reference which includes monitoring the integrity of the Company's financial reporting, to review the Company's internal control and risk management systems, to monitor the effectiveness of the Company's external and internal audit function and to oversee the relationship with the Company's external auditors. The audit committee focuses particularly on compliance with legal requirements, accounting standards and the AIM Rules and ensures that an effective system of internal financial control is maintained.

The full terms of reference for the audit committee are available on the Company's website.

Corporate Governance Committee ("CG Committee")

The CG Committee comprises of David Knox (committee chairman) and Majid Shafiq.

The primary purposes of the CG Committee are to develop and recommend to the Board guidelines, policies and procedures relating to corporate governance; identify individuals qualified to become Board members; recommend to the Board director nominees for election to the Board; recommend to the Board committee composition and appointments; evaluate the performance and effectiveness of the Board and committees of the Board; and, review and make recommendations to the Board on non-employee director compensation.

The terms of reference of the CG Committee are available on the Company's website.

Reserves Committee

The reserves committee comprises of Richard Ames (committee chairman) and Majid Shafiq.

The reserves committee invites the Chief Executive Officer, the Chief Financial Officer and the remainder of the board to attend and speak at its meetings.

The primary purpose of the Reserves Committee is to assist the Board in monitoring and reviewing the appointment of an independent engineering firm retained by the Company to report on the quantity and the value of the Company's oil and gas reserves and resources. The reserves committee reviews the procedures by which the Company provides information to the independent engineering firm to be used as the basis of evaluation and audit, ensuring disclosure complies with applicable laws and regulations, and is also responsible for matters relating to the preparation and public disclosure of estimates to the Company's reserves and resources. In addition, the reserves committee would monitor any of the Company's future joint venture partners to ensure policies and procedures are in place to minimise environmental, occupational health and safety and other risks such that damage to or deterioration of asset value is mitigated.

The terms of reference of the reserves committee are available on the Company's website.

Remuneration Committee

The corporate remuneration committee comprises of Richard Ames (committee chairman) and David Knox.

The remuneration committee invites the Chief Executive Officer, the Chief Financial Officer and the remainder of the board and to attend and speak at its meetings.

The primary purpose of the remuneration committee is to determine and agree with the Board the broad policy for executive and senior employee remuneration, as well as for setting the specific remuneration packages and recommending and monitoring the remuneration of the senior employees. In accordance with the remuneration committee's terms of reference, no Director shall participate in discussions relating to or vote on his own terms and conditions of remuneration. Non-executive Directors' and Chairman's fees will be determined by the Board.

The terms of reference of the remuneration committee are available on the Company's website.

Internal controls

The Directors acknowledge their responsibility for the Group's systems of internal controls and for reviewing their effectiveness. These internal controls are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal use and external publication. Whilst the Directors are aware that no system can provide absolute assurance against material misstatement or loss, regular reviews of internal controls are undertaken to ensure that they are adequate and effective.

Risk management

The Board considers risk assessment important in achieving its strategic objectives. There is a process of evaluation of performance targets through regular reviews by the Board who compare actual progress to forecasts. Project milestones and timelines are regularly reviewed.

Risks and uncertainties

Risk assessment and evaluation is an essential part of the Group's planning and an important aspect of the Group's internal control system. The principal risks facing the Group are set out in the Strategic Report.

Risk management and treasury policy

The Board considers risk assessment to be important in achieving its strategic objectives, with the Board regularly reviewing its projects and activities in this regard.

The Group finances its operations through equity and holds its cash as a liquid resource to fund the obligations of the Group. Decisions regarding the management of these assets are approved by the Board. Please refer to note 21 for further detail on how the Board manages risk.

Securities trading

The Board has adopted a Share Dealing Code that applies to Directors, senior management and any employee who is in possession of "inside information". All such persons are prohibited from trading in the Company's securities if they are in possession of "inside information". Subject to this condition and trading prohibitions applying to certain periods, trading can occur provided the relevant individual has received the appropriate prescribed clearance.

Relations with shareholders

The Board is committed to providing effective communication with the shareholders of the Company. Clear communication with shareholders and all stakeholders is an important aspect of the role of the Group's Board and senior management. In addition to the regulatory forms of communication, including annual and interim reports and Regulatory News Service releases, all enquiries from shareholders are encouraged and receive a timely response.

The Group website (www.i3.energy) provides detailed information on the Group's activities.

All shareholders are offered the choice of receiving shareholder documentation electronically or in paper format, as well as the choice of submitting proxy votes either electronically or by post.

Shareholder are encouraged to attend the Annual General Meeting to discuss the progress of the Group.

David Knox
Non-Executive Chairman

INDEPENDENT AUDITORS REPORT TO MEMBERS OF i3 ENERGY PLC

Opinion

We have audited the financial statements of i3 Energy Plc (the 'Parent Company') and its subsidiary (the 'Group') for the year ended 31 December 2017 which comprise the Statement of Consolidated Comprehensive Income, the Statement of Consolidated and Parent Company Financial Position, the Statement of Consolidated and Parent Company Changes in Equity, the Statement of Consolidated and Parent Company Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion:

- 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 31 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to note 2 in the financial statements which identifies conditions that may cast significant doubt on the Group's ability to continue as a going concern. The Group incurred a net loss of £2,935,692 and incurred operating cash outflow of £2,287,546 and is not expected to generate any revenue or positive cashflows from operations in the 12 months from the date at which these financial statements were signed.

The financial statements have been prepared on the going concern basis. The ability of the Group to meet its operational objectives is dependent on its ability to raise additional funds.

As stated in note 2, these events of conditions along with other matters elsewhere indicate that a material uncertainty exists that may cast significant doubt on the ability of the Group and Company to continue as a going concern.

Our opinion is not modified in this respect.

Our application of materiality

Group materiality 2017	Group materiality 2016 (prior year auditor)	Basis for materiality
£116,000	*£51,700*	*% of net assets*

Our calculation of materiality increased from the prior years, which was determined by the previous auditor, due to the increase in gross assets in the period. We consider the net assets balance to be the most significant determinant of the Group's financial position and performance used by shareholders.

Materiality was set at £116k for the consolidated balances, and the group entities were not treated separately in terms of materiality. We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. At the planning stage materiality is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes during the audit.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during our audit in excess of £5.8k.

There were no misstatements identified during our audit that were individually, or in aggregate, considered to be material, with the exception of an adjustment to re-state the year-end liability of the loan notes, resulting in an additional unrealised gain of £189.8k.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at areas involving significant accounting estimates and judgements by the Director's and considered future events that are inherently uncertain. As in all our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. The Liberator asset, held through the Group's only subsidiary undertaking, represents the principal business unit in the Group upon which we performed audit procedures. A full scope audit was undertaken on the financial statements of the Parent company.

Key audit matters

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

Carrying value of exploration assets:	**How the scope of our audit responded to the key audit matter**
The carrying value of intangible assets as at 31 December 2017 was £3.88m which comprises of exploration and development expenditure on the Liberator asset. There is the risk that the carrying value of this project should be impaired and that exploration and development costs capitalised during the year are not in accordance with IFRS 6.	We performed an impairment review of the carrying value of the Intangible Asset held. Our work included: • Reviewing and considering the impairment indicators in IFRS 6 in relation to the asset held; • Obtaining and reviewing the Competent Person's Report ("CPR"), assessing the competency of the preparer, the mathematical accuracy of the inputs used, and the reasonableness of assumptions and inputs used; • Obtaining support for ownership; • Reviewing with management the basis for impairment or non-impairment and challenging any assumptions made; and • Performing sensitivity analysis herein. We undertook substantive testing on capitalised expenditure during the year to ensure it met the capitalization criteria of IFRS 6

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the Group and Parent Company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

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

In preparing the Group and Parent Company 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.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Joseph Archer

Joseph Archer (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

31 May 2018

1 Westferry Circus
Canary Wharf
London E14 4HD

i3 Energy plc

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2017

	Notes	**Year Ended 31 December 2017 £**	Year Ended 31 December 2016 £
Administrative expenses	5	**(1,576,713)**	(389,168)
AIM listing expenses		**(475,050)**	-
Operating loss		**(2,051,763)**	(389,168)
Finance expense:			
Finance fees		**(259,832)**	(7,598)
Interest payable and similar costs	7	**(624,097)**	(8.068)
Total finance expense		**(883,929)**	(15,666)
Loss on ordinary activities before taxation attributable to owners of the parent		**(2,935,692)**	(404,834)
Tax charge for the year	8	**-**	-
Net loss for the year and total comprehensive loss for the year attributable to owners of the parent		**(2,935,692)**	(404,834)
Earnings per ordinary share from continuing operations			
Basic and diluted	11	**(0.25)**	(0.07)

The accompanying notes on pages 29 – 46 form part of these financial statements.

No other comprehensive income has arisen in the period and as such is not disclosed.

i3 Energy plc

Consolidated Statement of Financial Postion

For the Year Ended 31 December 2017

	Notes	**31 December 2017 £**	31 December 2016 £
ASSETS			
Non-current assets			
Property, plant & equipment		**19,187**	-
Exploration and evaluation assets	12	**3,879,859**	1,725,772
Total non-current		**3,899,046**	1,725,772
Current assets			
Cash at bank and in hand		**628,389**	18,905
Trade and other receivables	14	**151,641**	10,449
Total current assets		**780,030**	29,354
Current liabilities			
Trade and other payables	15	**(1,263,917)**	(165,131)
Loan payable – related parties	17	**(44,555)**	-
Convertible loan notes payable	16	**(2,995,914)**	(1,990,264)
Total current liabilities		**(4,304,386)**	(2,155,395)
Net current liabilities		**(3,524,356)**	(2,126,041)
Total assets less current liabilities		**374,690**	(400,269)
Net liabilities		**374,690**	(400,269)
Capital and reserves			
Called up share capital	18	**2,569**	701
Share premium		**3,517,417**	
Deferred shares	18	**50,000**	
Share-based payment reserve	19	**145,230**	3,864
Retained earnings		**(3,340,526)**	(404,834)
Shareholders' funds/(deficit)		**374,690**	(400,269)

The consolidated financial statements of i3 Energy plc, company number 10699593, were approved by the Board of Directors and authorized for issue on 31 May 2018.

Signed on behalf of the Board of Directors by:

Neill Carson
Director

The accompanying notes on pages 29 – 46 form part of these financial statements.

i3 Energy plc

Company Statement of Financial Postion

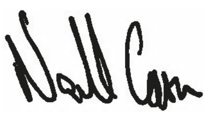
For the Year Ended 31 December 2017

	Notes	31 December 2017 £
ASSETS		
Non-current assets		
Investment in subsidiary	13	**145,700**
Loans to subsidiary company	20	**5,116,038**
Total non-current		**5,261,738**
Current liabilities		
Trade and other payables	15	**(67,493)**
Convertible loan notes payable	16	**(2,682,610)**
Total current liabilities		**(2,750,103))**
Net current liabilities		**(2,750,103)**
Total assets less current liabilities		**2,511,635**
Net liabilities		**2,511,635**
Capital and reserves		
Called up share capital	18	**2,569**
Share Premium		**3,517,417**
Deferred shares	18	**50,000**
Share-based payment reserve	19	**141,774**
Retained earnings		**(1,200,125)**
Shareholders' funds/(deficit)		**2,511,635**

Company number 10699593

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the Parent Company Statement of Comprehensive Income. The loss for the Parent Company for the year was £1,200,125 (2016: Nil).

Signed on behalf of the Board of Directors by:



Neill Carson
Director

The accompanying notes on pages 29 – 46 form part of these financial statements.

i3 Energy plc

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2017

	Notes	Called up share capital £	Share premium £	Deferred shares £	Share-based payment reserve £	Retained earnings £	Total £
As at 31 December 2015		1	-	-	-	-	1
Loss for the year and total comprehensive income		-	-	-	-	(404,834)	(404,834)
Issue of share capital	18	700	-	-	-	-	700
Share-based payment expense	19	-	-	-	3,864	-	3,864
As at 31 December 2016		701	-	-	3,864	(404,834)	(400,269)
Balance at 31 December 2016		701	-	-	3,864	(404,834)	(400,269)
Loss for the year and total comprehensive income		-	-	-	-	(2,935,692)	(2,935,692)
Issue of share capital	18	1,868	3,517,417	50,000	-	-	3,569,285
Share-based payment expense	19	-	-	-	141,366	-	141,366
Balance at 31 December 2017		**2,569**	**3,517,417**	**50,000**	**145,230**	**(3,340,526)**	**374,690**

On 30 March 2017 management incorporated i3 Energy plc for the purposes of listing. Shareholders of i3 Energy North Sea Limited had their shares exchanged for shares in i3 Energy plc on 18 July 2017 upon listing. See Note 1 for more details.

The following describes the nature and purpose of each reserve within equity:

Reserve	**Description and purpose**
Called up share capital	Represents the nominal value of shares issued
Share premium account	Amount subscribed for share capital in excess of nominal value
Deferred shares	Represents shares yet to be issued in the capital of the Company
Share-based payment reserve	Represents the accumulated balance of share-based payment charges recognised in respect of share options granted by the Company less transfers to retained deficit in respect of options exercised or cancelled/lapsed
Retained earnings	Cumulative net gains and losses recognised in the Consolidated Statement of Comprehensive Income

The accompanying notes on pages 29 – 46 form part of these financial statements.

i3 Energy plc

Company Statement of Changes in Equity

For the Year Ended 31 December 2017

	Notes	Called up share capital £	Share premium £	Deferred shares £	Share-based payment reserve £	Retained earnings £	Total £
Balance at 31 December 2016		-	-	-	-	-	-
Loss for the year and total comprehensive income		-	-	-	-	(1,200,125)	(1,200,125)
Issue of share capital	18	2,569	3,517,417	50,000	-	-	3,569,986
Share-based payment expense	19	-	-	-	141,774	-	141,774
Balance at 31 December 2017		**2,569**	**3,517,417**	**50,000**	**141,774**	**(1,200,125)**	**2,511,635**

The accompanying notes on pages 29 – 46 form part of these financial statements.

i3 Energy plc

Consolidated Statement of Cash Flow

For the Year Ended 31 December 2017

	Notes	Year ended 31 December 2017 £	Year ended 31 December 2016 £
OPERATING ACTIVITIES			
Loss for the year		**(2,935,692)**	(404,834)
Adjustments for:			
– Unrealized FX (Gain) / Loss		**(234,557)**	137,498
– Share-based payment expense	19	**141,366**	3,864
– Depletion, depreciation and amortization		**4,894**	
Operating cash flows before movements in working capital:			
– (Increase) in receivables		**(103,608)**	(10,448)
– (Increase) in prepaid expenses		**(37,584)**	
– Increase in interest payable		**623,733**	8,068
– Increase in current liabilities		**253,902**	165,131
Net cash used in operating activities		**(2,287,546)**	(100,721)
INVESTING ACTIVITIES			
Property, plant & equipment		**(24,081)**	(1,725,772)
Expenditure on exploration and evaluation assets		**(1,309,203)**	
Net cash used in investing activities		**(1,333,284)**	(1,725,772)
FINANCING ACTIVITIES			
Proceeds on issue of ordinary shares	18	**94,999**	700
Proceeds on issue of deferred shares	18	**50,000**	-
Proceeds from loan notes	16	**4,210,041**	1,844,698
Proceeds from employee loans	17	**44,555**	-
Net cash from financing activities		**4,399,595**	1,845,398
Effect of exchange rate changes on cash		**(169,281)**	-
Net increase in cash and cash equivalents		**609,484**	18,905
Cash and cash equivalents, beginning of year		**18,905**	-
CASH AND CASH EQUIVALENTS, END OF YEAR		**628,389**	18,905

The accompanying notes on pages 29 - 46 are an integral part of these financial statements.

i3 Energy plc

Company Statement of Cash Flow

For the Year Ended 31 December 2017

	Notes	Year ended 31 December 2017 £
OPERATING ACTIVITIES		
Loss for the year		**(1,200,125)**
Adjustments for:		
– Unrealized FX (Gain) / Loss		**(170,306)**
– Share-based payment expense	19	**141,774**
Operating cash flows before movements in working capital:		
– Increase in interest payable		**318,497**
– Increase in current liabilities		**67,493**
Net cash used in operating activities		**(842,667)**
INVESTING ACTIVITIES		
Investment in subsidiary		**(145,700)**
Loans to subsidiary company		**(5,116,038)**
Net cash used in investing activities		**(5,261,738)**
FINANCING ACTIVITIES		
Proceeds on issue of ordinary shares	18	**3,519,986**
Proceeds on issue of deferred shares	18	**50,000**
Proceeds from loan notes	16	**2,534,419**
Net cash from financing activities		**6,104,405**
Effect of exchange rate changes on cash		**-**
Net decrease in cash and cash equivalents		**-**
Cash and cash equivalents, beginning of year		**-**
CASH AND CASH EQUIVALENTS, END OF YEAR		**-**

The accompanying notes on pages 29 – 46 form part of these financial statements.

1 Summary of Significant Accounting Policies

General Information and Authorisation of Financial Statements
i3 Energy plc ("the Company") is registered in England and Wales under the Companies Act 2006 with registered number 10699593. The Company's ordinary shares are traded on the AIM Market operated by the London Stock Exchange. The address of the Company's registered office is New Kings Court, Tollgate, Chandler's Ford, Eastleigh, Hampshire, SO53 3LG.

The Company and its subsidiary (together, "the Group") are involved in the identification, evaluation, acquisition and development of oil and gas projects.

Share for Share Exchange Agreement
On 17 July 2017, i3 Energy plc and i3 Energy North Sea Limited entered into an arrangement agreement (the "Arrangement") whereby i3 Energy plc and i3 Energy North Sea Limited would complete a combination pursuant to a share exchange agreement (the "Share Exchange Agreement").

Pursuant to the Arrangement, each common share of i3 Energy North Sea Limited was exchanged for 1 common share of i3 Energy plc, resulting in the issuance of an aggregate of 16,499,999 ordinary shares of £0.0001 each and 5,000 deferred shares of £10 each of i3 Energy plc shares. Due to the relative size of the companies, 'i3 Energy North Sea Limited' shareholders became the majority shareholders in the enlarged share capital. i3 Energy plc's shares were listed onto AIM on 25th July 2017.

The translation fell outside of the scope of IFRS 3 ("Business Combinations") and has been accounted for using reverse acquisition accounting. Accordingly, the consolidated financial statements have been treated as being a continuation of the financial statements of i3 Energy North Sea Limited, with i3 Energy plc being treated as the acquired entity for accounting purposes. Accordingly, the financial information for the current period and comparatives has been presented as if i3 Energy North Sea Limited had been owned by i3 Energy plc throughout the current period due to the nature of the transaction.

Changes in accounting standards
The standards which applied for the first time this year have been adopted and have not had a material impact.

The International Accounting Standards Board (IASB) has issued the following new and revised standards, amendments and interpretations to existing standards that are not effective for the financial year ending 31 December 2017 and have not been adopted early. The Group is currently assessing the impact of these standards and based on the Group's current operations do not expect them to have a material impact on the financial statements.

New Standards	**Effective Date**
IFRS 15 Revenue from Contracts with Customers	01-Jan-18
IFRS 9 Financial Instruments	01-Jan-18
IFRS 16 Leases	01-Jan-19
IFRS 1 Insurance Contracts	01-Jan-21
Amendments to Existing Standards	
Clarifications to IFRS 15 revenue from Contracts with Customers	01-Jan-18
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*	01-Jan-18
IFRIC 22 Foreign Currency Transactions and Advance Consideration*	01-Jan-18
Annual Improvements to IFRSs (2014-2016 Cycle)*	01-Jan-18
IFRIC 23 Uncertainty over Income Tax Treatments*	01-Jan-19
Annual Improvements to IFRSs (2015-2017 Cycle)*	01-Jan-19

*Not yet adopted by European Union

i3 Energy plc has progressed further its projects dealing with the implementation of these key new accounting standards and is able to provide the following information regarding their likely impact:

IFRS 9 'Financial Instruments'
The standard replaces all phases of the financial instruments project and IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective from periods beginning on or after 1 January 2018 and introduces:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model for recognising provisions based on expected credit losses; and,
- simplified hedge accounting by aligning hedge accounting more closely with an entities risk management methodology.

The adoption of IFRS 9 is unlikely to have a material impact on the consolidated results of the Group.

1 Summary of Significant Accounting Policies - continued

IFRS 15 ‘Revenue from Contracts with Customers’
The standard is effective for periods commencing on or after 1 January 2018. This standard introduces a new revenue recognition model and replaces IAS 18 ‘Revenue’, IAS 11 ‘Construction Contracts’, IFRIC 13 ‘Customer Loyalty Programmes’, IFRIC 15 ‘Agreements for the Construction of Real Estate’, IFRIC 18 ‘Transfer of Assets from Customers’ and SIC-31 “Revenue – Barter Transactions Involving Advertising Services.’ As the Group has no revenue the introduction of IFRS 15 will have no impact in the financial statements.

IFRS 16 ‘Leases’
The standard is effective for periods commencing on or after 1 January 2019 and has been endorsed by the EU. Under the provisions of the standard most leases, including the majority of those previously classified as operating leases, will be brought onto the statement of financial position, as both a right-of-use asset and a largely offsetting lease liability. The right-of-use asset and lease liability are both based on the present value of lease payments due over the term of the lease, with the asset being depreciated in accordance with IAS 16 ‘Property, Plant and Equipment’ and the liability increased for the accretion of interest and reduced by lease payments. The directors continue to consider the potential effects on the Group’s financial statements and do not currently expect that there will be a material impact.

2 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) as adopted by the European Union.

The financial information is presented in Pounds Sterling (£) unless otherwise stated.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied unless otherwise stated. The Company has elected not to present individual financial statements as it is not required to do so.

Basis of Consolidation
The consolidated financial statements consolidate the audited financial statements of i3 Energy plc and the financial statements of its subsidiary undertakings made up to 31 December 2017.

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Going concern
The financial statements have been prepared on a going concern basis. The Group’s assets are not generating revenues, an operating loss has been reported and an operating loss is expected in the 12 months subsequent to the date of these financial statements and as a result the Company will need to raise funding to provide additional working capital to finance their ongoing activities and non-discretionary expenditures. The Board has successfully raised £2.57 million, prior to expenses, subsequent to the year end as discussed in note 16 to the financial statements. The net proceeds of the placing will be used towards prerequisite engineering, trees and wellheads for the Liberator development and general corporate purposes.

Based on the Board’s assessment that the cash flow budgets can be achieved and that the necessary funds will be raised, the Directors have a reasonable expectation that the Group and the Company has access to adequate resources to continue in operations existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements for the year ended 31 December 2017.

These conditions indicate the existence of material uncertainties that may cast significant doubt regarding the applicability of the going concern assumption and the auditors have made reference to this in their audit report.

Should the Group be unable to continue trading, adjustments would have to be made to reduce the value of the assets to their recoverable amounts, to provide for further liabilities which might arise and to classify fixed assets as current.

3 Significant accounting policies

The accounting policies adopted are consistent with those applied in the previous financial year, unless otherwise indicated.

Financial instruments:

Cash and cash equivalents:
Cash and cash equivalents comprise cash on hand and cash held on current account or on short-term deposits at variable interest rates with original maturity periods of up to three months. Any interest earned is accrued monthly and classified as interest income within finance income.

Trade and other receivables:
Trade and other receivables are initially recognised at fair value when related amounts are invoiced then carried at this amount less any allowances for doubtful debts or provision made for impairment of these receivables.

Trade and other payables:
These financial liabilities are all non-interest bearing and are initially recognised at the fair value of the consideration payable.

Impairment of financial assets:
In relation to financial assets, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of receivables is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Financial liabilities at Fair Value Through Profit or Loss ("FVTPL")
Financial liabilities at FVTPL comprise of the Company's convertible loan notes payable. Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement.

Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Equity:
Equity instruments issued by the Company are usually recorded at the proceeds received, net of direct issue costs, and allocated between called up share capital and share premium accounts as appropriate.

3 Significant accounting policies - continued

Foreign currency:

The Company does not have any foreign operations. Transactions denominated in currencies other than functional currency are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement.

For the purpose of the financial statements, the results and financial position are expressed in GBP, being the functional and presentational currency of all entities within the Group.

Taxation

Tax is recognised in the consolidated Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business on combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised, or the liability is settled. Deferred tax assets and liabilities are not discounted.

Intangible assets:

Exploration and evaluation expenditures (E&E):

a) Development expenditure

Expenditure on the construction, installation and completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including service, is capitalized initially within intangible fixed assets and when the well has formally commenced commercial production, then it is transferred to property, plant and equipment and is depreciated from the commencement of production as described in the accounting policy for property, plant and equipment.

b) Drilling costs and intangible licenses

The Group applies the successful efforts method of accounting for oil and gas assets, having regard to the requirements of IFRS 6 ‘Exploration for and Evaluation of Mineral Resources’. Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Statement of Comprehensive Income.

Expenditure incurred on the acquisition of a licence interest is initially capitalised within intangible assets on a licence by licence basis. Costs are held, unamortised, within Petroleum mineral leases until such time as the exploration phase of the licence area is complete or commercial reserves have been discovered. The cost of the licence is subsequently transferred into “Producing Properties” within property, plant and equipment and depreciated over its estimated useful economic life.

Exploration expenditure incurred in the process of determining exploration targets is capitalised initially within intangible assets as drilling costs. Drilling costs are initially capitalised on a well by well basis until the success or otherwise has been established. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercially viable. Drilling costs are subsequently transferred into ‘Drilling expenditure’ within property, plant and equipment and depreciated over their estimated useful economic life. All such costs are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop or otherwise extract value from the discovery. Where this is no longer the case, the costs are immediately expensed to the Statement of Comprehensive Income.

3 Significant accounting policies - continued

Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. This includes consideration of the IFRS 6 impairment indicators for any intangible exploration and evaluation assets capitalised as intangible costs. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, and the asset's value in use cannot be estimated to be close to its fair value. In such cases, the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, it is considered impaired and is written down to its recoverable amount. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease). An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Comprehensive Income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Finance income

Finance income consists of bank interest on cash and cash equivalents which is recognised as accruing on a straight-line basis, over the period of the deposit.

Investments

Investments in subsidiary undertakings are stated at cost less any provision for impairment in value, prior to their elimination on consolidation.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on all property, plant and equipment to write off the cost less estimated residual value of each asset over its expected useful economic life on a straight-line basis at the following annual rates:

- Office equipment 20% or straight line over the life of the equipment - whichever is the lesser;
- Field equipment – between 5% and 25%.

All assets are subject to annual impairment reviews.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replacement part is derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred. The asset's residual value and useful economic lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying value is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within the Statement of Comprehensive Income.

Share-based payments:

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

3 Significant accounting policies - continued

Earnings per share

Basic Earnings per share is calculated as profit attributable to equity holders of the parent for the period, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Significant accounting judgements, estimates and assumptions

Critical Accounting Estimates and Judgements

The preparation of financial statements using accounting policies consistent with IFRS requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of income and expenses. The preparation of financial statements also requires the Directors to exercise judgement in the process of applying the accounting policies. Changes in estimates, assumptions and judgements can have a significant impact on the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively from the period in which the estimates are revised.

There are no critical judgements identified, apart from those involving estimations (which are dealt with separately below) that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Carrying value of exploration and evaluation assets

At 31 December 2017, the Group held oil and gas exploration and evaluation assets of £3.88m (2016: £1.73m). Management tests annually whether the assets have future economic value in accordance with the accounting policies.

The recoverable amount of each property has been determined based on a value in use calculation which requires the use of certain estimates and assumptions such as long-term commodity prices (i.e. oil and gas prices), discount rates, operating costs, future capital requirements and mineral resource estimates. These estimates and assumptions are subject to risk and uncertainty and therefore a possibility that changes in circumstances will impact the recoverable amount.

The source for the estimates used by the Director's in determining the recoverability of the Company's oil and gas properties is the Competent Person's Report (available at www.i3.energy).

Fair value measurements and valuation processes

Some of the Company's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Company determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or liability, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in notes 19 and 21.

4 Segmental reporting

The Chief Operating Decision Maker (CODM) is considered to be the Board of Directors. They consider that the Group operates in a single segment, that of oil and gas exploration, appraisal and development, in a single geographical location, the North Sea of the United Kingdom. As a result, the financial information of the single segment is the same as set out in the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of Changes in Equity and Consolidated Statement of Cashflows.

5 Administrative expenses

	2017	2016
	£	£
Directors' fees accrued	64,810	-
Wages and salaries	800,123	177,500
Travel and subsistence expenses	106,752	22,368
Professional fees – legal, consulting, exploration	398,928	126,251
Auditor's remuneration – audit	45,000	8,000
Exploration expenditures	19,868	25,324
Stock-based compensation expense	141,366	3,864
Insurance expense	41,542	-
Office expense	108,106	4,890
Corporate communications expense	53,853	-
Other expenses	37,645	20,971
Realised FX (gain) / loss	(6,723)	-
Unrealised FX (gain) / loss	(234,557)	-
Total operating expenses	**1,576,713**	389,168

6 Employee Information

	2017	2016
Group staff Costs comprised:	£	£
Wages, salaries and benefits	1,289,380	177,500
Share-based payments expense	141,366	3,864
Less: capitalised exploration expenditure	(489,257)	-
Charge to the profit or loss	**941,489**	181,364

i3 Energy plc had no staff during the year ended 31 December 2017 (2016: nil) and therefore no payments were made.

The average number of persons employed in the Group, including Executive Directors, was:

	2017	2016
Average number of persons employed	Number	Number
Operations	7	3
Administration	3	3
	10	6

7 Interest payable and similar costs

	Year ended 31 December 2017	Year ended 31 December 2016
	£	£
Commission payable on loan notes	259,832	7,598
Interest payable on loan notes	624,097	8,068
Total interest payable and similar costs	**883,929**	15,666

8 Taxation

A deferred tax asset has not been provided for in accordance with IAS 12. The Group does not have a material deferred tax liability at the year end. i3 Energy plc had no liability to UK corporation tax on the ordinary activities for the period ended 31 Dec 2017 (31 Dec 2016 – Nil).

	2017	2016
	£	£
Current income tax charge	-	-
Deferred tax charge / (credit)	-	-
Total taxation charge / (credit)	**-**	**-**

Taxation reconciliation

The below table reconciles the tax charge for the year to the theoretical charge based on the result for the year and the corporation tax rate.

	2017	2016
	£	£
Loss before income tax	(2,935,692)	(404,834)
Rate of Corporate Tax	40%	40%
Expected tax recovery	(1,174,277)	(161,934)
Effects of:		
Permanent differences	68,410	-
Non-taxable income/Non-deductible expenses for tax purposes	56,710	1,545
Derecognition of deferred tax asset	1,049,157	160,389
Total income tax expense	**-**	**-**

As at 31 Dec 2017 the Company had taxable losses of £5,932,000 (31 Dec 2016 – 1,961,000) for which no deferred tax asset has been recognised. This is due to uncertainty over the availability of future taxable profits to offset these losses against.

9 Dividends

No dividends were proposed. (2016: nil).

10 Directors' remuneration

2017	Salary / Fees £	Bonus £	Share based payments £	Total £
Executive Directors				
Neill Carson	166,666	35,750	42,982	245,398
Graham Heath	155,000	35,500	42,982	233,482
Non-Executive Directors				
David Knox	25,924	-	42,982	68,906
Majid Shafiq	19,443	-	42,982	62,425
Richard Ames	19,443	-	42,982	62,425
	386,476	**71,250**	**214,910**	**672,636**

2016	Salary / Fees	Bonus	Share based payments	Total
Executive Directors				
Neill Carson	35,000	-	-	35,000
Graham Heath	32,500	-	-	32,500
	67,500	**-**	**-**	**67,500**

No pension benefits are provided for any Directors (2016: nil).

The total amount of Directors' fees, to the non-executive directors, in 2017 in the amount of £64,810 have been accrued but have not yet been paid and £65,000 of the executive directors' fees have been accrued and not been paid to provide the Company with as much working capital as possible. During the year ended 31 December 2016, i3 Energy accrued £62,500 in relation to the salary / fees payable to Mr. Carson and Mr. Heath, the accrued 2016 salary/fees were paid in February of 2017.

11 Earnings per share

From continuing operations
The calculation of the basic and diluted earnings per share is based on the following data:

	Year Ended 31 December 2017	Year Ended 31 December 2016
Earnings	**£**	£
Earnings for the purposes of basic earnings per share being net loss attributable to owners of i3 Energy (£)	2,935,692	404,834
Weighted average number of Ordinary Shares	11,731,570	5,678,683
Loss for the purposes of diluted earnings per share (£)	**(0.25)**	(0.07)

The 31 December 2017 and 31 December 2016 calculations use the Ordinary Shares, both basic and diluted, held at these dates. The diluted loss per Ordinary Share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion there would be no potential dilutive Ordinary Shares in issue. The effect of potential dilutive Ordinary Shares would be anti-dilutive and therefore are not included in the above calculation of diluted earnings per Ordinary Share.

12 Exploration and evaluation assets (Intangible)

	Exploration and evaluation assets £	Total £
As at 1 January 2016	-	-
Additions	1,725,772	1,725,772
As at 31 December 2016		1,725,772
Additions	2,154,087	2,154,087
As at 31 December 2017		**3,879,859**

13 Investment in subsidiaries

At 31 December 2017 the Company held 100% of the share capital of the following wholly owned subsidiary:

Company	Place of Business	Registered Office	% Ownership held	Nature of business
i3 Energy North Sea Limited*	England and Wales	New Kings Court Tollgate Chandler's Ford Eastleigh, Hampshire SO53 3LG	100	Exploration & Production

*Wholly owned subsidiary of i3 Energy plc.

	Investment in subsidiaries £	Total £
As at 1 January 2016	-	-
Investment	-	-
As at 31 December 2016	-	-
Investment on acquisition of i3 Energy North Sea Limited (see note 1)	145,700	145,700
As at 31 December 2017		**145,700**

The investment relates to the acquisition of i3 Energy North Sea Limited by i3 Energy plc (the Parent) on incorporation. See Note 1 – Share for Share Exchange for more details.

14 Trade and other receivables

	As at 31 December 2017 £	As at 31 December 2016 £	Parent Company As at 31 December 2017 £
VAT receivable	114,057	10,449	-
Prepayments & other receivables	37,584	-	-
Total trade and other receivables	**151,641**	10,449	-

Other receivables are all due within one year.

Loans advanced from or to the subsidiary are unsecured, interest free and have no fixed repayment date.

The fair value of other receivables is the same as their carrying values as stated above.

Other receivables do not contain any impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

15 Trade and other payables

	As at 31 December 2017	As at 31 December 2016	Parent Company As at 31 December 2017
	£	£	£
Trade creditors	750,458	25,524	-
Accruals	513,459	139,607	67,493
Total trade and other payables falling due within one year	**1,263,917**	165,131	67,493

The average credit period taken for trade purchases is 30 days. No interest is charged on the trade payables. The carrying values of trade and other payables are considered to be a reasonable approximation of the fair value and are considered by the Directors as payable within one year.

16 Convertible Loan Notes

	£
Proceeds of issue of convertible loan notes as at 31 December 2015	**-**
Proceeds of issue of convertible loan notes as at 31 Dec 2016	1,844,698
Liability component at date of issue	1,844,698
Interest charged	8,068
Foreign exchange	137,498
Liability component at 31 December 2016	1,990,264
Proceeds of issue of convertible loan notes as at 31 December 2016	1,990,264
Issuance of convertible loan notes	4,210,041
CLNs converted on Aim Listing	(3,424,286)
Interest charged	623,733
Foreign exchange	(403,838)
Liability component at 31 December 2017	**2,995,914**

On or before 28 December 2016, the Company issued Loan Notes totalling £1,844,698, the proceeds of which were used to fund the Sale and Purchase Agreement with Dana Petroleum and for general corporate purposes. This issue comprised of Loan Notes with a one-year term of £1,100,000 to be converted at a 50 per cent discount to the IPO price upon admission to AIM or redeemed at a 50 per cent premium to par at maturity, and Loan Notes with a one-year term of £744,698 to be converted at a 25 per cent discount to the IPO price upon admission to AIM or redeemed at a 25 per cent premium to par at maturity. A summary of the terms of the Loan Notes is as follows:

- Security: None
- Interest: None
- Mandatory conversion/redemption conditions:
  - AIM listing; and
  - Minimum raise of USD 36 million
- *Conversion Election*
  - 50 per cent. Loan Notes

  Conversion price: Lower of 50% of IPO price (in USD) and USD 0.40/share (IPO will be on AIM and shares will trade in GBP)

16 Convertible Loan Notes - continued

Conversion option: Anytime at option of noteholder at USD 0.40/share

- 25 per cent. Loan Notes

  Conversion price: Lower of 75% of IPO price (in USD) and USD 0.60/share (IPO will be on AIM and shares will trade in GBP)

  Conversion option: Anytime at option of noteholder at USD 0.60/share

- *Redemption Election*
  - 50 per cent. Loan Notes

  Redemption price: Principal plus 50% redemption premium automatically paid within 10 business days of certain mandatory redemption conditions

  - 25 per cent. Loan Notes

  Redemption price: Principal plus 25% redemption premium automatically paid within 10 business days of certain mandatory redemption conditions

Term:
25 per cent. Loan Notes
125% of principal to be repaid after 28th December 2017 in the event of non-conversion/non-redemption

50 per cent. Loan Notes
150% of principal to be repaid after 28th December 2017 in the event of non-conversion/non-redemption

At the time of subscribing for the i3 Energy Loan Notes, the subscriber had the option to select a conversion election or a redemption election. Selections were made as follows:

1. £1,531,717 of the Loan Notes will convert to shares as follows:

   I. £1,100,000 at the lower of 50% of IPO price (in USD) and USD 0.40/share

   II. Conversion option: Anytime at option of noteholder at USD 0.40/share

And the balance of £431,717 will convert as follows:

   I. Lower of 75% of IPO price (in USD) and USD 0.60/share

   II. Conversion option: Anytime at option holder at USD 0.60/share

2. £312,981 of the funds will be redeemed as follows:

   Redemption price: Principal plus 25% redemption premium automatically paid within 10 business days of certain mandatory redemption conditions

In the first half of 2017, the Company successfully raised £4,210,041 before expenses through the issuance of further Loan Notes of which proceeds were to fund Liberator field front-end engineering and design, project management, environmental statement, potential site survey, and general corporate purposes.

The Loan Notes issued by the Company ranked pari passu equally and rateably with any present and future unsecured debt obligations of the Company. If the notes were not converted, they would be redeemed on 28 December 2017 at the agreed redemption price.

The Loan Notes are not deemed to contain an equity component and the options meet the definition of a derivative and are not closely related to the host contract. Due to the complexity of performing separate valuations for each derivative, the Company has elected under IAS 39 to designate the entire hybrid loan notes as fair value with subsequent changes in value flowing through profit and loss.

The interest expensed for the year ended 30 December 2017 is calculated by applying an effective interest rate of 25 per cent and 50 per cent to the liability components of £4,878,200 and £1,100,000 respectively for the period since the Loan Notes were issued. The liability component is measured at amortised cost. The difference between the carrying amount of the liability component at the date of issue and the amount reported in the balance sheet at 31 December 2017 represents the effective interest rate less interest paid to that date.

On 13 June 2017, the holders of the 50 per cent. Loan Notes waived the requirement for the Company to raise a minimum of USD 36 million before their notes automatically convert at a price of USD 0.40/share. Such waiver was conditional on Admission taking place on or before 27 December 2017.

16 Convertible Loan Notes - continued

The existing 25 per cent. Loan Notes were amended and restated on 29 June 2017, and a further loan note instrument constituting US$2,500,000 unsecured convertible Loan Notes was entered into on 17 February 2017 and subsequently amended and restated on 29 June 2017 (the "New Notes").

A summary of the terms in the amended 25 percent Loan Notes and the New Notes are as follows:

- Interest: None
- Mandatory conversion/redemption conditions:
    - AIM listing and;
    - Minimum raise of USD 20 million (in respect of New Notes only)
- *Conversion Election:*
    - 25 percent Loan Notes

  Conversion price: USD 0.54/share (IPO will be on AIM and shares will trade in GBP)

  Conversion option: On Admission or at any time at option of noteholder at USD 0.54/share

    - New Notes

      Conversion price: Lower of 75% of the issue price upon a minimum USD 20 million fundraise and USD 0.54/share (IPO will be on AIM and shares will trade in GBP)

      Conversion option: Upon a minimum USD 20 million fundraise (post Admission) or at any time at option of noteholder in multiples of USD 500,000 at USD 0.54/share
- *Redemption Election:*
    - 25 percent Loan Notes and New Notes

  Redemption price: Principal plus (i) 25% redemption premium if redeemed on or before 28 December 2017; or (ii) 35% Redemption premium if redeemed after 28 December 2017, automatically paid within 10 business days of mandatory redemption conditions
- *Term*
    - 25 percent Loan Notes and New Notes
    - 135% of principal to be repaid at the earlier of AIM listing date plus 13 months or 31 August 2018 in the event of non-conversion/non-redemption prior to that date

At the time of subscription for the Loan Notes and pursuant to subsequent amendments to the Loan Notes, the subscriber had the option to select a conversion election or a redemption election. Selections were made as follows:

- £1,100,000 of the funds will convert upon AIM listing at USD 0.40/share
- £2,324,286 of the funds will convert upon AIM listing at USD 0.54/share
- £1,850,500 of the funds elected to convert in the future as follows:
    - Lower of 75% of IPO price (in USD) and USD 0.54/share
    - Conversion option: Anytime at option of noteholder in multiples of USD 500,000 at USD 0.54/share
- £513,642 of the funds will be redeemed as follows:

Redemption price: Principal plus (i) 25% redemption premium if redeemed on or before 28 December 2017; or (ii) 35% redemption premium if redeemed after 28 December 2017, automatically paid within 10 business days of certain mandatory redemption conditions

On 18 July 2017, all holders of the 50 percent Loan Notes and certain holders of the 25 per cent. Loan Notes converted their notes into 9,190,892 ordinary shares which, alongside 16,500,000 existing ordinary shares, were admitted to AIM.

17 Loan Payable – Related Party

On 12 December 2017 the employees entered into an agreement with the Company to loan the Company, each month, an amount equal to their net pay from the Company. The agreement was effective 12 December 2017 and terminates on the earlier of 31st March 2018 or such date as the Company has completed an unencumbered fundraise of a minimum of USD 2 million. Upon termination the Company would pay back to the employee an amount equalling 135% of the loan.

The Company terminated the loan agreement upon completing a fundraise at the end of January 2018 and all employees' loans were repaid at 135%.

18 Authorised, issued and called-up share capital

	Issuance Date	Ordinary Shares	A Ordinary Shares	Deferred Shares	Nominal Value £ per Share	Called up Share Capital	Premium Share Capital
As at 31 December 2015		1			1.00	**1**	-
Issuance of A ordinary shares	01 Mar 16	-	6,750,000	-	0.0001	**675**	-
Subdivision of ordinary share	31 May 16	(1)	10,000	-	0.0001	-	-
Change of class of shares	01 Jul 16	6,760,000	(6,760,000)	-	0.0001	-	-
Issue of ordinary shares	15 Dec 16	250,000	-	-	0.0001	25	-
As at 31 December 2016		7,010,000	-	-	0.0001	701	-
Issue of ordinary shares	30 Mar 17	1	-	-	0.0001	-	-
Issue of ordinary shares	17 Jul 17	9,489,999	-	-	0.0001	949	94,050
Issue of deferred shares	17 Jul 17	-	-	5,000	10.00	50,000	-
Issue of ordinary shares	18 Jul 17	9,190,892	-	-	0.0001	919	3,423,367
As at 31 December 2017		**25,690,892**	**-**	**5,000**	**-**	**52,569**	**3,517,417**

The ordinary shares confer the right to vote at general meetings of the Company, to a repayment of capital in the event of liquidation or winding up and certain other rights as set out in the Company's articles of association.

The deferred shares do not confer any voting rights at general meetings of the Company and do confer a right to a repayment of capital in the event of liquidation or winding up, they do not confer any dividend rights or any of redemption.

On 31 March 2017, 1 ordinary share with a nominal value of £0.0001 was issued at a price of £0.0001 per share.

On 17 July 2017, 9,489,000 ordinary shares with a nominal value of £0.0001 was issued at a price of £0.01 per share for cash consideration of £94,050.

On 17 July 2017, 5,000 deferred shares with a nominal value of £10.00 per share was issued at a price of £10.00 per share for cash consideration of £50,000.

On 18 July 2017, £3,384,819 of CLNs were converted into 9,190,892 ordinary shares with a nominal value of £0.0001 per share and cash consideration of £3,384,819.

19 Share based payments

Share Options

During the year the following share options were issued and the cost of £145,230 (2016: £3,864) was calculated using the Black Scholes method:

	Weighted Avg Price (pence)	Number	Exercise Price (pence)	Vested Share Options	Share price at grant (pence)	Weighted Avg Term (years)	Value*
18 Jul 2017	0.55	3,082,048	0.55	1,027,348	0.425	5	0.138

*In the Black Scholes model, the inputs were Volatility as 46%, the Risk-Free Interest Rate as 0.50% and the dividend yield as 0.5%.

EMI Options

The Company operates an Employee Management Incentive (EMI) share option scheme. Grants were made as set out below on 14th April 2016 and 6th December 2016. The scheme is based on eligible employees being granted EMI options. The right to exercise the option is at the employee's discretion for a ten-year period from the date of issuance. 9,490,000 options are exercisable at a price equal to £0.01 and 500,000 options are exercisable at a price equal to £0.11 respectively. As the Options may be exercised at any time, the vesting period is deemed to be immediate. If the options remain unexercised after a period of ten years from the date of grant the options expire. Employees who leave i3 Energy have 60 days to exercise the Options prior to them being forfeited.

19. Share based payments - continued

	Number of share options	Weighted average exercise price (in £)
As at 31 Dec 2016	9,990,000	0.015
Granted during the year	-	-
Forfeited during the year	-	-
Exercised during the year	9,490,000	0.015
Expired during the year	-	-
Outstanding at the end of the year	**500,000**	0.11
Exercisable at the end of the year	**500,000**	0.11

9,490,000 options were exercised during the year. The options outstanding at 31 December 2017 had a weighted average exercise price of £0.11, and a weighted average remaining contractual life of 8.92 years.

20. Related party transactions

The Company had the following related party transactions:

a. During the year ended 31 December 2017, the Company had nil in share subscription receivable (31 December 2016 - £1.00) relating to share issuance costs by a director and officer, Neill Carson, of the Company.

b. During the year ended 31 December 2017, one executive director, Neill Carson, and two non-executive directors, David Knox and Richard Ames, participated in the Company's financing and hold or had held convertible loan notes. Upon the Company's AIM listing on 25 July 2018 David Knox converted his convertible loan notes into 138,871 ordinary shares of the Company. Terms of the convertible loan notes are detailed in note 16.

c. On 12 December 2017 the employees entered into an agreement with the Company to loan the Company, each month, an amount equal to their net pay from the Company. Terms of the loan are detailed in note 17.

d. During the year the Company provided funds amounting to £5,958,705 (2016: Nil) to its subsidiary and received funds in the amount of £842,666 from its subsidiary. The total net receivable from its subsidiary at 31 December 2017 was £5,116,038 (2016: Nil).

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remunerations of Key Management Personnel

Directors of the Company are considered to be Key Management Personnel. The remuneration of the Directors is set out in note 10.

21. Financial instruments and capital risk management

Financial Risk Management

Financial Risk Factors

The Group's activities expose it to a variety of financial risks; market risk (including foreign currency risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Board of Directors under policies approved at Board meetings. The Board frequently discusses principles for overall risk management including policies for specific areas such as foreign exchange.

a) Market Risk

i) Foreign Exchange Risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the UK pound sterling and the US dollar. Foreign exchange risk arises from recognised monetary assets and liabilities (USD bank account and USD CLNs) where they may be denominated in a currency that is not the Group's functional currency. The exposure to this risk is not considered material to the Group's operations and thus the Directors consider that, for the time being, no hedging or other arrangements are necessary to mitigate this risk.

On the assumption that all other variables were held constant, and in respect of the Group and the Company's expenses the potential impact of a 1% increase / decrease in the UK Sterling: US Dollar Foreign exchange rate on the Group's loss for the year and on equity is as follows:

21. Financial instruments and capital risk management - continued

Potential impact on USD expenses: 2017		Effect on loss before tax for the year ended
		Group
Increase/(decrease) in foreign exchange rate		£
	1%	25,152
	-1%	25,152

b) Credit Risk

Credit risk arises from cash and cash equivalents.

The Group considers the credit ratings of banks in which it holds funds in order to reduce exposure to credit risk. The Group will only keep its holdings of cash with institutions which have a minimum credit rating of 'A'.

The Group considers that it is not exposed to major concentrations of credit risk.

The Group holds cash as a liquid resource to fund its obligations. The Group's cash balances are held in Sterling and US Dollar. The Group's strategy for managing cash is to maximise interest income whilst ensuring its availability to match the profile of the Group's expenditure. This is achieved by regular monitoring of interest rates and monthly review of expenditure forecasts.

The Group has a policy of not hedging and therefore takes market rates in respect of foreign exchange risk; however, it does review its currency exposures on an ad hoc basis.

c) Liquidity Risk

To date the Group has relied upon equity funding to finance operations. The Directors are confident that adequate funding will be forthcoming with which to finance operations. Controls over expenditure are carefully managed.

The Group ensures that its liquidity is maintained by a management process which includes projecting cash flows and considering the level of liquid assets in relation thereto, monitoring Balance Sheet liquidity and maintaining funding sources and back-up facilities.

Fair Value Estimation

The following table presents the Group's financial asset and financial liabilities that are measured at fair value at 31 December 2017.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Fair value measurements

To estimate fair value of the risk management contracts, the Company uses quoted market prices when available, or industry accepted third-party models and valuation methodologies that utilise observable market data. In addition to market information, the Company incorporates transaction specific details that market participants would utilise in a fair value measurement, including the impact of non-performance risk. The Company characterises inputs used in determining fair value using a hierarchy that prioritises inputs depending on the degree to which they are observable. However, these fair value estimates may not necessarily be indicative of the amounts that could be realised or settled in a current market transaction.

The three levels of the fair value hierarchy are as follows:

- Level 1 - inputs represent quoted prices in active markets for identical assets or liabilities (for example, exchange-traded commodity derivatives). Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, market interest rates, and volatility factors, which can be observed or corroborated in the marketplace.
- Level 3 - inputs that are less observable, unavailable or where the observable data does not support the majority of the instruments fair value.

In forming estimates, the Company utilises the most observable inputs available for valuation purposes. If a fair value measurement reflects inputs of different levels within the hierarchy, the measurement is categorised based upon the lowest level of input that is significant to the fair value measurement.

All financial assets are classified as loans and receivables and are accounted for on an amortised cost basis. All financial liabilities are classified as other liabilities. The carrying amount of the other financial assets and liabilities approximates the fair value due to its short maturities.

21. Financial instruments and capital risk management - continued

Fair value measurements recognised in the statement of financial position

	Level 1	Level 2	Level 3	2017 Total
	£	£	£	£
Financial liabilities at FVTPL				
Financial liabilities designated at FVTPL	-	-	2,995,914	2,995,914
Total	**-**	**-**	**2,995,914**	**2,995,914**

There were no transfers between Level 1 and 2 during the current or prior year. Trade and other receivables and trade and other payables are held at approximate fair value therefore the financial instruments noted above do not require fair value disclosure.

The Company's convertible Loan Notes are issued in both GBP and USD. The Loan Notes issued in USD are subject to the FX fluctuation between the USD and GBP rates and can impact the fair value reported in GBP.

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to position as a going concern and to continue its exploration and production activities. The Group has debt of £4,304,386 as at 31 December 2017 (2016: £2,155,395) and has capital, defined as the total equity and reserves of the Group of £74,690 (2016:(400,269)).

The group monitors it level of cash resources available against future planned exploration and evaluation activities and may issue new shares in order to raise further funds from time to time.

22 Commitments

Operating leases –	**2017**	2016
Future aggregate minimum lease payments	**£**	£
Not less than one year	45,000	-
Later than one year but not later than five years	101,250	-
Total lease commitment	**146,250**	-

On 1 April 2017, i3 Energy North Sea Limited, at that time i3 Energy Limited, entered into a 5-year lease agreement to rent space. The lease expires in April 2022.

Capital commitments –

As at 31st December 2017, the Company had cancellation exposure to certain long-lead items for its Liberator development totalling £473,757. As at 31 May 2018 the cancellation exposure for these same long-lead items was £3,794,863.

23 Events after the reporting period

On 31 January 2018 the Company announced that it had raised £2.57 million through the placing of 8,563,630 new ordinary shares in the capital of the Company to new and existing investors at an issue price of 30 pence per share, representing a 0.4% premium to the 30-day average for the week ending 26th January 2018. The proceeds of the funding will be used towards prerequisite engineering, trees and wellheads for the Liberator development, and general corporate purposes.

On 6 February 2018 the Company the terms of the amended loan notes. The amended loan note instrument supersedes the existing loan note instrument dated 17 July 2017 and the principal amendments to the Existing Loan notes are detailed in the Company's news release dated 6 February 2018.

On 2nd March 2018, 20th March 2018, and 25th May 2018 the Company announced that, in relation to the amended Loan Note Agreement as announced 6th February 2018, it received notices of exercise from James Caird Asset Management ("JCAM") to convert part of the loan with an aggregate par value of US$1,500,000, into shares. Following the conversions the value outstanding on the loan was US$1,000,000. The Company allotted 3,368,728 ordinary shares to JCAM which rank pari passu in all respects with the existing ordinary shares. Following Admission of these shares, the Company's enlarged issued share capital was comprised of 37,623,250 ordinary shares.

On 23rd May 2018 the Company announced it had been awarded its sole 30th Offshore Licensing Round application target, Block 13/23c (123 km^2), on a 100% interest basis. Block 13/23c contains a material extension of the Liberator field, referred to by i3 as Liberator West, with further prospectivity identified by the Company outside the Liberator trend. The award delivers a significant increase in i3's combined Reserve & Resource Base, now totalling an independently verified 80MMBO.

i3 Energy plc
Corporate Information

Registered number	**10699593**
Directors	**David John Wissler Knox** – Non-Executive Chairman **Neill Ashley Carson** – Chief Executive Officer **Graham Andrew Heath** – Chief Financial Officer **Majid Shafiq** – Non-Executive Director **Richard Millington Ames** – Non-Executive Director
Company Secretary	**Burness Paull LLP**
Registered Office	New Kings Court Tollgate Chandler's Ford Eastleigh, Hampshire United Kingdom S053 3LG
Independent Auditor	**PKF Littlejohn (Registered Auditor)** 1 Westferry Circus Canary Wharf London E14 4HD United Kingdom
Solicitors	**Burness Paull LLP** 50 Lothian Road Festival Square Edinburgh EH3 9WJ
Nominated Advisor	**WH Ireland Limited** 24 Martin Lane London EC4R 0DR
Broker	**GMP First Energy** 85 London Wall London EC2M 7AD
Registrars	**Link Asset Services** The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Principal Bankers	**Royal Bank of Scotland**
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