



i3 ENERGY

Annual Report and Financial Statements
for the Year Ended 31 December 2018

i3 Energy plc
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For the Year Ended 31 December 2018

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i3 Energy plc
Highlights and Outlooks
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HIGHLIGHTS AND OUTLOOKS

- Awarded sole ownership of 30th Offshore Licensing Round Block 13/23c containing a material extension of the Liberator field referred to by i3 as Liberator West
- Block 13/23c added 22 MMBO of 2C Contingent Resources and 47 MMBO Mid-case Prospective Resources to i3's previously held 11 MMBO of 2P Liberator Reserves, as independently verified by the Company's Competent Person, AGR TRACS International Limited ("AGR")
- Successfully completed placements raising £2.57m and £1.62m before expenses through the issue of new ordinary shares at a price of 30 pence and 1.05 pence per share, respectively, to fund Field Development Plan ("FDP") engineering, trees and wellheads for the Liberator development, and general corporate purposes
- Deleveraged the Company's balance sheet through the conversion of US\$2.5m of existing loan notes held by James Caird Asset Management ("JCAM") into 5,220,580 new ordinary shares at an average conversion price of US\$0.48 per share
- Focused on defining an enlarged FDP following the award of Liberator West
- Redefined expected Liberator Phase I work programme to include 2 development wells in addition to the Company's commitment to appraise Liberator West
- Worked with the supply chain on development design and engineering
- Conducted internal and third-party reservoir simulations to optimize and de-risk well locations and trajectories
- Continued sourcing long-lead equipment and services in advance of i3's expected 2019 development and appraisal drilling programme
- Commissioned and completed feasibility and engineering studies for the tie-in of the planned Liberator production wells to the Bleo Holm floating production storage and offloading ("FPSO")
- Contracted Gardline Limited to conduct a site survey at its Liberator field
- Appointed Majid Shafiq as MD & CEO and Neill Carson (previous CEO and co-founder) as Non-Executive Director

Post Period and Outlook

On 10 January 2019 the Company provided an operational and funding update and announced that it had entered into a letter of intent with Dolphin Drilling Limited for a three-well appraisal and development drilling programme to be conducted in the summer of 2019. The Company also announced that it had received indicative terms from Repsol Sinopec Resources UK Limited ("RSRUK") for Liberator's use of their leased Bleo Holm FPSO facility via Ross field infrastructure, and that the parties were working together to agree the terms for Liberator Phase I construction and tie-in, and transportation, processing and operating services agreements. These agreements are expected to be finalized alongside the 2019 field development plan approval by the UK Oil and Gas Authority ("OGA"). The Company also continued to progress its previously announced joint venture farmout process. It also continued negotiations with senior and junior lenders for the provision of loan facilities of between US\$100 and US\$130 million, of which up to 25% was expected to be available towards i3's planned 2019 drilling programme, with the balance drawable for the residual 2019/2020 Liberator Phase I production wells, subsea installation and field tie-in. The Company estimated its 2019 drilling campaign to cost c.US\$41 million with additional capex to 2020 first oil of c.US\$90 million, inclusive of contingency.

On 25 February 2019 the Company announced that it had entered into a term sheet which sets out the terms and conditions of a £24mm junior secured loan note facility with warrants. A European Investment Manager with assets under management in excess of £1 billion agreed to subscribe for £12 million of the Loan Notes and, based on offers received, the remainder of the Loan Notes were expected to be issued to one or more syndicate members and/or offtake providers who are also potential lenders in i3's senior debt facility which was under negotiation to provide US\$100 million towards the Company's Liberator oil development.

On 12 March 2019 the Company announced its intention to issue new ordinary shares of £0.0001 each in the Company via an accelerated bookbuild ("Bookbuild") to raise in aggregate gross proceeds of not less than £16 million ("Placing") at a price of 37 pence per share ("Placing Price"). It was intended that the aggregate net proceeds of the Placing and the anticipated £24 million junior secured loan note facility with warrants, announced on 25 February 2019, would fund i3's planned 2019 multi-well appraisal and development drilling programme at its 100% owned and operated Liberator oil field and Serenity prospect and its near-term working capital requirements. The programme was expected to commence as early as June 2019 and was targeting STOIPs of 314 and 197 million barrels at the Liberator field and Serenity prospect respectively.

On 12 March 2019 the Company announced that further to the Placing Announcement earlier in the day, the Bookbuild had been successful and was closed. The Company had successfully placed 43,243,243 Ordinary Shares at an Issue Price of 37 pence per share, raising gross proceeds of £16 million.

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On 19 March 2019 the Company announced that it had posted a circular to shareholders regarding an Open Offer to raise up to £2 million of additional funds for the Company, as announced 12 March 2019.

On 22 March 2019 the Company announced that it had contracted Gardline Limited to conduct a site survey for its 2019 and 2020 drilling program plus the pipeline route for its Liberator Phase I development. The Company also announced that all outstanding convertible loan notes totalling approximately £433,153 in principal would be repaid with interest in accordance with the terms on the maturity date of 31 March 2019. In addition, the Company announced that i3's management and Board, in addition to the previously announced purchase of 678,645 shares by i3's Directors in the Placing announced 12 March 2019, would be purchasing a further 2,131,538 ordinary shares in the Company at a price of 37 pence, totalling £788,669, alongside the Open Offer and conditional upon the completion of the Placing. The Company further announced that it had issued a total of 5,920,000 share options, granted conditionally upon the completion of the Placing as announced on 12 March 2019, to Directors and key management in accordance with the rules of the Company's Share Option Plan. The issue of Options to Directors is a related party transaction for the purposes of Rule 13 of the AIM Rules for Companies.

On 4 April 2019 the Company announced that the Open Offer to shareholders as announced on 19 March 2019 had closed for acceptances in accordance with its terms. The Company had received valid applications in respect of a total of 983,059 new ordinary shares in the Company. The aggregate amount raised pursuant to the Open Offer was approximately £363,732.

On 9 April 2019 the Company announced that it had executed a contract with Dolphin Drilling Limited ("Dolphin") to utilize the Borgland Dolphin semi-submersible drilling rig for a 94-day programme which is due to commence between 15 July and 15 August 2019. The drilling commencement window was agreed by the Company and Dolphin to ensure the availability of necessary equipment and to provide adequate preparation time to crew and mobilise the rig from its current mooring location in Norway. In addition to contracting the Borgland Dolphin, i3 secured the necessary wellheads and conductor pipe for mid-July delivery to align with the start of its field operations and spud of the A3 appraisal well. The Company also provided an update on its site survey operation which was conducted using the Gardline vessel 'Ocean Observer' at the Company's drilling locations and along the potential pipeline route from Liberator to the intended host facility. The operations were completed and were conducted without incident. Sufficient data had been acquired to allow the Company to proceed with permitting of the 2019 drilling programme and with engineering design for the Liberator Phase I development works.

On 30 May 2019 the Company announced that it had entered into binding terms with funds managed by Lombard Odier Asset Management (Europe) Limited for a £3mm participation in the junior loan note facility, the proposed terms of which were announced by the Company on 25 February 2019, (the "Junior Facility" or "Loan Notes"), a £2mm placing of new ordinary shares priced at 37 pence per share and associated warrants to subscribe for new ordinary shares (collectively the "Lombard Odier Investment"). The closing of the Lombard Odier Investment was conditional, inter alia, on the closing of the Junior Facility. In light of Lombard Odier's further £2mm equity investment, it was intended that the Junior Facility be downsized from the £24mm previously indicated to £22mm, and the closing of that facility will be the subject of a further announcement.

The Company's focus for the remainder of 2019 will be on 3 key areas:

- 1 Continued advancement of a safe and economically robust Liberator development with targeted first oil in 2020.
- 2 Secure sufficient funding to conduct the Company's 2019 drilling and 2020 development initiatives.
- 3 Complete 2019 drilling campaign at Liberator, Liberator West and Serenity.

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

i3 Energy plc
Chairman's and Chief Executive's Statement
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CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

2018 was a critical year for i3 Energy plc ("i3", "the Company" or "the Group"), the events of which redefined its potential for value creation. Key to this potential was the increase in i3's reserves and resources which resulted from its success in the UK's 30th Offshore Licensing Round and, to end the year, the Company's receipt of terms from Repsol Sinopec Resources UK Limited ("RSRUK") for the tie-in and offtake of hydrocarbons to be produced from i3's key asset, the Liberator oil field. Each of these were determining factors in our ability to attract funding and also to commit to material contracts for field appraisal and development.

Material increase in potential reserves and resources from strategic acreage capture

To date, i3's strategy has remained focused on the pursuit of assets where we possess deep technical insight. Our 2016 acquisition of Licence P.1987 Block 13/23d, the Liberator oil discovery, was based on a well-informed understanding of the asset and a previously unexplored regional view that our technical team interpreted would reveal potential upside beyond Liberator's western boundary. The procurement and reconditioning of multiple seismic datasets and their tying to regional control wells strongly supported this expectation, prompting the Company's November 2017 firm-well bid for Block 13/23c in the UK's 30th Offshore Licensing Round.

In advance of that bid, the Company engaged AGR TRACS International Limited ("AGR") to independently assess Liberator and its structural extension into Block 13/23c, referred to as Liberator West, the findings of which validated i3's view. In May 2018, i3 was awarded Block 13/23c, adding audited Mid-case Resources of 69 MMBO (Contingent plus Prospective) to our previously held 2P Liberator Reserves of 11 MMBO, representing a potential sevenfold increase in the Company's reserves and resources.

Upon receipt of Block 13/23c, which the Company knew to contain Liberator West, i3 broadened its investigation of potential on-block resources only to discover a look-alike extension to Liberator West in the north of the block. Additionally, further seismic analysis uncovered a large, amplitude supported feature that is on trend with the neighbouring Tain oil field (discovered and appraised by 4 wells in 2005). The Company refers to this extension as the Serenity prospect.

Since November 2017 when AGR produced their Competent Persons Reports on Liberator and Liberator West, i3 has continued to conduct further technical analysis and it is the management's view that the potential total reserves and contingent and prospective resources attributable to its licences, inclusive of Serenity, could be above 200 million barrels recoverable.

Preparations for a larger appraisal and development programme

The increased potential of the Company's licences, in concert with its associated appraisal and development commitments, necessitated a reconsideration of its original plan to develop Liberator. Much of 2018 was consumed by an overhaul to our drilling and delivery plans to allow for the multiple conditional outcomes that might arise as i3 de-risks and develops its current asset base. To meet its licence obligations, ascertain initial hydrocarbon potential, safely achieve first oil on the shortest timeline possible, and ensure that funding would be made available for its initiatives, the Company has decided to conduct a multi-well drilling programme in mid-2019 that aims to appraise both Liberator West and Serenity while confirming Liberator's Phase I development well locations, followed by a 2020 first oil delivery from two concurrent producers at targeted rates of approximately 20,000 bopd. To handle the doubling of its originally envisaged throughput requirements, in 2018 i3 also revised its planned pipeline route to tie directly into higher capacity infrastructure to accommodate expected outcomes.

2018's commercial, regulatory, and operational undertakings culminated in two major milestones being reached at year end, namely the receipt of proposed offtake terms to evacuate Liberator Phase I production via nearby infrastructure, and the agreement of terms with Dolphin Drilling for the provision of a semi-submersible rig to conduct i3's 2019 drilling campaign. The Company and RSRUK have since agreed the key commercial terms for both the construction and tie-in agreement ("CTIA") and the transportation, processing and operating services agreement ("TPOSA"), which will form the basis for the legally binding agreements supporting the Company's final Liberator Phase I Field Development Plan ("FDP") approval by the OGA. Additionally, on April 9th i3 executed a minimum 94-day drilling contract with Dolphin Drilling for the use of the Borglund Dolphin semi-submersible rig, which is expected to spud the first of three back-to-back wells in mid-summer.

Successful funding

During the year, i3's balance sheet was bolstered through the successful placements of £2.57 million and £1.62 million, before expenses, through the issue of new ordinary shares at a price of 30 pence and 1.05 pence per new ordinary share, respectively, and through the conversion of US\$2.5 million of previously issued convertible loan notes into equity at an average price of US\$0.48 per ordinary share. As at 31 December 2018, i3 carried an outstanding convertible loan notes balance of approximately £591,562 (redeemable at 135% of par or convertible at US\$0.54 per ordinary share at the election of the noteholder in advance of the 31 March 2019 maturity date). This deleveraging and addition of capital resources strengthened the Company's financial capacity as it positioned itself for the drilling and development of its assets.

Subsequent to the period, i3 successfully completed an equity placement to institutional investors, management and board (approximately £1.04 million), and current shareholders via open offer, totalling £17.15 million before expenses through the issue of new ordinary shares at a price of 37 pence. This equity raise, alongside i3's expected completion and drawdown of the £24 million Junior Facility announced on 25 February 2019, will provide adequate funding for i3 to conduct its planned 2019 drilling campaign, a successful

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outcome from which the Company believes will enable it to draw on a c.US\$100 million senior facility that i3 has been negotiating with a syndicate of UK-based senior lenders and off-takers. On 31 March 2019, i3 redeemed, with interest, all outstanding convertible loan notes as per their terms.

Financial review

During the year ended 31 December 2018, the Group incurred a net loss of £1,959,802 (31 December 2017 – net loss of £2,935,692). The majority of the loss resulted from the Group's expenses relating to day-to-day operations and stock option scheme expense. The Group reclaimed £553,658 of interest payable relating to CLNs that were converted to ordinary shares thereby eliminating the interest payable on the converted CLNs.

A total of £4,188,541 (before expenses) was raised during the year ended 31 December 2018 through a placing of 8,563,630 ordinary shares at 30 pence per share, representing a 0.4% premium to the 30-day average for the week ending 26 January 2018 and 1,542,336 ordinary shares at 1.05 pence per share. Proceeds of the placing were used towards pre-FDP engineering, purchase orders to secure trees and wellheads for the Liberator development, critical and project engineering resources required to update i3's technical work on the enlarged development area, survey of drilling locations and pipeline route locations and general corporate purposes.

Moving forward we will continue to tightly manage our existing cash resources, which stood at £598,039 at the end of December 2018, as we progress the funding, appraisal and development of the Companies oil and gas assets which, with success, the board and management believe have the potential to deliver significant shareholder value.

Development and Appraisal Financing Initiatives

i3's shares have continued to trade across a wide range (low of 22.35 pence – high of £1.28) during the course of 2018 and into 2019. Though frustrating for all shareholders, this volatility is representative of an early stage company that is de-risking the elements required to become a successful venture. Share price volatility may continue as we navigate the regulatory and commercial requirements of a UK North Sea operator, source critical contracts within a tightening market, configure funding arrangements to finance operations and appraise, develop and expand our asset base – the only way to genuinely secure long-term shareholder value.

Since its inception, the Company has consistently pursued all possible funding avenues including equity, debt and asset farmout. Given the very significant potential in the greater Liberator/Serenity area for a Company of our current market capitalization, we deem it more important to ensure that we are fully funded to create material value than to suffer further delays and resulting market sentiment from trying to over-optimize our funding configuration. In light of our planned 2019 summer drilling campaign and the catalysts that this will provide for i3 and its shareholders, we have been taking a competitive “first past the post” approach to our funding endeavours – meaning we would pursue without delay a financing proposal which is executable on an expedited basis, structured to deliver material shareholder value and that allows us to move our development plans forward.

Throughout much of 2018, it was our expectation that funding would come from numerous interested potential farminees who had approached i3 on an unsolicited basis, and the Company entered a 90-day exclusivity period with one of these in June. By September, it was apparent that this party would be unable to complete a transaction with i3 due to its own restructuring issues within the exclusivity period. This put downward pressure on i3's share price. In October, we engaged GMP FirstEnergy Capital LLP as our A&D advisor to formalize our farmout efforts. The speed at which potential JV partners are willing to work is limited by their own internal resource availabilities and therefore outside of i3's control. We've been guided by our advisors to allow all bona fide counterparties to complete their due diligence; an approach we remain in agreement with and, as such, this process is likely to remain live even as we enter our summer drilling operations.

Early in 2019, it became clear there was an opportunity to enter a £24 million junior loan notes facility with warrants that would, alongside a contribution of £16 million from the Company, allow us to undertake our planned 2019 drilling programme, the successful outcome from which is expected to unlock a US\$100 million senior loan facility that would see i3 fully-funded to first oil from Liberator Phase I in 2020 at targeted rates of approximately 20,000 barrels per day. On March 12th, i3 announced the successful placing of £16 million of new equity and expects to complete the drawdown of £22 million of Junior Facility funds to fund the Company's 2019 summer drilling programme. We look forward with great expectation to the summer 2019 drilling programme that has been enabled by these funding initiatives.

A strategic reshuffle of executive and board

In October 2018, we announced that Neill Carson, co-founder and CEO of i3, would transfer to a Non-executive role while Majid Shafiq, Non-executive Director since the Company's introduction to AIM, would succeed Neill as MD & CEO. In assessing the skillsets required to progress i3 through this next stage of its life cycle, all Board members believed this to be a sensible reassignment of roles and have been pleased with the progress to date.

i3's board and staff express their gratitude to Neill for his outstanding contribution to the start-up and growth of the Company.

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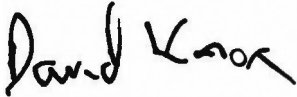
Looking Forward

We maintain our strong belief that there is substantial value to be created in the UK North Sea through the development of small and mid-sized fields which lie proximal to aging but well-maintained infrastructure. These satellite developments closely adhere to guidance provided by the OGA in regards to maximising economic recovery from the UK's resources and i3 continues to work closely with both the OGA and RSRUK to ensure that the development of Liberator Phase I aligns with these principles.

During 2018, i3 recognised substantial improvements to its oil and gas reserves and resources, balance sheet and ability to fund its operations. We have additionally made significant progress towards our goal of delivering material returns through the development and appraisal of a much-enlarged Liberator oil field and are now looking forward with anticipation to a company-making 2019, having executed a multi-well drilling rig contract and agreeing the key offtake terms for Liberator Phase I hydrocarbons. Though the development of Liberator and appraisal of Serenity are at present all-consuming, the Company continues to consider growth beyond our existing portfolio.

With deep respect and gratitude for their efforts, we would like to thank the Company's management team and staff. Their steadfast commitment to i3's intentions and aspirations during great periods of uncertainty reveals a deep commitment to all stakeholders. Holding a meaningful portion of the Company, i3's management remain tightly aligned to the interests of all i3 investors.

As always, we also thank our institutional investors, past noteholders, future lenders and those shareholders who support us in the open market. We expect the next 18 months to be truly transformational for both i3 and your investment in us.



David Knox
Non-Executive Chairman
30 May 2019



Majid Shafiq
Chief Executive Officer
30 May 2019

i3 Energy plc
Strategic Report
For the Year Ended 31 December 2018

STRATEGIC REPORT

Business Review and Strategy

2018 saw material growth in the reserves and resources of i3 alongside key operational, commercial and financial undertakings, with the following achievements enabling the Company to be well positioned for its 2019 drilling programme, Field Development Plan approval, and delivery of Liberator Phase I to first oil in 2020.

- Capture of Block 13/23c in the UK's 30th Offshore Licensing Round, encapsulating Liberator West and the Serenity prospect for which management carries in aggregate approximately 500 MMbbls of STOIP.
- Completion of host engineering studies to confirm the technical requirements and construction schedule for the introduction and processing of Liberator fluids.
- Sourcing of equipment and services for the Liberator drilling campaign, with long-lead items procured.
- Submission of key components of the Liberator Field Development Plan to the OGA, following peer review by their technical team.
- Negotiation of a multi-well rig contract at favourable rates during the lowest-risk seasonal drilling window.
- Progression of all potential funding avenues to secure adequate financing to address drilling, development and working capital requirements.

The Company's strategy is founded on:

- Pursuit of high-quality assets where asset life cycle status, incumbent owners' portfolio priorities or i3's technical understanding offer disproportionate opportunity.
- Purchase of producing or discovered resources where opportunities exist to extract and add value through technical excellence and optimal financing.
- Maximizing shareholder value during times of cyclical strength and market sentiment, whilst remaining equally strategic when large valuation gaps exist during periods of cyclical market weakness.
- Actively participating in production and development partnerships to optimise operations, mitigate delivery risk and enhance project value.

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 and which may offer significant value to shareholders if managed at the right investment level and across the right timescale. i3's acquisition of Liberator and its subsequent remapping of potentially material structural extensions to its west represents such an overlooked opportunity.

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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Admission to AIM provides access to equity capital markets and potential loan arrangements provide avenues for future funding requirements.• Discussions with industry partners ongoing.

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Key Risk	Mitigation
Access to UKCS third party infrastructure at appropriate cost	<ul style="list-style-type: none"> Experienced technical and commercial professionals. Working with OGA to ensure consistent application of MER and the Infrastructure Code of Practice (ICOP).
Commodity price volatility	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Integrated Management System (IMS) set up to ensure all regulatory and environmental and safety 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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.
Adverse taxation and legislative changes	<ul style="list-style-type: none"> Appropriate tax planning and support to industry bodies.
Staff retention and access to future skills	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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

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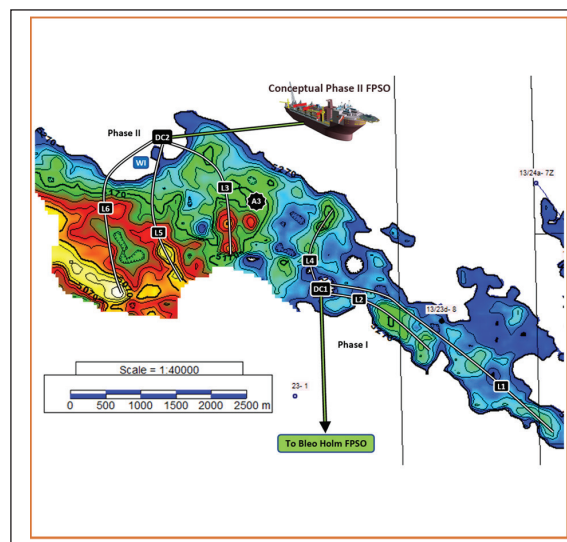
The risks set out above are not exhaustive and it is likely that the risks identified will evolve and that additional risks will arise in the future. Any of these risks could have a material adverse effect on the business.

Assets: 100% interest in Liberator and Serenity

Liberator Development & Appraisal

- 100% i3 operated interest in near term production and low risk appraisal
- World class Captain reservoir with fluid properties analogous to neighbouring prolific Blake field
- i3 estimates mid-case discovered contingent and prospective resources of 314 MMbbls STOIP, recoverable of 146 MMbbls
- Highly attractive project economics⁽¹⁾
 - Phase I NPV10: US\$602MM Pre-tax, US\$367MM Post-tax
 - Phase II NPV10: US\$2.5B Pre-tax, US\$1.5B Post-tax

⁽¹⁾ Liberator NPV's calculated using \$65/bbl Brent flat



Serenity Prospect

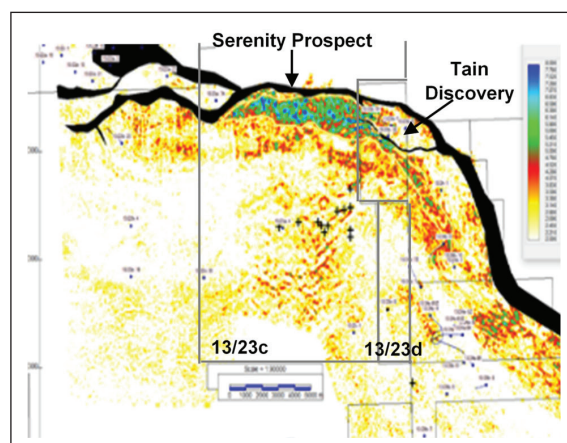
- Amplitude supported feature mapped as an extension of the Tain oil field
- Tain discovery encountered 32° API oil, subsequent appraised by three wells (well 13/23b-5z tested at 6,700 bopd)
- i3 estimates 197 MMbbls P50 STOIP based on conservative oil column thickness
- Summer 2019 drilling of an appraisal well provides exposure to low cost/high return exploration/appraisal upside

Putting all Building Blocks in Place to Target mid-2020 First Oil from Liberator Phase I

- Finalizing terms received from offtake providers for Liberator Phase I production
- Executed a contract on 9 April 2019 with Dolphin Drilling Limited (“Dolphin”) to utilize the Borgland Dolphin semi-submersible rig for a 94-day programme which is due to commence between 15 July and 15 August 2019

The drilling campaign is intended to:

- De-risk and partially convert hydrocarbon volumes mapped in the western extension of the Liberator structure to reserves, which i3 estimates to contain 314 MMbbls of STOIP
- Determine the placement of the second Liberator Phase I production well (either L4 or L1) planned to be concurrently brought on stream with the L2 production well in 2020 at potential combined rates of approximately 20,000 barrels of oil per day; and
- Confirm that the Serenity structure, which the Company estimates could contain 197 MMbbls of STOIP, is hydrocarbon bearing and that it is a material extension of the Tain discovery
- Secured the necessary wellheads and conductor pipe for mid-July delivery to align with the start of its field operations and spud of the A3 appraisal well
- Negotiating completion of junior debt facilities for £24MM to partially fund the 2019 drilling programme and structuring of c.US\$100MM of senior facilities to fund development of Liberator Phase I to first production
- Finalising Liberator Phase I concept selection process for FDP approval

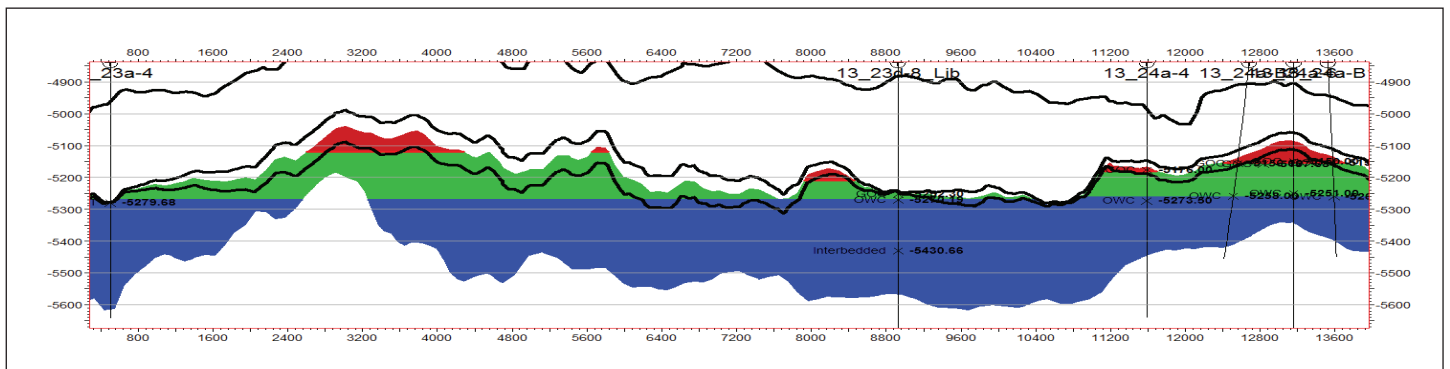


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Liberator Phase I Field Development Plan

- Phase I FDP revised to optimise well locations
- Offtake terms received from two infrastructure owners
 - Terms received from RSRUK (December 2018) for offtake via Bleo Holm; to be agreed Q2 2019
 - Agreed an MOU for an alternative standalone FPSO
- FDP approval and FID Q2 2019
- Rig contracted for summer 2019 drilling campaign using Borglund Dolphin semi-submersible rig for first development well (L2) and appraisal well (A3)
- Second development well and pipeline installation to be completed early 2020 with first oil expected mid 2020
- Phase I targets c.13 MMbbls 2P reserves and 8 MMbbls 2C contingent resources with planned initial flow rates of c.20,000 bopd with capex of c.US\$119MM to first oil (including A3 appraisal well)
- Horizontal wells completed with standalone sand screens, analogous to successful Blake field completions, with the addition of proven inflow control devices
- Well placement to be optimised via Logging While-Drilling (LWD) geo-steering technology
- Minimal modification required on Bleo Holm FPSO to accommodate Liberator production, with standalone FPSO also deliverable on i3's 2020 first oil timeline
- Contracts executed for Xmas trees and subsea wellheads

Liberator Cluster – Subsurface Overview



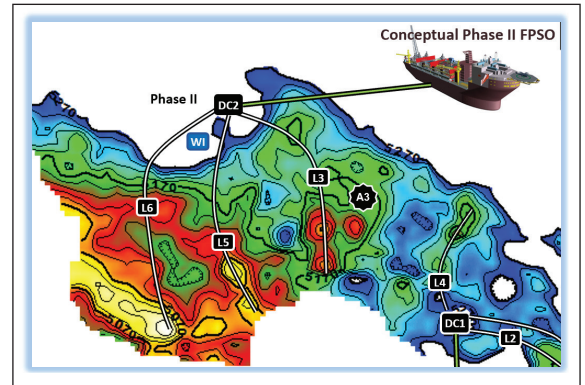
- Gross thickness in excess of 300ft
- Net to gross of ~98%
- Average porosity of 28% and permeability ranging from 1500 – 3300 mD
- Discovery well 13/23d-8 encountered a 24ft hydrocarbon column – sand thickness materially increases moving westward from discovery well through Phase I and into Phase II capture area
- Fluid properties indicate under-saturated oil of similar quality to Blake field; 30.3°API, 1.9 cP viscosity at reservoir conditions and a GOR of 341 scf/stb
- OWC at 5270ft TVDSS, confirmed by logs and MDT, consistent with Blake OWC and regional analogue data

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Phase II: Liberator West plus Serenity

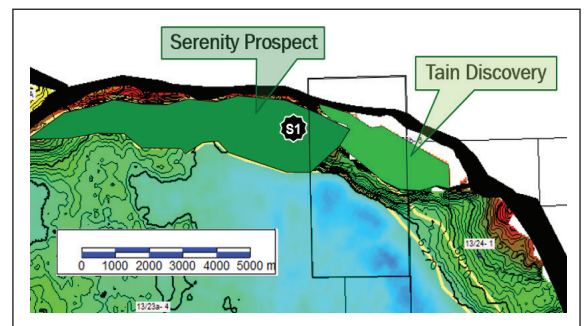
Liberator Phase II Appraisal and Development

- Regional analysis has identified a material extension of the Liberator accumulation to the North West
- AGR independently assessed 22 MMbbls 2C contingent resources and 47 MMbbls Mid-case prospective resources in late 2017
- A3 appraisal well intended to de-risk 42 MMbbls contingent resources and 90 MMbbls prospective resources in Liberator's Phase II extension
- Conceptual design for 4 wells (3 producers + 1 water injector) via a standalone FPSO produces multi-billion dollar NPV10 under highly compelling economic metrics
- Phase II can be organically funded from Phase I cash flow



Serenity Prospect

- Serenity is an amplitude supported anomaly that is interpreted as the westerly extension of the Tain Discovery (2005) into i3's 100% owned Block 13/23c
- The Tain field discovered 32° API oil in Coracle and Captain sands and was further appraised by three wells, flow-tested at 6,700 bopd
- Serenity S1 appraisal well to be drilled in summer 2019 at an estimated cost of c.US\$12MM
 - Provides exposure to low-cost, high-impact upside with tie-in potential to Liberator Phase II infrastructure
- i3 estimates STOIP of P50 197 MMbbls based on conservative assumptions regarding oil column thickness



AGR Tracs Competent Persons Report (Nov 2017)⁽¹⁾

Liberator Phase I – Strong 2P Reserves Base

- Phase I targets c.11 MMbbls 2P reserves based on two production wells from within Block 13/23d only
- Phase I pre-tax NPV10 of \$328mm with 211% IRR, post-tax NPV10 of \$200mm with 160% IRR

Liberator Phase II – Highly Strategic Resources

- The A3 appraisal well de-risks 22 MMbbls 2C contingent resources and 47 MMbbls Mid-case prospective resources
- Very high chance of commercial success for appraisal/exploration contingent and prospective resources of 70% and 56% respectively
- With the award of Block 13/23c (Phase II) to i3 in May 2018, the Phase I development was enlarged with an expected third well to recover approximately 7 MMbbls of AGR's "Phase II East" 2C contingent resources

i3 Energy plc
Strategic Report
For the Year Ended 31 December 2018

AGR Tracs Competent Persons Report (Nov 2017)⁽¹⁾

Phase I				Phase II East			Phase II West			Phase I and II Total		
Reserves				Contingent Resources			Prospective Resources			Reserves + Resources		
1P	2P	3P		1C	2C	3C	Low	Mid	High	Low	Mid	High
STOIIP	18	38	58	4	64	103	26	135	329	48	237	490
RF%	22%	28%	29%	20%	35%	50%	20%	35%	50%	21%	34%	48%
Recoverable (MMbbl)	4	11	17	1	22	52	5	47	165	10	80	234
				70% chance of commerciality ⁽²⁾			56% chance of commerciality ⁽²⁾					

1. Liberator Reserves from AGR Liberator CPR 2017-11-03, Phase II (Liberator West) Contingent Resources and Prospective Resources from AGR Liberator Phase II CPR 2017-11-08

2. Liberator Phase II (East) CoS: 70% chance of finding sufficiently large volume, Liberator Phase II (West) CoS: Geological CoS 56.25%

This Strategic report contains forward-looking statements and information that both represent i3 management's current expectations or beliefs concerning future events and are subject to known and unknown risks and uncertainties.

A number of factors could cause actual results, performance or events to differ materially from those expressed or implied by these forward-looking statements.

Unless otherwise stated, references to reserves, resources, production and economic figures are based on i3 management's un-risked Mid-case estimates. They are preliminary pre-drill figures and are subject to change. All plans are subject to i3 funding capacity.

Cash Resources

As at 31 December 2018, the Group had approximately £598,039 of cash in the bank. Management continues to remain lean and cost efficient while it continues to develop the Liberator Field. Subsequent to the year end the Company successfully completed an equity placement to institutional investors, management and board and current shareholders via an open offer, totalling £17.15 million before expenses through the issuance of new ordinary shares at a price of 37 pence. As at 22 May 2019, the Group had approximately £11,498,975 of cash in the bank.

Consolidated Statement of Comprehensive Income

During 2018, to facilitate its development of the Liberator asset, the Company incurred a loss of £1,959,802 comprised of day-to-day operating expenses and stock option scheme expense.

Financing

In early 2018, the Company raised approximately £2.57 million through a share issuance from which the proceeds were used towards project engineering and subsurface technical studies, purchase orders for trees and wellheads for the Liberator development and general corporate purposes. In July 2018, the Company raised a further £1.62 million through a share issuance from which the proceeds were used towards critical and project engineering, technical work required to update i3's enlarged development area, surveying of planned drilling locations and pipeline route locations and general corporate purposes.

Key Performance Indicators ("KPI's")

As an early stage company, the Board does not deem industry benchmarked KPIs an appropriate measure of performance. i3 is developing an appropriate list of KPIs to measure corporate and individual performance.

i3 Energy plc
Board of Directors
For the Year Ended 31 December 2018

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. 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 United Kingdom, Pakistan, United States, the Netherlands and Norway. He served as Director of Santos, the Santos Group Companies, and Santos Finance until December 2015. He was also Chair of the Australian Petroleum Production and Exploration Association (APPEA) 2011 to 2013. Mr. Knox is currently MD and CEO of Australian Naval Infrastructure (ANI). 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 member of the Commonwealth Science Council and deputy chair of the Economic Development Board of South Australia. He is a Fellow of the Australian Institute of Mechanical Engineering and also a Fellow of the Australian Academy of Sciences ATSE and a graduate of the Institute of Company Directors. He is currently a director of the Commonwealth Science and Industry Research Organisation (CSIRO), the Adelaide Festival and chair of The Australasian Centre for Social Innovation (TACSI). Mr. Knox has also been a director of Redflow Limited since March 2017, and a council member of Royal Institution Australia (RIAUS).

Majid Shafiq

Chief Executive Officer

Mr. Majid Shafiq has over thirty 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 over fifteen 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.

Mr. Shafiq served as a Non-executive Director of the Company until 8 October 2018 at which time he succeeded Mr. Carson as Chief Executive Officer of the Company.

Graham Heath

Chief Financial Officer

Prior to co-founding i3 in late 2014, Mr. Heath, BComm, 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.

i3 Energy plc
Board of Directors
For the Year Ended 31 December 2018

Neill Carson

Non-Executive Director

Mr. Carson, Bsc (Hons) Combined Geology & Physics, MSC Geophysics, has 32 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.

Mr. Carson served as Chief Executive Officer of the Company until 8 October 2018 at which time he was succeeded by Majid Shafiq. Mr. Carson continues to serve on the Board as a Non-Executive Director.

Richard Ames

Non-Executive Director

Mr Richard Ames, BS MS, brings to the Board 35 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.

i3 Energy plc
Directors' Report
For the Year Ended 31 December 2018

DIRECTORS' REPORT

The Directors are pleased to present this year's annual report together with the audited consolidated financial statements for the year ended 31 December 2018.

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 budgetary constraints and challenging market conditions in i3's sector, the Group continued to progress the appraisal and development of its asset base. The Business Developments during the year are highlighted in the Chairman and Chief Executive Officer's Statement.

Results and Dividends

The loss on ordinary activities of the Group after taxation amounted to £1,959,802 (2017 - £2,935,692). There were no dividends paid in 2018 (2017 – Nil).

Events after the reporting period

On 10 January 2019 the Company provided an operational and funding update and announced that it had entered into a letter of intent with Dolphin Drilling Limited for a three-well appraisal and development drilling programme to be conducted in the summer of 2019. The Company also announced that it had received indicative terms from RSRUK for Liberator's use of their leased Bleo Holm FPSO facility via Ross field infrastructure, and that the parties were working together to agree the terms for Liberator Phase I construction and tie-in, and transportation, processing and operating services agreements. These agreements are expected to be finalized alongside the 2019 field development plan approval by the UK Oil and Gas Authority ("OGA"). The Company also continued to progress its previously announced joint venture farmout process. It also continued negotiations with senior and junior lenders for the provision of loan facilities of between US\$100 and US\$130 million, of which up to 25% was expected to be available towards i3's planned 2019 drilling programme, with the balance drawable for the residual 2019/2020 Liberator Phase I production wells, subsea installation and field tie-in. The Company estimated its 2019 drilling campaign to cost c.US\$41 million with additional capex to 2020 first oil of c.US\$90 million, inclusive of considerable contingency.

On 25 February 2019 the Company announced that it had entered into a term sheet which sets out the terms and conditions of a £24mm junior secured loan note facility with warrants. A European Investment Manager with assets under management in excess of £1 billion agreed to subscribe for £12 million of the Loan Notes and, based on offers received, the remainder of the Loan Notes were expected to be issued to one or more syndicate members and/or offtake providers who are also potential lenders in i3's senior debt facility which was under negotiation to provide US\$100 million towards the Company's Liberator oil development.

On 12 March 2019 the Company announced its intention to issue new ordinary shares of £0.0001 each in the Company via an accelerated bookbuild ("Bookbuild") to raise in aggregate gross proceeds of not less than £16 million ("Placing") at a price of 37 pence per share ("Placing Price"). It was intended that the aggregate net proceeds of the Placing and the anticipated £24 million junior secured loan note facility with warrants, announced on 25 February 2019, would fund i3's planned 2019 multi-well appraisal and development drilling programme at its 100% owned and operated Liberator oil field and Serenity prospect and its near-term working capital requirements. The programme was expected to commence as early as June 2019 and was targeting STOIPs of 314 and 197 million barrels at the Liberator field and Serenity prospect respectively.

On 12 March 2019 the Company announced that further to the Placing Announcement earlier in the day, the Bookbuild had been successful and was closed. The Company had successfully placed 43,243,243 Ordinary Shares at an Issue Price of 37 pence per share, raising gross proceeds of £16 million.

On 19 March 2019 the Company announced that it had posted a circular to shareholders regarding an Open Offer to raise up to £2 million of additional funds for the Company, as announced 12 March 2019.

On 22 March 2019 the Company announced that it had contracted Gardline Limited to conduct a site survey for its 2019 and 2020 drilling program plus the pipeline route for its Liberator Phase I development. The Company also announced that all outstanding convertible loan notes totalling approximately £433,153 in principal would be repaid with interest in accordance with the terms on the maturity date of 31 March 2019. In addition, the Company announced that i3's management and Board, in addition to the previously announced purchase of 678,645 shares by i3's Directors in the Placing announced 12 March 2019, would be purchasing a further 2,131,538 ordinary shares in the Company at a price of 37 pence, totalling £788,669, alongside the Open Offer and conditional upon the completion of the Placing. The Company further announced that it had issued a total of 5,920,000 share options, granted conditionally upon the completion of the Placing as announced on 12 March 2019, to Directors and key management in accordance with the rules of

i3 Energy plc
Directors' Report
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the Company's Share Option Plan. The issue of Options to Directors is a related party transaction for the purposes of Rule 13 of the AIM Rules for Companies.

On 4 April 2019 the Company announced that the Open Offer to shareholders as announced on 19 March 2019 had closed for acceptances in accordance with its terms. The Company had received valid applications in respect of a total of 983,059 new ordinary shares in the Company. The aggregate amount raised pursuant to the Open Offer was approximately £363,732.

On 9 April 2019 the Company announced that it had executed a contract with Dolphin Drilling Limited ("Dolphin") to utilize the Borgland Dolphin semi-submersible drilling rig for a 94-day programme which is due to commence between 15 July and 15 August 2019. The drilling commencement window was agreed by the Company and Dolphin to ensure the availability of necessary equipment and to provide adequate preparation time to crew and mobilise the rig from its current mooring location in Norway. In addition to contracting the Borgland Dolphin, i3 secured the necessary wellheads and conductor pipe for mid-July delivery to align with the start of its field operations and spud of the A3 appraisal well. The Company also provided an update on its site survey operation which was conducted using the Gardline vessel 'Ocean Observer' at the Company's drilling locations and along the potential pipeline route from Liberator to the intended host facility. The operations were completed and were conducted without incident. Sufficient data had been acquired to allow the Company to proceed with permitting of the 2019 drilling programme and with engineering design for the Liberator Phase I development works.

On 30 May 2019 the Company announced that it had entered into binding terms with funds managed by Lombard Odier Asset Management (Europe) Limited for a £3mm participation in the junior loan note facility, the proposed terms of which were announced by the Company on 25 February 2019, (the "Junior Facility" or "Loan Notes"), a £2mm placing of new ordinary shares priced at 37 pence per share and associated warrants to subscribe for new ordinary shares (collectively the "Lombard Odier Investment"). The closing of the Lombard Odier Investment was conditional, inter alia, on the closing of the Junior Facility. In light of Lombard Odier's further £2mm equity investment, it was intended that the Junior Facility be downsized from the £24mm previously indicated to £22mm, and the closing of that facility will be the subject of a further announcement.

Board of Directors

The Board of Directors at the year-end included two Executive-Directors and three Non-Executive Directors. The Directors are of the opinion that the recommendations of the QCA code have been implemented to an appropriate level. The Board, through the Executive Chairman and Non-Executive Directors, maintain regular contact with its advisors and public relations consultants in order to ensure that the Board develops an understanding of the views of major shareholders of the Company.

The Board meets regularly throughout the year, for both committee Board meetings and full operational Board meetings. During the year to 31 December 2018 the Board met for a total of eight meetings and passed resolutions in writing on four occasions. The Board is responsible for formulating, reviewing and approving the Group's strategy, financial activities and operating performance.

Day-to-day management is devolved to the Chief Executive Officer of the Company, who is charged with consulting with the Board on all significant financial and operational matters. Consequently, decisions are made promptly and following consultation among directors concerned where necessary and appropriate.

All 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 Company's expense, as and when required.

Board Meetings:

	Eligible to Attend	Attended
David Knox	8	8
Graham Heath	8	8
Majid Shafiq	8	8
Neill Carson	8	8
Richard Ames	8	8

Committees

Audit Committee

The Audit Committee comprises of David Knox (Non-Executive Chairman) and Neill Carson (Non-Executive Director). The committee met for a total of two meetings during the calendar year.

All Directors received a copy of the respective audit committee reports prior to these meetings and had an opportunity to comment. The meeting for the audited financial statements was attended by the auditor. The Chief Financial Officer and a representative of the external auditor are normally invited to attend meetings. Other directors or staff may be invited to attend, as considered beneficial by the committee.

i3 Energy plc
Directors' Report
For the Year Ended 31 December 2018

The Audit Committee's primary responsibilities are to review the effectiveness of the Company's systems of internal control, to review with the external auditor the nature and scope of their audit and the results of the audit, and to evaluate and select external auditors.

Corporate Governance Committee

The Corporate Governance Committee comprises of David Knox (Executive Chairman) and Neill Carson. The committee met for a total of two meetings during the calendar year.

The committee's primary purpose is to develop and recommend to the Board guidelines, policies and procedures relating to corporate governance, identify individuals qualified to become Board members and recommend to the Board director nominees for election to the Board when it is determined it is suitable and/or necessary to add to the Board, evaluate the performance and effectiveness of the Board and committees of the Board.

Reserves Committee

The Reserves Committee comprises of Richard Ames (Non-Executive Director) and Neill Carson (Non-Executive Director). The committee met for a total of two meetings during the calendar year.

The Reserve Committee assists the Board in monitoring and reviewing the appointment of the independent engineering firm retained by the Company to report on the quantity and the value of the Company's oil and gas reserves. The Reserve 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 of the Company's reserves.

Remuneration Committee

The Remuneration Committee comprise of R Ames (Non-Executive Director) and D Knox (Non-Executive Director). The committee met for a total of two meetings during the calendar year.

The Group's policy is to remunerate senior executives fairly in such a manner as to facilitate the recruitment, retention and motivation of staff. The Remuneration Committee agrees with the Board a framework for the remuneration of the Chairman, the Executive Directors and the senior management group.

Directors

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

Director	Date of Appointment
<i>Executive Directors</i>	
Majid Shafiq	18 July 2017
Graham Heath	30 March 2017
<i>Non-Executive Directors</i>	
David Knox	18 July 2017
Neill Carson	30 March 2017
Richard Ames	18 July 2017

Mr. Carson served as Chief Executive Officer of the Company until 8 October 2018 at which time he was succeeded by Majid Shafiq. Mr. Carson continues to serve on the Board as a Non-Executive Director.

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.

i3 Energy plc
Directors' Report
For the Year Ended 31 December 2018

Directors' Interests

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

Director	2018 Shares	2017 Shares	2018 Options	2017 Options
David Knox	138,871	138,871	311,318	311,318
Neill Carson	6,500,000	6,500,000	411,318	311,318
Graham Heath	6,500,000	6,500,000	490,527	311,318
Majid Shafiq	Nil	Nil	1,311,318	311,318
Richard Ames	Nil	Nil	411,318	311,318

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 2018, 41,017,438 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 22 May 2019, 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:

Aurora Nominees Limited 2234100 Acct	10.05%
Graham Andrew Heath	7.80%
Neill Ashley Carson	7.68%
The Bank of New York (Nominees) Limited Ukreits Acct	5.60%
Hargreaves Lansdown (Nominees) Limited 15942 Acct	5.10%
Lynchwood Nominees Limited 2006420 Acct	4.16%
Jim Nominees Limited Jarvis Acct	3.95%
The Bank of New York (Nominees) Limited	3.45%
Goldman Sachs Securities (Nominees) Limited	3.17%

Save for Messrs Carson and Heath, this does not include the shareholdings of the Directors which are disclosed separately. As at 22 May 2019 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.

Corporate Governance

A statement of Corporate Governance is set out on pages 21 to 25. To the extent applicable the Group has adopted the Quoted Companies Alliance Corporate Governance Code. Details of how the Group complies with the Code, and the reasons for any non-compliance, are set out on page 21 to 24, together with the principles contained within the code.

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

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

i3 Energy plc
Directors' Report
For the Year Ended 31 December 2018

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 shareholder's 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

i3 Energy plc
Directors' Report
For the Year Ended 31 December 2018

- 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 in operational existence 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.

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 16 regarding the Group's website.

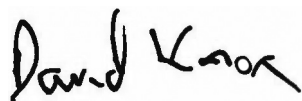
Independent Auditors

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 27 June 2019 as stated in the Notice of Meeting.

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



David Knox
Non-Executive Chairman
30 May 2019

i3 Energy plc
Corporate Governance Report
For the Year Ended 31 December 2018

CORPORATE GOVERNANCE STATEMENT

The Board of i3 Energy plc (the “Company”) has adopted the QCA Corporate Governance Code (“the Code”) as its code of corporate governance. The Code is published by the Quoted Companies Alliance (“QCA”) and is available at www.theqca.com.

The Code sets out 10 principles that should be applied. These are listed below together with a short explanation of how the Board applies each of the principles, including where applicable any deviation from those principles:

Principle One

Business Model and Strategy

The Board has concluded that the highest medium and long-term value can be delivered to its shareholders by the continued application of its strategy of continuing to advance the development of its Liberator Development in the North Sea. This can be summarised as follows:

- Finalizing terms received from offtake providers for Liberator Phase 1 production;
- Operational preparations for the summer 2019 three-well drilling campaign;
- Negotiating senior and junior debt facilities c.US\$100 to \$130MM;
- Finalizing Liberator Phase 1 concept selection process for FDP approval.

Principle Two

Understanding Shareholder Needs and Expectations

The Board is committed to maintaining good communication and having constructive dialogue with its shareholders. The Company has ongoing relationships with its retail shareholders. Institutional shareholders and analysts have the opportunity to discuss issues and provide feedback at meetings with the Company. In addition, all shareholders are encouraged to attend the Company’s Annual General Meeting. Investors also have access to current information on the Company through its website, www.i3.energy and via Camarco, the Company’s communications advisor, who is available to answer investor relations enquires.

Principle Three

Considering wider stakeholder and social responsibilities

The Board recognises that the long-term success of the Company, is reliant upon the efforts of the employees of the Company and its contractors, suppliers, regulators and other stakeholders. The Board has put in place a range of processes and systems to ensure that there is close oversight and contact with its key relationships. For example, the Executive Chairman conducts visits to the Company’s Aberdeen office and encourages a full and open dialogue process which is designed to ensure that there is an open and confidential dialogue with each person in the Company to help ensure successful two-way communication with agreement on goals, targets and aspirations of the employee and the Company. These feedback processes help to ensure that the Company can respond to new issues and opportunities that arise to further the success of employees and the Company. The Company has ongoing relationships with a broad range of its stakeholders and has regular and direct interaction with various levels of government and provides these stakeholders with the opportunity to raise issues and provide feedback to the Company.

Principle Four

Risk Management

In addition to its other roles and responsibilities, the Audit Committee is responsible to the Board for ensuring that procedures are in place and are being implemented effectively to identify, evaluate and manage the significant risks faced by the Company. The risk assessment matrix below sets out the principal risks and identifies their ownership and the controls that are in place to mitigate them. This matrix is updated as changes arise in the nature of risks or the controls that are implemented to mitigate them.

i3 Energy plc
Corporate Governance Report
For the Year Ended 31 December 2018

Activity	Risk	Impact	Control(s)
Management	Recruitment and retention of Key staff	Reduction in operating capacity	Stimulating and safe working environment Balancing salary with longer term incentive plans
Regulatory adherence	Breach of rules	Censure or withdrawal of authorisation	Strong compliance regime instilled at all levels of the Company
Health, Safety & Environmental	Risks to the health and safety of i3 staff and contractors Pollution and accidental discharges during offshore operations	Censure or withdrawal of authorisation, financial penalties and reputational damage	Health, safety and environmental policies and procedures complying with legislation and good industry practice for all anticipated operations are incorporated in i3's integrated management system
Financial	Liquidity, market and credit risk Inappropriate controls and accounting policies	Inability to continue as a going concern Incorrect reporting of assets / liabilities	Robust capital management policies and procedures

Note: A more detailed list of the Company's risks are listed on page 7, 8 and 19 of this Annual Report.

The Directors have established procedures, as represented by this statement, for the purpose of providing a system of internal control. An internal audit function is not considered necessary or practical due to the size of the Company. However, the Executive Chairman and the Board will continue to monitor the need for an internal audit function. The Board works closely with and has regular ongoing dialogue with the Chief Financial Officer of the Company and has established appropriate reporting and control mechanisms to ensure the effectiveness of its control systems.

Principle Five

A Well-Functioning Board of Directors

As at the date hereof the Board comprised of two Executive Directors, Mr. Majid Shafiq and Mr. Graham Heath, the Executive Chairman, Mr. David Knox and two Non-Executive Directors, Mr. Richard Ames and Mr. Neill Carson. The Executive Directors have direct responsibility for business operations, whilst the Chairman leads and chairs the board and, along with the Non-Executive Directors, has a responsibility to bring independent, objective judgement to bear on Board decisions. Biographical details of the current Directors are set out on the Company's website under the heading "About Us / Board & Executive". Executive and Non-Executive Directors are subject to re-election at each Annual General Meeting.

At the time of this report, the Non-Executive Chairman of the Board and the Non-Executive Directors held shares and options to acquire shares in the Company. The Board has considered, in conjunction with its advisors, whether these have any impact on their independence and have concluded 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.

The Board meets at least six times per annum. It has established an Audit Committee, a Corporate Governance Committee, a Reserves Committee and a Remuneration Committee, particulars of which appear hereafter. The Board has agreed that appointments to the Board are made by the Board as a whole, with recommendations from the Corporate Governance Committee, and therefore has not created a Nominations Committee. The Board considers the above appropriate given the Company's current stage of operations. It shall continue to monitor the need to match resources to its operational performance and the matter will be kept under review going forward. The Non-Executive Directors are considered to be independent. The Board notes that the QCA recommends a balance between executive and Non-Executive Directors and recommends that there be two independent Non-Executives. The Board shall review further appointments as scale and complexity grows.

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.

Attendance at Board and Committee Meetings

The Company shall report annually on the number of Board meetings held during the year and the attendance record of individual Directors. In order to be efficient, the Directors meet formally and informally both in person and by telephone.

i3 Energy plc
Corporate Governance Report
For the Year Ended 31 December 2018

Principle Six

Appropriate Skills and Experience of the Directors

The board currently consists of five Directors and, in addition, the Company has employed the outsourced services of Burness Paul to act as the Company Secretary. The Company believes that the current balance of skills in the Board as a whole, reflects a very broad range of commercial and professional skills across geographies and industries and each of the Directors has experience in public markets. The professional experience of each of the Directors is set out on the Company's website.

The Board recognises that it currently has limited diversity, and this will form a part of any future recruitment consideration if the Board concludes that replacement or additional directors are required.

The Board shall review annually the appropriateness and opportunity for continuing professional development whether formal or informal.

Principle Seven

Evaluation of Board Performance

Internal evaluation of the Board, the Committee and individual Directors is undertaken on an ad hoc basis in the form of appraisal by the Chairman, who consults with the other Directors as appropriate regarding effectiveness and performance as well as the Directors' continued independence.

The results and recommendations that come out of the appraisal of the Directors shall identify the key targets and requirements that are relevant to each Director and as necessary, their personal targets in terms of career development and training.

Principle Eight

Corporate Culture

The Board recognises that their decisions regarding strategy and risk will impact the corporate culture of the Company as a whole and that this will impact their performance of the Company. The Board is very aware that the tone and culture set by the Board will greatly impact all aspects of the Company as a whole and the way that employees perform. The corporate governance arrangements that the Board has adopted are designed to ensure that the Company delivers long-term value to its shareholders and that shareholders have the opportunity to express their views and expectations for the Company in a manner that encourages open dialogue with the Board. A large part of the Company's activities is centred upon what needs to be an open and respectful dialogue with employees, suppliers and other stakeholders. Therefore, the importance of sound ethical values and behaviours is crucial to the ability of the Company to successfully achieve its corporate objectives. The Board places great import on this aspect of corporate life and seeks to ensure that this flows through all that the Company does. The Directors consider that at present the Company has an open culture facilitating comprehensive dialogue and feedback and enabling positive and constructive challenge. The Company has adopted a code for directors' and employees' dealings in securities which is appropriate for a company whose securities are traded on AIM and in accordance with the requirements of the Market Abuse Regulation which came into effect in 2016.

Principle Nine

Maintenance of Governance Structures and Processes

Ultimate authority for all aspects of the Company's activities rests with the Board. The Executive Directors have day-to-day responsibility for the operational management of the Company's activities. The Non-Executive Directors are responsible for bringing independent and objective judgment to the Board decisions. There is clear separation of the roles of the Chief Executive Officer and Non-Executive Chairman. The Chairman is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board's decision-making and ensuring the Non-Executive Directors are properly briefed on matters.

The Chairman has overall responsibility for corporate governance matters in the Company and chairs the Corporate Governance Committee.

The Board receives monthly reports regarding the principal areas of activity of the Company and has unrestricted access to management and employees of the Company. The Board also has the authority to retain and terminate external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the respective reasonable compensation of these advisors without consulting or obtaining the approval of any officer of the Company. The Company shall provide appropriate funding, as determined by the Board, for the services of these advisors.

Furthermore, the Executive Chairman maintains close dialogue with other Directors, both through the forum of Board meetings and through ad hoc communication on an individual level.

i3 Energy plc
Corporate Governance Report
For the Year Ended 31 December 2018

Audit Committee

The Audit Committee will meet at a minimum of twice a year. As of the date of this document, the members of the Audit Committee of the Company are Mr. David Knox (Chairman) and Mr. Neill Carson. Each of the members of the Audit Committee are independent. Each of the members of the Audit Committee are familiar with accounting principles, financial statements and financial reporting requirements and possess experience that is relevant to the performance of their duties as members of the Audit Committee of the Company.

The Audit Committee's primary responsibilities, amongst other things, is the planning and reviewing of the annual report and interim statements and accounts and where appropriate, the external auditors. The Committee also approves external auditors' fees and ensures the auditors' independence as well as focusing on compliance with legal requirements and accounting standards. The Committee also approves external auditors' fees and ensures the auditors' independence as well as focusing on compliance with legal requirements and accounting standards. It is also responsible for ensuring that an effective system of internal controls is maintained. The ultimate responsibility for reviewing and approving the annual financial statements and interim statements remains with the Board.

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

Corporate Governance Committee

The Corporate Governance Committee meets as required, but at least once a year. Its members are Mr David Knox (Chair) and Mr. Neill Carson.

The Corporate Governance Committee's primary purpose is to develop and recommend to the Board guidelines, policies and procedure 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.

Reserves Committee

The Reserves Committee meets as required, but at least twice a year. Its members are Mr. Richard Ames (Chair) and Mr. Neill Carson. The Chief Executive Officer, the Chief Financial Officer and other Directors may also attend and speak at meetings of the reserves committee.

The Reserves Committee assists 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. 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 of the Company's reserves. See Strategic Report page 12 for i3 Energy's reserves / resources as detailed in the AGR Tracs Competent Persons Report (Nov 2017).

The Remuneration Committee

The Remuneration Committee meets at least twice a year. Its members are Mr. Richard Ames (Chair) and Mr. David Knox. The Chief Executive Officer, the Chief Financial Officer and other Directors may also attend and speak at meetings of the remuneration committee.

The Company's policy is to remunerate senior executives fairly in such a manner as to facilitate the recruitment, retention and motivation of staff. The Remuneration Committee agrees with the Board, a framework for the remuneration of the Chairman, the Executive Directors and the senior management of the Company.

The principal objective of the committee is to ensure that members of the executive management of the Company are provided incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. Non-Executive fees are considered and agreed by the Board as a whole.

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

Principle Ten

Shareholder Communication

The Board is committed to maintaining good communication and having constructive dialogue with its shareholders. The Company has ongoing relationships with its retail shareholders. Institutional shareholders and analysts have the opportunity to discuss issues and provide feedback at meetings with the Company. In addition, all shareholders are encouraged to attend the Company's Annual General Meeting.

Investors also have access to current information on the Company through its website, www.i3.energy and via Camarco, the Company's communication advisor, who is available to answer investor relations enquiries.

The Company shall include, when relevant, in its annual report, any matters of note arising from the audit or remuneration committees.

i3 Energy plc
Corporate Governance Report
For the Year Ended 31 December 2018

A strategic reshuffle of executive and board

In October 2018, we announced that Neill Carson, founder and CEO of i3, would transfer to a Non-Executive role while Majid Shafiq, Non-Executive Director since the Company's introduction to AIM, would succeed Neill as CEO. In assessing the skillsets required to progress i3 through this next stage of its life cycle, all Board members believed this to be a sensible reassignment of roles and have been pleased with the results to date.

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 from the Company's Nomad.

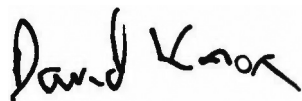
Relations with shareholders

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, enquiries from shareholders are encouraged and are to receive a timely response from either the Company or its representatives.

Details of the Group's activities can be found at the Company's website (www.i3.energy).

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
30 May 2019

i3 Energy plc
Independent Auditor's Report
For the Year Ended 31 December 2018

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 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of 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.

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 2018 and of the Group's and Parent Company's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our application of materiality

Group materiality 2018	Group materiality 2017	Basis for materiality
£165,000	£116,000	3% of net assets

Our calculation of materiality increased from the prior year due to the increase in gross assets in the period as a result of incurring additional expenses in relation to Exploration of the Group's assets. We consider gross assets to be the most significant determinant of the Group's financial position and performance used by stakeholders.

Materiality was set at £165k for the consolidated balances, based on the key balances in the financial statements such as the intangible assets. We applied the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We agreed with the audit committee that we would report to the committee all audit differences identified during our audit in excess of £8,250.

There were no misstatements identified during our audit that were individually, or in aggregate, considered to be material.

An overview of the scope of our audit

In 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 such as the inputs into the share based payment model. 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.

i3 Energy plc
Independent Auditor's Report
For the Year Ended 31 December 2018

The Liberator asset, held through the Group's only subsidiary undertaking, represented the principal business unit in the Group. We therefore tailored the scope of our audit to focus our testing on this balance.

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 and evaluation assets	How the scope of our audit responded to the key audit matter
<p>The carrying value of intangible assets reported as at 31 December 2018 was £5.71m. As shown in Note 12, this balance comprises of exploration and development expenditure on the Liberator asset. There is a risk that the carrying value of this asset is impaired and that exploration and evaluation costs capitalised during the year are not in accordance with IFRS 6.</p> <p>.</p>	<p>We performed an impairment review of the carrying value of the exploration and evaluation assets and our work included:</p> <ul style="list-style-type: none"> • Reviewing and considering the impairment indicators in IFRS 6 in relation to the intangible asset held; • Obtaining support for the ownership of the asset; and • Reviewing management's basis for non-impairment and challenging the assumptions made therein. <p>We also undertook substantive testing on capitalised expenditure during the year to ensure it met the capitalization criteria of IFRS 6.</p>

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.

i3 Energy plc
Independent Auditor's Report
For the Year Ended 31 December 2018

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, 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.

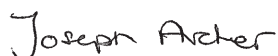
Auditor's responsibilities for the audit of the financial statements

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.

Use of our report

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.



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

30 May 2019

1 Westferry Circus
Canary Wharf
London E14 4HD

i3 Energy plc
Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2018

		Year Ended 31 December 2018	Year Ended 31 December 2017
	Notes	£	£
Administrative expenses	5	(2,369,529)	(1,576,713)
AIM listing expenses		-	(475,050)
Operating loss		(2,369,529)	(2,051,763)
Finance expense:			
Finance fees		(25,370)	(259,832)
Other – CLN interest expense (reclaimed)	7	553,658	531,562
Interest payable and similar costs	7	(118,561)	(1,155,659)
Total finance expense		409,727	(883,929)
Loss on ordinary activities before taxation attributable to owners of the parent		(1,959,802)	(2,935,692)
Tax charge for the year	8	-	-
Net loss for the year and total comprehensive income for the year attributable to owners of the parent		(1,959,802)	(2,935,692)
Earnings per ordinary share			
Basic and diluted	11	(0.05)	(0.25)

All operations are continuing.

The accompanying notes on pages 36 – 54 form part of these financial statements.

i3 Energy plc
Consolidated Statement of Financial Position
For the Year Ended 31 December 2018

	Notes	31 December 2018 £	31 December 2017 £
ASSETS			
Non-current assets			
Property, plant & equipment		12,937	19,187
Exploration and evaluation assets	12	5,706,646	3,879,859
Total non-current		5,719,583	3,899,046
Current assets			
Cash at bank and in hand		598,039	628,389
Trade and other receivables	14	159,068	151,641
Total current assets		757,107	780,030
Current liabilities			
Trade and other payables	15	(1,229,903)	(1,263,917)
Loan payable – related parties	17	-	(44,555)
Convertible loan notes payable	16	(591,562)	(2,995,914)
Total current liabilities		(1,821,465)	(4,304,386)
Net current liabilities		(1,064,358)	(3,524,356)
Total assets less current liabilities		4,655,225	374,690
Net liabilities		4,655,225	374,690
Capital and reserves			
Called up share capital – ordinary shares	18	4,102	2,569
Called up share capital – deferred shares	18	50,000	50,000
Share premium		9,215,598	3,517,417
Share-based payment reserve	19	685,853	145,230
Retained earnings		(5,300,328)	(3,340,526)
Shareholders' funds/(deficit)		4,655,225	374,690

The consolidated financial statements of i3 Energy plc, company number 10699593, were approved by the Board of Directors and authorized for issue on 30 May 2019.

Signed on behalf of the Board of Directors by:



Majid Shafiq
Director

The accompanying notes on pages 36 – 54 form part of these financial statements.

i3 Energy plc
Company Statement of Financial Position
For the Year Ended 31 December 2018

	Notes	31 December 2018 £	31 December 2017 £
ASSETS			
Non-current assets			
Investment in subsidiary	13	145,700	145,700
Loans to subsidiary company	20	8,035,890	5,116,038
Total non-current		8,181,590	5,261,738
Current assets			
Cash at bank and in hand		500,838	-
Other receivables		6,062	-
Total current assets		506,900	-
Current liabilities			
Trade and other payables	15	(265,684)	(67,493)
Convertible loan notes payable	16	(591,562)	(2,682,610)
Total current liabilities		(857,246)	(2,750,103)
Net current liabilities		(350,346)	(2,750,103)
Total assets less current liabilities		7,831,244	2,511,635
Net liabilities		7,831,244	2,511,635
Capital and reserves			
Called up share capital	18	4,102	2,569
Share premium		9,215,598	3,517,417
Deferred shares	18	50,000	50,000
Share-based payment reserve	19	682,397	141,774
Retained earnings		(2,120,853)	(1,200,125)
Shareholders' funds/(deficit)		7,831,244	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 £920,728 (2017 – £1,200,125).

Signed on behalf of the Board of Directors by:



Majid Shafiq
Director

30 May 2019

The accompanying notes on pages 36 – 54 form part of these financial statements.

i3 Energy plc
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2018

		Called up share capital	Share premium	Deferred shares	Share-based payment reserve	Retained earnings	Total
	Notes	£	£	£	£	£	£
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)
Transactions with owners:							
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		<u>2,569</u>	<u>3,517,417</u>	<u>50,000</u>	<u>145,230</u>	<u>(3,340,526)</u>	<u>374,690</u>
Balance at 31 December 2017		2,569	3,517,417	50,000	145,230	(3,340,526)	374,690
Loss for the year and total comprehensive income		-	-	-	-	(1,959,802)	(1,959,802)
Transactions with owners:							
Issue of share capital	18	1,533	5,698,181	-	-	-	5,699,714
Share-based payment expense	19	-	-	-	540,623	-	540,623
Balance at 31 December 2018		<u>4,102</u>	<u>9,215,598</u>	<u>50,000</u>	<u>685,853</u>	<u>(5,300,328)</u>	<u>4,655,225</u>

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
Ordinary shares	Represents the nominal value of shares issued
Share premium account	Amount subscribed for share capital in excess of nominal value
Deferred shares	Represents the nominal value of shares issued, the shares have full capital distribution (including on wind up) rights and do not confer any voting or dividend rights, or any of redemption.
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

Note: The issued share capital comprises of both ordinary and deferred shares and the consolidate nominal value exceeds the required minimum issued capital of £50,000.

The accompanying notes on pages 36 – 54 form part of these financial statements.

i3 Energy plc
Company Statement of Changes in Equity
For the Year Ended 31 December 2018

	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
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2017		2,569	3,517,417	50,000	141,774	(1,200,125)	2,511,635
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2017		2,569	3,517,417	50,000	141,774	(1,200,125)	2,511,635
Loss for the year and total comprehensive income		-	-	-	-	(920,728)	(920,728)
Issue of share capital	18	1,533	5,698,181	-	-	-	5,699,714
Share-based payment expense	19	-	-	-	540,623	-	540,623
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018		4,102	9,215,598	50,000	682,397	(2,120,853)	7,831,244
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The accompanying notes on pages 36 – 54 form part of these financial statements.

i3 Energy plc
Consolidated Statement of Cash Flow
For the Year Ended 31 December 2018

		Year ended 31 December 2018	Year ended 31 December 2017
	Notes	£	£
OPERATING ACTIVITIES			
Loss for the year		(1,959,802)	(2,935,692)
Adjustments for:			
Unrealized FX (Gain) / Loss		(10,161)	(234,557)
Share-based payment expense	19	540,623	141,366
Depletion, depreciation and amortization		7,528	4,894
Operating cash flows before movements in working capital:			
(Increase) in receivables / prepaid expenses		(7,427)	(141,192)
(Decrease) / Increase in current liabilities		(91,187)	877,635
Net cash used in operating activities		(1,520,426)	(2,287,546)
INVESTING ACTIVITIES			
Property, plant & equipment		(1,278)	(24,081)
Expenditure on exploration and evaluation assets		(2,220,304)	(1,309,203)
Net cash used in investing activities		(2,221,582)	(1,333,284)
FINANCING ACTIVITIES			
Proceeds on issue of ordinary shares	18	3,866,133	94,999
Proceeds on issue of deferred shares	18	-	50,000
Repayment loan notes	16	(112,782)	4,210,041
Outflow from employee loans	17	(44,555)	44,555
Net cash from financing activities		3,708,796	4,399,595
Effect of exchange rate changes on cash		2,862	(169,281)
Net (decrease)/increase in cash and cash equivalents		(30,350)	609,484
Cash and cash equivalents, beginning of year		628,389	18,905
CASH AND CASH EQUIVALENTS, END OF YEAR		598,039	628,389

Net debt reconciliation is shown on page 48.

The accompanying notes on pages 36 – 54 are an integral part of these financial statements.

i3 Energy plc
Company Statement of Cash Flow
For the Year Ended 31 December 2018

		Year ended 31 December 2018	Year ended 31 December 2017
	Notes	£	£
OPERATING ACTIVITIES			
Loss for the year		(920,728)	(1,200,125)
Adjustments for:			
Unrealized FX (Gain) / Loss		-	(170,306)
Share-based payment expense	19	540,623	141,774
Operating cash flows before movements in working capital:			
(Increase) in prepaid expenses		(6,062)	-
Increase in current liabilities		60,802	385,990
		<hr/>	<hr/>
Net cash used in operating activities		(325,365)	(842,667)
		<hr/>	<hr/>
INVESTING ACTIVITIES			
Investment in subsidiary		-	(145,700)
Loans to subsidiary company		(2,919,850)	(5,116,038)
		<hr/>	<hr/>
Net cash used in investing activities		(2,919,850)	(5,261,738)
		<hr/>	<hr/>
FINANCING ACTIVITIES			
Proceeds on issue of ordinary shares	18	3,866,133	3,519,986
Proceeds on issue of deferred shares	18	-	50,000
Repayment loan notes	16	(112,782)	2,534,419
		<hr/>	<hr/>
Net cash from financing activities		3,753,351	6,104,405
		<hr/>	<hr/>
Effect of exchange rate changes on cash		(7,298)	-
Net increase in cash and cash equivalents		500,838	-
		<hr/>	<hr/>
Cash and cash equivalents, beginning of year		-	-
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, END OF YEAR		500,838	-
		<hr/> <hr/>	<hr/> <hr/>

The accompanying notes on pages 36 – 54 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 subsidiaries (together, “the Group”) principal activities 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.

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 North Sea Energy 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.

IFRS 9 ‘Financial Instruments’

Effective 1 January 2018, i3 Energy has applied IFRS 9 which is effective for annual periods that begins on or after 1 January 2018. The standard replaces all phases of the financial instruments project and IAS 39 ‘Financial Instruments: Recognition and Measurement’. The standard 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 has not had any significant impact on recognition and measurement of financial instruments in the Group’s consolidated financial statements for 2018. Comparative figures are not restated as the effect is immaterial.

IFRS 15 ‘Revenue from Contracts with Customers’

Effective 1 January 2018, i3 Energy has applied IFRS 15 Revenue from Contracts with Customers. 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 has had no impact in the financial statements.

1 Summary of significant accounting policies - continued**IASB New and Revised Standards**

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 2018 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
Amendments to IAS 19 Employee Benefits	01-Jan-19
Amendment to IFRS 3 Business Combinations and IFRS 11 Joint Operations	01-Jan-19
Amendment to IFRS 9 Financial Instruments	01-Jan-19
Amendment to IAS 12 Income Taxes	01-Jan-19
Amendment to IAS 23 Borrowing Costs	01-Jan-19
New standard IFRS 17 Insurance	01-Jan-20
Amendment in IFRS 3 Business Combinations	01-Jan-20
Amendments to IAS 1 and IAS 8	01-Jan-20

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 2018.

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 Board successfully raised approximately £17.15 million, prior to expenses, subsequent to the year end as discussed in note 24 to the financial statements. The net proceeds of the placing, in addition to the debt facility, which the Company expects to have in place prior to commencement of its 2019 summer drilling programme, will be used for asset development and working capital requirements in advance of the Company's anticipated 2020 first oil date.

Based on the Board's assessment that the cash flow budgets can be achieved, the Directors have a reasonable expectation that the Group and the Company has access to adequate resources to continue in operational 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 2018.

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 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 2018, the Group held oil and gas exploration and evaluation assets of £5.71m (2017: £3.88m). Management assesses whether there are indicators of impairment in accordance with the accounting policies.

These estimates and assumptions are subject to risk and uncertainty and therefore a possibility that changes in circumstances will impact the assessment of impairment indicators.

Fair value measurements and valuation processes

Some of the Company's assets and liabilities are measured at fair value for financial reporting purposes, see Note 21. 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.

i3 Energy plc

Notes forming part of the financial statements for the Year Ended 31 December 2018

5 Administrative expenses

	2018	2017
	£	£
Directors' fees accrued	156,210	64,810
Wages and salaries	919,746	800,123
Travel and subsistence expenses	135,205	106,752
Professional fees – legal, consulting, exploration	132,699	398,928
Auditor's remuneration – audit	22,625	45,000
Exploration expenditures	12,037	19,868
Stock-based compensation expense	540,623	141,366
Insurance expense	44,451	41,542
Office, marketing and nomad expense	308,877	108,106
Corporate Communications expense	73,867	53,853
Other expenses	15,032	37,645
Realised FX (gain) / loss	5,295	(6,723)
Unrealised FX (gain) / loss	2,862	(234,557)
Total operating expenses	2,369,529	1,576,713

5 (a) Auditor remuneration

During the year, the Group obtained the following services from the Company's auditor:

	2018	2017
	£	£
Fees payable to the Company's auditor and its associates for the audit of the Parent Company and consolidated financial statements	22,625	45,000
	22,625	45,000

6 Employee information

	2018	2017
	£	£
Group staff Costs comprised:		
Wages, salaries and benefits	1,460,119	1,289,380
Share-based payments expense	540,623	141,366
Less: capitalised exploration expenditure	(540,373)	(489,257)
Charge to the profit or loss	1,460,368	941,489

i3 Energy plc had no staff during the year ended 31 December 2018 (2017 - Nil) and therefore no payments were made.

The average number of persons employed by i3 Energy North Sea Limited, including Executive Directors, was:

	2018	2017
	Number	Number
Average number of persons employed		
Operations	7	7
Administration	3	3
	10	10

i3 Energy plc

Notes forming part of the financial statements for the Year Ended 31 December 2018

7 Interest payable and similar costs

	Year ended 31 December 2018	Year ended 31 December 2017
	£	£
Commission payable on loan notes	(25,370)	(259,832)
Other – CLNs interest expense – reclaim after conversion of CLNs	553,658	531,562
Interest payable on loan notes	(118,561)	(1,155,659)
Total interest payable and similar costs	409,727	(883,929)

8 Taxation

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.

	2018	2017
	£	£
Loss before income tax	(1,959,802)	(2,935,692)
Rate of Corporate Tax	40%	40%
Expected tax recovery	(783,921)	(1,174,277)
Interest and other not deductible for SCT	(23,816)	-
Effects of:		
Permanent differences	315,984	68,410
Non-taxable income/Non-deductible expenses for tax purposes	-	56,710
Derecognition of deferred tax asset	492,926	1,049,157
Other	(1,173)	-
Total income tax expense	-	-

As at 31 Dec 2018 the Company had taxable losses of £7,657,088 (31 Dec 2017 – £4,687,175) 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.

A deferred tax asset has 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 2018 (31 Dec 2017 – Nil).

9 Dividends

No dividends were proposed. (2017 – Nil).

i3 Energy plc

Notes forming part of the financial statements for the Year Ended 31 December 2018

10 Directors' remuneration

	Salary / Fees £	Bonus £	Share based payments £	Total £
2018				
Executive Directors				
Neill Carson	311,989	-	-	311,989
Majid Shafiq	57,796	-	185,333	243,129
Graham Heath	135,000	-	33,213	168,213
Non-Executive Directors				
David Knox	60,000	-	-	60,000
Majid Shafiq	34,644	-	-	34,644
Neill Carson	10,356	-	18,533	28,889
Richard Ames	45,000	-	18,533	63,533
	654,785	-	255,612	910,397
2017				
Executive Directors				
Neill Carson	161,666	35,750	42,962	240,378
Graham Heath	95,000	35,500	42,962	173,462
Non-Executive Directors				
David Knox	25,924	-	42,962	68,886
Majid Shafiq	19,443	-	42,962	62,405
Richard Ames	19,443	-	42,962	62,405
	321,476	71,250	214,810	607,536

No pension benefits are provided for any Directors (2017 – Nil).

The total amount of Directors' fees to the Non-Executive Directors, in 2018, in the amount of £150,000 (2017 – £64,810) have been accrued. The accrued Non-Executive Directors' fees were paid in March 2019 with each of the Non-Executive Directors using their fees to participate in the Company's placing announced 12 March 2019.

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 2018 £	Year Ended 31 December 2017 £
Earnings		
Earnings for the purposes of basic earnings per share being net loss attributable to owners of i3 Energy (£)	1,959,802	2,935,692
Weighted average number of Ordinary Shares	37,800,091	11,731,570
Loss for the purposes of diluted earnings per share (£)	(0.05)	(0.25)

The 31 December 2018 and 31 December 2017 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 consider the impact of options, warrants and other dilutive securities. As the effect of potential dilutive Ordinary Shares would be anti-dilutive, they are not included in the above calculation of diluted earnings per Ordinary Share.

i3 Energy plc

Notes forming part of the financial statements for the Year Ended 31 December 2018

12 Exploration and evaluation assets (Intangible)

	Exploration and evaluation assets	Total
	£	£
As at 31 December 2016	-	1,725,772
Additions	2,154,087	2,154,087
As at 31 December 2017	3,879,859	3,879,859
Additions	1,826,787	1,826,787
As at 31 December 2018	5,706,646	5,706,646

13 Investment in subsidiaries

At 31 December 2018 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 31 December 2016	-	-
Investment on acquisition of i3 North Sea Limited (see note 1)	145,700	145,700
As at 31 December 2017	145,700	145,700
Additional	-	-
As at 31 December 2018	145,700	145,700

The investment relates to the acquisition of i3 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 2018	As at 31 December 2017	Parent Company As at 31 December 2018	Parent Company As at 31 December 2017
	£	£	£	£
VAT receivable	148,862	114,057	-	-
Prepayments & other receivables	10,206	37,584	6,062	-
Total trade and other receivables	159,068	151,641	6,062	-

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.

i3 Energy plc

Notes forming part of the financial statements for the Year Ended 31 December 2018

15 Trade and other payables

	As at 31 December 2018 £	As at 31 December 2017 £	Parent Company As at 31 December 2018 £	Parent Company As at 31 December 2017 £
Trade creditors	350,698	750,458	-	-
Accruals	682,270	513,459	265,684	67,493
Provision – Payment in Lieu (Leavers)	196,935	-	-	-
Total trade and other payables falling due within one year	1,229,903	1,263,917	265,684	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
Issuance of convertible loan notes	-
CLNs Converted	(1,833,580)
CLNs Redeemed	(83,542)
CLN Interest Paid on Redemption	(29,240)
Interest charged	(450,692)
Foreign exchange	(7,298)
Liability component at 31 December 2018	591,562

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 elected to designate the entire hybrid loan notes as fair value with subsequent changes in value flowing through profit and loss.

16 Convertible loan notes - continued

The interest expensed for the year ended 31 December 2017 was 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 represented 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.

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 were 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.

16 Convertible loan notes - continued

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.

On 27 February 2018 the Company amended the provisions of its loan note instrument dated 17 July 2017, pursuant to which US\$2,500,000 loan notes (the “Loan Notes”) were issued by the Company to an existing investor (the “Noteholder”). The Loan Notes were previously automatically convertible into new Ordinary Shares if the Company raised at least US\$20million of new equity post-Admission (a “Relevant Fundraising”). The conversion price in the event of a Relevant Fundraising was the lower of: (i) 75% of the subscription price paid per Ordinary Share pursuant to the Relevant Fundraising; or (ii) 54 cents per Ordinary Share (approximately 39 pence at the current exchange rate).

The amended loan note instrument superseded the existing loan note instrument. The principal amendments are as follows:

- Previously, the Company had agreed not to: (i) incur any borrowings exceeding US\$4,950,000; or (ii) create, or permit to subsist, any security without the consent of the Noteholder. The former of these was removed in the amended loan note instrument, and the latter was amended such that “security” for the purposes of the undertaking shall not include any security granted for the purpose of securing any obligation of the Company in relation to any financing or borrowing provided to the Company to fund the development of its oil and gas assets. These amendments and relaxation of these provisions provided the Company with greater flexibility to negotiate terms for the potential joint venture and other financing arrangements that were currently under discussion with third parties.
- Where an equity fundraising by the Company raised less than US\$20million of new money, the Noteholder was entitled to convert a pro-rata proportion of the Loan Notes (such that, for the avoidance of doubt, if a fundraising raises US\$15 million, the Noteholder would be entitled to convert 75% of the Loan Notes) at a conversion price per Ordinary Share equal to 75% of the subscription price per Ordinary Share pursuant to such fundraising.
- In the event that the Company services notice on the Noteholder of its intention to redeem the amended Loan Notes in cash, the Noteholders had the right to elect for all of the Loan Notes to instead convert into Ordinary Shares at a conversion price per Ordinary Share equal to the volume weighted average price of the Ordinary Shares over the five business days immediately preceding the date on which the redemption notice is was served by the Company.
- The maturity date of the Loan Notes is 18 August 2018 (as per the previous terms).

On 24 August 2018, holders of the Company’s CLNs agreed to extend the term of the CLNs to 30 October 2018, thereby amending the majority date of the CLNs from 25 August 2018 to 31 October 2018.

On 31 October 2018, the holders of the Company’s CLNs agreed to a further extension to 31 March 2019, amending the majority date of the CLNs from 31 October 2018 to 31 March 2019.

On 22 March 2019, the Company announced that all outstanding convertible loan notes totalling approximately £433,153 in principal will be repaid with interest in accordance with its terms on the maturity date of 31 March 2019.

Net debt reconciliation

	Convertible loans
	£
Net debt as at 1 January 2017	1,990,264
Increase/(Decrease) through conversion and financing cash flows	381,553
(Decrease)/Increase through reversal/recognition of interest	624,097
Net debt as at 1 January 2018	2,995,914
Decrease through conversion and financing cash flows	(1,917,122)
(Decrease)/Increase through reversal/recognition of interest	(479,932)
Foreign exchange adjustments	(7,298)
Net debt as at 31 December 2018	591,562

i3 Energy plc

Notes forming part of the financial statements for the Year Ended 31 December 2018

17 Loan payable

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 would terminate on the earlier of 31st March 2018 or such date as the Company had 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 A Shares	Ordinary Shares	Deferred Shares	Nominal Value £ per Share	Share Issuance Costs	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
Issuance of ordinary shares	30 Jan 18	8,563,630	-	-	0.0001	221,035	856	2,568,232
Issuance of ordinary shares	27 Feb 18	1,516,876	-	-	0.0001	-	152	363,067
Issuance of ordinary shares	21 Mar 18	925,926	-	-	0.0001	-	93	359,157
Issuance of ordinary shares	25 May 18	925,926	-	-	0.0001	-	93	370,278
Issuance of ordinary shares	07 June 18	1,851,852	-	-	0.0001	-	185	740,556
Issuance of ordinary shares	01 Aug 18	1,542,336	-	-	0.0001	101,373	154	1,619,299
		41,017,438	-	5,000	-	322,408	54,102	9,538,006

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 January 2018, 8,563,630 ordinary shares with a nominal value of £0.0001 was issued at a price of £0.30 per share as part of a placing in which the Company raised £2.57 million. Share issue costs of £221,035 were incurred which have been recognised as direct costs of capital against share premium.

On 27 February 2018, £363,219 of CLNs were converted into 1,561,876 ordinary shares with a nominal value of £0.0001 per share.

On 31 March 2018, £359,250 of CLNs were converted into 925,926 ordinary shares with a nominal value of £0.0001 per share.

On 25 May 2018, £370,371 of CLNs were converted into 925,926 ordinary shares with a nominal value of £0.0001 per share.

On 7 June 2018, £740,741 of CLNs were converted into 1,851,852 ordinary shares with a nominal value of £0.0001 per share.

On 1 August 2018, 1,542,336 ordinary shares with a nominal value of £0.0001 was issued at a price of 1.05 pence per share as part of a placing in which the Company raised approximately £1.62 million. Share issue costs of £101,373 were incurred which have been recognised as direct costs of capital against share premium.

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Notes forming part of the financial statements for the Year Ended 31 December 2018

19 Share based payments

Share Options

During the year the following share options were issued and the cost of £540,623 (2017 - i3 plc: £141,366) (2017 - i3 NSE £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
12 Oct 2018	0.635	2,917,035	0.635	972,344	0.635	10	0.556

*In the Black Scholes model the inputs were stock price of 0.635 pence (2017 – 0.425 pence), exercise price of 0.635 pence (2017 – 0.55 pence), time to maturity of 10 years (2017 – 5 years), Volatility as 94.62% (2017 – 46%) , and the Risk-Free Interest Rate as 1.665% (2017 – 0.50%).

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.

	Number of share options	Weighted average exercise price (in £)
As at 31 Dec 2017	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 2018 had a weighted average exercise price of £0.11 (Dec 17 – £0.11), and a weighted average remaining contractual life of 7.92 years.

20 Related party transactions

The Company had the following related party transactions:

- a During the year ended 31 December 2018, two Non-Executive Directors, Neill Carson (served as Executive Director until 7 October 2018 and a Non-Executive Director thereafter) and Richard Ames, held convertible loan notes in the amounts of £112,782 and £156,620 respectively. Terms of the convertible loan notes are detailed in note 16.
- b Upon completion of a fundraise at the end of January 2018 the Company terminated the loan agreement it had entered into with its employees. The agreement, effective 12 December 2017, provided for the employees to loan, each month, an amount equal to their net pay. Upon termination, the Company repaid the employee loans at 135%.
- c During the year the Company provided funds amounting to £9,283,948 (2017 – £5,958,705) to its subsidiary and received funds in the amount of £1,248,058 (2017 – £842,666) from its subsidiary. The total net receivable from its subsidiary at 31 December 2018 was £8,035,890 (2017 – £5,116,039).

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:

Potential impact on USD expenses: 2018	Effect on loss before tax for the year ended	
		Group £
Increase/(decrease) in foreign exchange rate	1%	1,776
	-1%	1,776

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 2018.

21 Financial instruments and capital risk management - continued**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.

Fair value measurements recognised in the statement of financial position

	Level 1	Level 2	Level 3	2018
	£	£	£	Total
				£
<i>Financial liabilities at FVTPL</i>				
Financial liabilities designated at FVTPL	-	-	591,562	591,562
Total	-	-	591,562	591,562

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 £1,821,465 as at 31 December 2018 (2017 - £4,304,386) and has capital, defined as the total equity and reserves of the Group of £4,655,225 (2017 - £374,690).

The group monitors its 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.

i3 Energy plc

Notes forming part of the financial statements for the Year Ended 31 December 2018

22 Commitments

Operating leases –

	2018	2017
	£	£
Future aggregate minimum lease payments		
Not less than one year	45,000	45,000
Later than one year but not later than five years	101,250	146,250
Total lease commitment	146,250	191,250

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 31 December 2018, the Company had cancellation exposure to certain long-lead items for its Liberator development totalling £5,817,612 (2017 – £473,757). As at 22 May 2019 the Company's cancellation exposure for long-lead items was £6,593,284 (2017 – £3,794,863).

23 Ultimate controlling party

There is no ultimate controlling party of i3 Energy plc.

24 Events after the reporting period

On 10 January 2019 the Company provided an operational and funding update and announced that it had entered into a letter of intent with Dolphin Drilling Limited for a three-well appraisal and development drilling programme to be conducted in the summer of 2019. The Company also announced that it had received indicative terms from RSRUK for Liberator's use of their leased Bleo Holm FPSO facility via Ross field infrastructure, and that the parties were working together to agree the terms for Liberator Phase I construction and tie-in, and transportation, processing and operating services agreements. These agreements are expected to be finalized alongside the 2019 field development plan approval by the UK Oil and Gas Authority ("OGA"). The Company also continued to progress its previously announced joint venture farmout process. It also continued negotiations with senior and junior lenders for the provision of loan facilities of between US\$100 and US\$130 million, of which up to 25% was expected to be available towards i3's planned 2019 drilling programme, with the balance drawable for the residual 2019/2020 Liberator Phase I production wells, subsea installation and field tie-in. The Company estimated its 2019 drilling campaign to cost c.US\$41 million with additional capex to 2020 first oil of c.US\$90 million, inclusive of considerable contingency.

On 25 February 2019 the Company announced that it had entered into a term sheet which sets out the terms and conditions of a £24mm junior secured loan note facility with warrants. A European Investment Manager with assets under management in excess of £1 billion agreed to subscribe for £12 million of the Loan Notes and, based on offers received, the remainder of the Loan Notes were expected to be issued to one or more syndicate members and/or offtake providers who are also potential lenders in i3's senior debt facility which was under negotiation to provide US\$100 million towards the Company's Liberator oil development.

On 12 March 2019 the Company announced its intention to issue new ordinary shares of £0.0001 each in the Company via an accelerated bookbuild ("Bookbuild") to raise in aggregate gross proceeds of not less than £16 million ("Placing") at a price of 37 pence per share ("Placing Price"). It was intended that the aggregate net proceeds of the Placing and the anticipated £24 million junior secured loan note facility with warrants, announced on 25 February 2019, would fund i3's planned 2019 multi-well appraisal and development drilling programme at its 100% owned and operated Liberator oil field and Serenity prospect and its near-term working capital requirements. The programme was expected to commence as early as June 2019 and was targeting STOIPs of 314 and 197 million barrels at the Liberator field and Serenity prospect respectively.

On 12 March 2019 the Company announced that further to the Placing Announcement earlier in the day, the Bookbuild had been successful and was closed. The Company had successfully placed 43,243,243 Ordinary Shares at an Issue Price of 37 pence per share, raising gross proceeds of £16 million.

On 19 March 2019 the Company announced that it had posted a circular to shareholders regarding an Open Offer to raise up to £2 million of additional funds for the Company, as announced 12 March 2019.

24 Events after the reporting period - continued

On 22 March 2019 the Company announced that it had contracted Gardline Limited to conduct a site survey for its 2019 and 2020 drilling program plus the pipeline route for its Liberator Phase I development. The Company also announced that all outstanding convertible loan notes totalling approximately £433,153 in principal would be repaid with interest in accordance with the terms on the maturity date of 31 March 2019. In addition, the Company announced that i3's management and Board, in addition to the previously announced purchase of 678,645 shares by i3's Directors in the Placing announced 12 March 2019, would be purchasing a further 2,131,538 ordinary shares in the Company at a price of 37 pence, totalling £788,669, alongside the Open Offer and conditional upon the completion of the Placing. The Company further announced that it had issued a total of 5,920,000 share options, granted conditionally upon the completion of the Placing as announced on 12 March 2019, to Directors and key management in accordance with the rules of the Company's Share Option Plan. The issue of Options to Directors is a related party transaction for the purposes of Rule 13 of the AIM Rules for Companies.

On 4 April 2019 the Company announced that the Open Offer to shareholders as announced on 19 March 2019 had closed for acceptances in accordance with its terms. The Company had received valid applications in respect of a total of 983,059 new ordinary shares in the Company. The aggregate amount raised pursuant to the Open Offer was approximately £363,732.

On 9 April 2019 the Company announced that it had executed a contract with Dolphin Drilling Limited ("Dolphin") to utilize the Borgland Dolphin semi-submersible drilling rig for a 94-day programme which is due to commence between 15 July and 15 August 2019. The drilling commencement window was agreed by the Company and Dolphin to ensure the availability of necessary equipment and to provide adequate preparation time to crew and mobilise the rig from its current mooring location in Norway. In addition to contracting the Borgland Dolphin, i3 secured the necessary wellheads and conductor pipe for mid-July delivery to align with the start of its field operations and spud of the A3 appraisal well. The Company also provided an update on its site survey operation which was conducted using the Gardline vessel 'Ocean Observer' at the Company's drilling locations and along the potential pipeline route from Liberator to the intended host facility. The operations were completed and were conducted without incident. Sufficient data had been acquired to allow the Company to proceed with permitting of the 2019 drilling programme and with engineering design for the Liberator Phase I development works.

On 30 May 2019 the Company announced that it had entered into binding terms with funds managed by Lombard Odier Asset Management (Europe) Limited for a £3mm participation in the junior loan note facility, the proposed terms of which were announced by the Company on 25 February 2019, (the "Junior Facility" or "Loan Notes"), a £2mm placing of new ordinary shares priced at 37 pence per share and associated warrants to subscribe for new ordinary shares (collectively the "Lombard Odier Investment"). The closing of the Lombard Odier Investment was conditional, inter alia, on the closing of the Junior Facility. In light of Lombard Odier's further £2mm equity investment, it was intended that the Junior Facility be downsized from the £24mm previously indicated to £22mm, and the closing of that facility will be the subject of a further announcement. As Lombard Odier is a substantial shareholder in the Company, its investment in the Company is a related party transaction under the AIM Rules for Companies. The Directors of the Company consider, having consulted with WH Ireland, that the terms of the transaction are fair and reasonable insofar as shareholders are concerned.

i3 Energy plc
Corporate Information

Registered number	10699593
Directors	David John Wissler Knox – Non-Executive Chairman Majid Shafiq – Chief Executive Officer Graham Andrew Heath – Chief Financial Officer Neill Ashley Carson – 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 LLP (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
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