Registration number: 10699593

i3 ENERGY

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Contents

HIGHLIGHTS AND OUTLOOK

CANADA		UK AND CORPORATE	
Completed 20 August 2021	**CENOVUS ACQUISITION**	**SERENITY**	25% farmout on 1.85 for 1 basis (concluded post year-end)
Total 2021 Revenue	**£86.8 MILLION**	**£25.1 MILLION**	Profit after tax
FY 2021 and Q4 2021 Production	**12,442 BOEPD AND 18,229 BOEPD**	**2.84 AND 2.60 PENCE**	Basic and diluted EPS
Production acquisitions	**8,000+ BOEPD**	**£40 MILLION**	Equity raised
PDP and 2P reserves	**45 MMBOE AND 153 MMBOE**	**£3.4 MILLION**	Dividends declared and paid in 2021
Leasehold position	**612k NET ACRES**	**£3.5 MILLION**	Dividends declared to date in 2022
Net production wells	**902**	**£11.8 MILLION**	Full-year dividend guidance for 2022

Highlights

Dividend Distributions

- During the course of 2021, i3 paid total dividends of 0.36 p/share, equating to a yield of approximately 6.5% for i3's shareholders based on i3's closing share price on 1 January 2021.
- Announced in December that the Company is committing to pay a minimum of £11.827 million in dividends during the course of 2022 (3.5x all dividends paid during 2021), equating to 1.05 pence per share or a 10.2% yield on the date of announcement, with forecasted year end "2022 Unencumbered Cash" of US$66 million which could support additional shareholder distributions or share buybacks, M&A, and supplemental development activity.

Financial Highlights

- 2021 revenue of £86.8 million (net) and net operating income (revenue less royalties, opex, processing and transportation) of £48.8 million and cash flow from operations of £24.4 million.
- To fund the Cenovus acquisition on 7 July 2021, i3 raised approximately £40 million through the placing and subscription of 363,700,000 shares at an issue price of 11 pence per share, a 3% discount to the 15-day average closing price of 11.4 pence. Concluded a reduction of the Company's share premium account by way of a UK court approvals process in order to free up distributable reserves to effect the abovementioned dividend payments.

Operational Highlights

- 2021 full-year production averaged 12,442 boepd, with Q4 2021 including the newly integrated Central Alberta assets acquired from Cenovus Energy (which closed in August 2021) averaging 18,229 boepd (compared to 13,239 boepd in Q3, 9,018 boepd in Q2 and 9,173 boepd in Q1 2021). Q4's production was comprised of 58 million standard cubic feet of gas per day ("mmscfd"), 5,210 barrels per day ("bbl/d") of NGLs, 3,015 bbl/d of oil and 331 boepd of gross overriding royalty interest production. Q4 2021 production was impacted by the closing of multiple non-core asset disposals and December's severe cold weather.
- Increased exposure to Alberta's premier Clearwater play:
  - Confirmed presence of oil in three gas wells in i3's extensive Marten Creek acreage, providing a green light for a winter 2021/22 oil appraisal programme.
  - Farmed-in to a 50% working interest in the Marten Hill's Clearwater area and participated in two successful development wells which added c.120 boepd net production, with an option to drill seven additional wells on the acreage.
  - Participated in Crown Land Sales, bolstering acreage through a 15-year lease on seven sections (17.9 km^2) of land in the emerging Cadotte area.
- Acquired a 49.5% interest in South Simonette at a cost of US$4.2 million, increasing i3's previously held 49.5% operated interest in this Montney oil play to 99% and allowing it to bring back on to production three wells to increase its corporate production by c.720 boepd and adding reserves of 4.9 MMboe at a before-tax NPV_{10} valuation of US$30.9 million. Total estimated 2P reserves as of 31 December 2021 were 10.3 MMboe.
- Elected to drill two oil-weighted wells with a partner at its Wapiti Elmworth acreage, expected to initially increase i3's production by c.175 boepd, with payback estimated in 1.3 years.
- Acquired c.230 boepd of Wapiti production, conducted six reactivations to increase production to 471 boepd, significantly exceeding the expected 310 boepd.
- Brought on stream a gas well located on the Company's Noel acreage in Northeast British Columbia at an average rate of 650 boepd, exceeding expectations by 30%.

- Acquired circa 8,400 boepd (51% oil and NGLs) of low decline production from Cenovus Energy Inc, located within i3's Central Alberta core area, for a total consideration of CAD65 million (US$53.7 million). The assets were acquired on excellent metrics of 1.73x next twelve months cashflow, US$6,381/boepd and US$0.68/boe of 2P reserves and contain 79.5 MMboe of 2P reserves with an NPV_{10} of US$193 million as at 1 April 2021, an inventory of greater than 140 net drilling locations, 80 net reactivation opportunities and 1,140 km network of operated pipelines, and key processing facilities. The transaction closed on 20 August 2021.

- To increase its focus on its high working interest assets in Central Alberta, Wapiti / Elmworth, Simonette and the Clearwater play, during Q4 2021 the Company executed multiple non-core disposals with the purpose of reducing its per boe operating costs, decreasing end-of-life obligations, and releasing US$945 thousand of decommissioning-related bonds to i3's balance sheet (previously held with provincial oil and gas authorities to offset potential end-of-life liabilities). On a combined basis, these disposals reduced i3's production by approximately 130 boepd from a combined 213 gross (184.5 net) wells (consisting of 36 gross (34.3 net) active and 177 gross (150.2 net) inactive wells) and reduced the Company's overall undiscounted asset retirement obligation by approximately US$9.8 million. The proceeds from these and future disposals will be utilised to accelerate growth from i3's extensive inventory of highly economic development locations as the Company remains focused on delivering total shareholder returns.

- During Q4 the Company brought on stream four gross (1.5 net) highly economic non-operated horizontal wells within its Central Alberta and Wapiti core areas, at an average 37% working interest. The programme consisted of one well targeting the liquids-rich Ellerslie formation, one Belly River oil producer and two Dunvegan oil wells, which in aggregate contributed net average daily production over its initial 30-day production period ("IP30 rates") of approximately 600 boepd (65% oil and NGLs) and are collectively meeting or exceeding i3's forecasted type curves. This non-operated programme is expected to pay out in approximately one year and serve to further bolster i3's year-end reserves and add newly identified offsetting development locations.

- The Company continued to systematically identify and develop its robust inventory of low-cost, high-return recompletion and reactivation opportunities, which produce top-tier returns and assist in further reducing i3's corporate operating costs on a boe basis through the utilisation of the Company's extensive network of owned and operated infrastructure while optimising field efficiencies with nominal capital. 16 gross (14 net) oil-focused recompletions and reactivations were brought on production in Q4, resulting in net IP30 rates of approximately 240 boepd (65% oil and NGLs). Cumulatively, the operations were completed on budget and are anticipated to pay out in substantially less than one year.

- On 20 December 2021, the Company announced a fully funded 2022 capital budget of US$47 million to fund a 12.6 net well operated drilling programme, non-operated drilling, well reactivations, debottlenecking, consolidation, and third-party tariff generating projects. This programme is expected to deliver average corporate production in 2022 above 20,000 boepd, with peaks reaching 21,000 boepd.

- The Company commenced a hedging program which will result in approximately 50% of corporate volumes being hedged on a rolling 12 month forward looking basis.

- Agreed terms with a potential farm-in partner for the Serenity field appraisal drilling programme and, at year-end, the Company was awaiting confirmation of funding commitments from that potential farm-in partner before finalising and executing documentation.

Post Period and Outlook

A summary of key events which occurred after the reporting period are presented in note 24 to the financial statements.

The Company's focus for the remainder of 2022 will be on four key areas:

1. The growth of i3's Canadian business through the deployment of capital into its large proven undeveloped reserves base, operational excellence to improve uptime and field performance, and strategic upsizing in core areas;
2. Drilling an appraisal well at the Company's Serenity oil discovery in the UK to prove reserves and to guide future development plans;

3 Dividend distributions to its shareholders of up to 30% of free cash flow; and
4 Conducting its operations safely and in an environmentally secure manner.

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

INTERIM CHAIRPERSON'S AND CHIEF EXECUTIVE'S STATEMENT

Overview of the year

i3 is extremely pleased with the results of 2021, which served to prove the Company's buy-and-build strategy of using acquisitions, operational focus, and the drill-bit to create a portfolio of producing assets with realisable upside from which shareholder value could be created and returned in the form of share price growth and a cash yield.

Having acquired Toscana Energy Income Corporation ("Toscana") in 2020, with its modest amount of production, as a foundation atop which to build a growth-focused production business in the Western Canadian Sedimentary Basin ("WCSB"), followed by the purchase of the entire asset portfolio of Gain Energy Ltd. ("Gain"), the Company entered 2021 having secured over 9,000 boepd during one of the most depressed and volatile years in the sector's history. During a period when most companies hunkered down, i3 bought assets as quickly as access to capital and deal-flow permitted, as buying at or near market bottoms is a long-proven strategy for increasing both the margins of safety and error, providing tremendous torque to an eventual macro-economic recovery. Our acquisition-led entry into the WCSB during a period which saw unprecedented commodity price lows positioned the Company for success, and following a busy period of corporate, financial, and operational amalgamation of Toscana and Gain into i3 Energy Canada Limited, the Canadian operations team set to harvesting the low-hanging fruit that existed within these long-undercapitalised portfolios, while the executive continued to seek further material asset packages that could be purchased.

On 17 June, i3 announced that numerous acquisition and drilling initiatives it had concluded or committed to during the course of H1 would result in i3's production surpassing 10,000 boepd during the second half of the year and were expected to materially increase the Company's next twelve months ("NTM") net operating income ("NOI" = revenue minus royalties, opex, transportation and processing) well-beyond its previous market guidance. To mid-year 2021, i3 had been able to capture its entire Canadian portfolio at an average of 1.0x NTM NOI (from June 2021) and US$4,557/boepd.

On 6 July, i3 announced that it had signed an Asset Sale Agreement ("ASA") with Cenovus Energy Inc., a senior Canadian oil and gas producer, to acquire certain conventional central Alberta petroleum and infrastructure assets. The acquisition would include approximately 8,400 boepd (51% oil and NGLs) of predictable low-decline production, 79.5 MMboe of 2P reserves with an NPV_{10} of US$193 million, as at 1 April 2021, an inventory of greater than 140 net drilling locations and 80 net reactivation opportunities across approximately 212,000 net acres, a 1,140 km network of operated pipelines, and key processing facilities. The Cenovus assets complement i3's existing area assets with approximately 3,090 boepd of overlapping joint working interest production and associated land positions. The CAD65 million acquisition was funded through an equity issuance of 363,700,000 shares at an issue price of 11 pence per share, representing a 3% discount to the 15-day average closing price to 7 July of 11.4p.

The Cenovus acquisition is a continuation of i3's stated strategy of capitalising on the abnormal market conditions of 2020 and 2021 to create a cash-generative, all-weather portfolio by efficiently consolidating high quality undercapitalised assets within our core operating areas. The production, infrastructure and lands associated with the acquisition directly overlap our current Central Alberta asset base and provide meaningful operational synergies. Through this strategic acquisition, i3 significantly enhances its production, cash flow and reserve base while strengthening its balance sheet. Furthermore, the Cenovus acquisition enhances i3's ability to grow future production, free cash flow, and its planned return of capital to shareholders through dividend payments.

All in, the abovementioned initiatives were concluded at exceptional effective acquisition metrics of 1.36x NTM NOI, or US$5,533/boepd. In the context of the market, the Directors believe this to be an outstanding result for such high-quality production assets. As importantly, i3's acquisitions have garnered untapped Proven Undeveloped (PUD) and/or Proven plus Probable (2P) development opportunities, resulting in several highly prospective projects now existing within our portfolio. The upside potential within i3's South Simonette, North Simonette and Clearwater positions in Canada and its Serenity discovery in the UK, as well as redevelopment options of some of our more mature assets via secondary recovery and infill drilling, present company-making opportunities that have the potential to deliver multiples of i3's current production, reserves and cash flow.

The opportunity high-grading process which followed our integration of the Cenovus assets culminated in the 20 December announcement of a planned US$47 million 2022 capital budget (the "Capital Budget"), such that production and cash flow can continue to be increased, targeted upside in the Company's key Clearwater and Simonette Montney plays can be advanced, and the substantial return of capital to i3's shareholders can be assured.

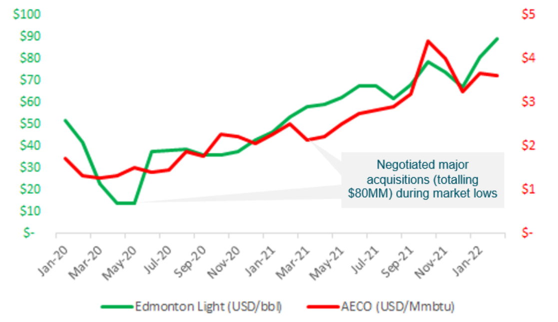
The Capital Budget, which is fully funded from existing Company resources and forecast internally generated cash flow, is predicted to provide incremental peak production of up to 5,250 boepd through the funding of 12.6 net wells (17 gross, 88% i3-operated, including one Montney oil producer at Simonette plus two (net) oil producers and two non-producing test wells in the Clearwater play), oil wells in the Cardium and liquids rich gas wells in the Falher and Glauconitic plays and maintenance capital to support producing wells and infrastructure. The budget also includes an amount of capital that has been allocated to fund highly economic, non-operated drilling opportunities as they arise, and projects which enhance cashflow and increase netbacks such as well reactivations, debottlenecking, consolidation, and tariff-generating third-party tie-ins to i3-operated facilities. This activity is expected to deliver a 26% production increase over the 2022 exit rates predicted under i3's blowdown case (which considers no capex and a conservatively estimated natural decline across the entire portfolio of 14%), resulting in average 2022 production above 20,000 boepd with peaks reaching 21,000 boepd. The Capital Budget focuses on a combination of swift payback and high impact targets in i3's core operating areas as follows:

Approved 2022 Drilling

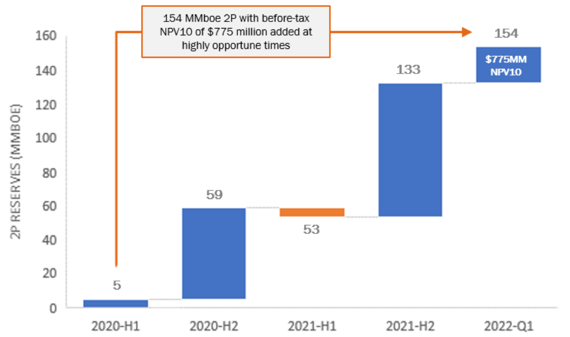
			Economics			2022 (# Gross (Net))			Inventory (well locations)	
	Commodity	**Area**	**CAPEX ($MM)**	**ROR**	**Payout (months)**	**Q1**	**Q2**	**Q3**	**Booked(2)**	**Unbooked**
Recompletion	Mixed	Central	varied	>500%	<6		- numerous -		17	43
Cardium	Oil	Wapiti/Central	$2.4	100% - 200%	7 - 11			6 (3.6)	20	36
Clearwater	Oil	Clearwater Hz	$1.2	>90%	12	4 (2.0)			0	50
Clearwater	Strat (test)	Clearwater	$0.8	-	-	2 (2.0)			-	-
Falher	Liquids-rich	Central	$3.7	>200%	9	2 (2.0)			5	12
Glauc	Liquids-rich	Central	$3.1	>100%	9	2 (2.0)			139	22
Montney	Oil	Simonette	$8.7	100% - 200%	8 - 11	1 (1.0)			14	111
Total Wells (Net)						**11 (9.0)**		**6 (3.6)**	**195**	**274**
							17 (12.6)		**469**	

Early results from the abovementioned activities position i3 to achieve or exceed the initial expectations noted above. Should similar success continue, the Company will look to accelerate additional capital deployment which will take advantage of operational momentum and the current favourable commodities environment. The Company remains highly confident that the continuance of its Canadian strategy, in accordance with the above, will deliver to its shareholders meaningful value through both share price appreciation and long-term cash distributions. The following graphically demonstrates i3's growth in the WCSB since its entry in 2020; we expect to continue along an equally exciting trajectory:

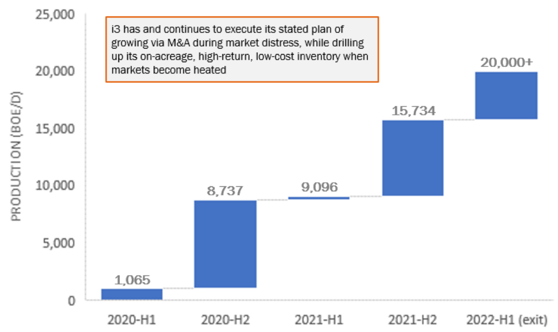
HISTORICAL EDMONTON LIGHT & AECO



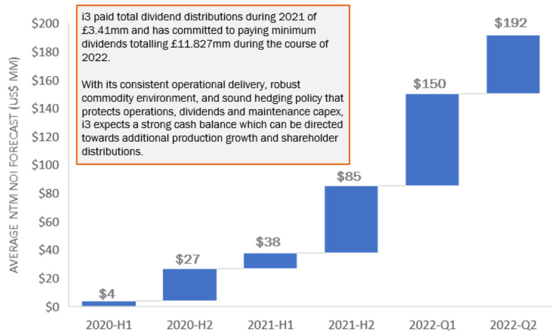
2P RESERVES INCREASED FROM 0 TO 154 MMBOE



GROWN PROD'N FROM 0 TO H1 2022 EXIT 20,000+ BOE/D



DELIVERY + COMMODITIES DRIVING NTM NOI FORECASTS



154 MMBOE 2P reserves in the chart above reflects the Company Interest reserves as of 31 December 2021.

We continue to actively identify production optimisation and cost reduction opportunities within our portfolio, focussing on maintaining high uptime, minimising operating costs, optimising operated processing facilities and infrastructure, and implementing high return workovers to offset natural production declines. These efforts continue to increase aggregate average net production and substantially reduce the decline rates predicted within the Company's competent persons reports. This is a testament to the quality of the assets in the portfolio and the dedication of our workforce. In parallel with operational activity, we continue to review the reservoir performance of the producing assets and identify mature fields where redevelopment, particularly through the implementation of relatively low-cost secondary recovery projects, could materially increase production and ultimate hydrocarbon recovery. Operating our assets in a safe and secure manner is fundamental to our business and we continue to advance our health and safety policies and procedures as we acquire and integrate additional production assets. There were 106 routine regulatory government inspections during 2021. 83 returned satisfactory results, 19 were categorised as low risk, and four that were deemed to be high risk were subsequently remedied.

The Company was very pleased to announce on 2 March 2022 that, regarding its UK assets, i3 would be welcoming Europa Oil & Gas Limited ("Europa") as a 25% working interest joint venture partner in the Company's Serenity oil discovery upon the execution of a farm-in, join operating agreement, and trust deed (each essentially agreed between the parties), in exchange for Europa funding 46.25% of the next Serenity appraisal well, being planned for H2 2022. The team remains confident in its belief that the Serenity field holds a company-making resource, and we expect this next appraisal well to prove that premise. Discussions continue with other potential farminees, and i3 will consider bringing in additional parties up to the point of drilling commencement.

Financial Discipline

The Board and Management are focused on delivering consistent value to shareholders. i3 is committed to being a dividend payer that distributes up to 30% of its free cash flow, and it is protecting this commitment through a conservative hedging program. The Company has and continues to keep a substantial portion of its production hedged through risk management contracts to manage commodity price risk, with additional free cash being redeployed to acquire production assets conditional on the associated acquisition metrics competing with the organic returns achievable through the development of our proven undeveloped (PUD) and 2P inventory. As i3 continues to grow its portfolio, a proportion of all incremental production will be hedged in order to secure future cash flow, and the Company will remain commercial in monetising assets when third-party interest warrants consideration.

With the well-timed acquisitions and capital deployment of the last 24 months, the Company's assets have continued to outperform the Directors' expectations. During H2 2021, i3 made dividend distributions totalling £3.417 million, and on 20 December 2021 the Company committed to pay a minimum dividend of £11.827 million during the course of 2022. Showing the Directors' confidence in the consistent performance of the portfolio, on 3 February 2022 i3 announced that this sum would be paid in ten equal increments on a monthly schedule with its first monthly dividend to be paid in March.

The strong performance of the Company's assets combined with the current strength in commodity prices will result in i3 having a substantial sum of unencumbered free cash which can be directed towards additional production growth initiatives, shareholder distributions or share buybacks, and deleveraging.

Governance

The Board recognises its responsibility for the proper management of the Company and is committed to maintaining a high standard of corporate governance. The Directors also recognise the importance of sound corporate governance commensurate with the size and nature of the Company and the interests of its shareholders. The Quoted Companies Alliance has published a set of corporate governance guidelines for AIM companies, which include a code of best practice comprising principles intended as a minimum standard, and recommendations for reporting corporate governance matters. The Directors intend to comply with the QCA Corporate Governance Guidelines for Smaller Quoted Companies so far as it is practicable having regard to the size and current stage of development of the Company. The Board currently comprises two Executive Directors (being the Chief Executive Officer and the Chief Financial Officer) and four Non-Executive Directors (including the Interim Chairperson).

The Board's decision-making process is not dominated by any one individual or group of individuals. The composition of the Board will be reviewed regularly and modified as appropriate in response to the Company's changing requirements. The Board has established an Audit and Risk Committee, Corporate Governance Committee, Health, Safety, Environment and Security Committee, Reserves Committee, and Remuneration Committee to ensure proper adherence to sound governance and decision making.

Environmental Stewardship

i3 is fortunate to operate in the UK and Canada which have some of the world's most stringent and rigorous environmental laws and regulations and the Company strives to meet or exceed all local, provincial or national environmental operational, reporting and compliance obligations and abandonment and reclamation requirements. In Q4 2021 the Company commenced a detailed study of its recently acquired operated wells and facilities to record baseline emissions data for the purposes of developing an ESG strategy to meet its currently stated target of being net zero with respect to Scope 1 and Scope 2 emissions by 2050. The work included an evaluation of potential opportunities to reduce greenhouse gas emissions and the Company intends to publish in Q2 2022 its maiden annual sustainability report, which will report our emissions, water use and air quality data and outline our ESG vision and strategy. On acquisition of its Canadian portfolio in late 2020, the Company commenced initiatives to reduce GHG emissions from its operated assets. This has included the replacement of 389 pneumatic controllers which use natural gas as the operating fluid with low bleed controllers or replaced the operating fluid with air. The majority of these conversions were conducted in 2021. These initiatives qualify for carbon credits which can be sold or used to offset future carbon tax obligations. The Company has also commenced the replacement where practical and economically feasible of some propane power generation units with direct connections to utility electricity supply. The Company also takes very seriously its asset retirement obligations and is an active participant in the Government of Alberta's Site Rehabilitation Program ("SRP") from which it has received grants of US$1.8 million in total and Saskatchewan's Accelerated Site Closure Program ("ASCP") and has a regular and routine program to abandon non-operational assets and reclaim the associated land and environment. In 2021 the Company abandoned 17 wells (for a total of 30 including 2020), and 6 pipelines and decommissioned 1 facility and obtained 9 reclamation certificates.

Looking ahead

The Company is very proud of what it has and continues to accomplish since reinventing itself in 2020 and expects to deliver more of the same. We will carry on growing our Canadian production business by employing our stated strategy of being acquisitive when systemic or situational drivers offer good value, while drilling our ever-growing inventory of high-quality proven undeveloped and 2P reserves when doing so offers better returns than the M&A market. In the UK, we remain committed to the further appraisal and development of Serenity and are looking forward to our H2 2022 drilling programme.

Beyond our current business as an oil and gas company, we see climate change as the most urgent matter of our time and deem it critical to act in a manner that exhibits this concern. Though the world will undoubtedly require oil and gas for some time yet, we understand the crucial role that hydrocarbon-based corporates have to play in the transition to net zero and we remain committed to an evolution of our energy company into one that continues to benefit society for generations to come.

As always, we extend gratitude to our capital providers for their ongoing support and to our employees for their relentless commitment to making i3 a success. Though we operate within a macro environment that is beyond our control, we believe we are doing the right things to create a very valuable business that can weather good times and bad.

i3 will continue to manage our Canadian and UK businesses in a manner that maximizes value creation and distributed returns.

"Linda Beal"

Linda Beal
Non-Executive Interim Chairperson
11 April 2022

"Majid Shafiq"

Majid Shafiq
Chief Executive Officer
11 April 2022

PRINCIPAL RISKS AND UNCERTAINTIES

Key Operating, Strategic, and Financial Risks

The Group operates in the oil and gas industry in an environment subject to a range of inherent risks and uncertainties. Following the Group's entrance to Canada in 2020 and its further expansion in 2021 the Group's risks shifted toward a range of operational risks.

The Group completes a bottom-up process for identifying various operational, strategic, and financial risks. These risks are maintained on the corporate risk register which is continually monitored by management. Management then assesses the potential probability and impact of each risk, and those determined to be the most significant are classified as the Group's key risks. The principal risks and uncertainties are reviewed by management and the Audit and Risk Committee twice per year and approved by the Board annually. The current key risks and their associated mitigations are set out below.

Key Risk	Description	Mitigation	Change in the period
Operational:			
Sub-surface assessment and production, reserve, and resource estimation	Incorrect interpretation of subsurface data may lead to inaccurate reserves and production forecasts which may have an adverse impact on the financial performance of the Group. See Financial Statements note 3 where the carrying value of intangible exploration and evaluation assets has been identified as a critical accounting judgement.	The Group employs experienced sub-surface professionals with deep knowledge of different play types and contracts. The Group engages external consultants to complete independent reserves assessments and to compile Competent Persons Reports. The Group's appraisal programmes are designed to de-risk the overall field development. Well and seismic data is continually reviewed to best allocate capital and make drilling decisions.	No change
Health, Safety, Security and Environment	Both onshore and offshore development carry the risk of major incident and harm to the Group's employees, contractors, and the environment.	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. Various Health, Safety, Security and Environment policies and manuals are implemented in Canada, including a comprehensive Emergency Response Plan. IT security is ensured through an external service provider.	No change
Regulatory and compliance	The Group operates in two jurisdictions which have unique regulatory frameworks. Non-compliance with regulations could lead to loss of title to its assets, financial damage, or reputational damage.	The Group manages its regulatory and compliance risks through the employment of sufficient competent personnel and through retaining suitably proficient advisors. The Group actively engages with its regulators. The Group continually monitors the status and commitments on its licences.	No change

Key Risk	Description	Mitigation	Change in the period
Canadian operations risk	There is a risk that financial and operational performance of the Group's Canadian operations are negatively impacted due to sub-optimal well performance, loss of access to third party gathering, processing, and pipeline infrastructure, weather patterns, and non-integration of assets acquired. Sub-optimal project management could lead to project delays or cost overruns. The ongoing COVID-19 pandemic could interrupt production or the availability of key staff. The Group considers the risk level to have decreased in 2021 due to entrance to Canada occurring in 2020 the improved understanding of the COVID-19 pandemic.	The Group ensured that the acquisition of the Canadian production assets included the transfer of all staff who the Group considered were required to effectively and safely operate those assets, including key operational staff from the Cenovus acquisition completed in August 2021. This resulted in a seamless transfer of the business into the Group. The Group continually monitors its human resource base to ensure it has the experience and qualifications to manage its operations and appropriately mitigate associated operational and business risks. Technical, safety and business training is conducted to ensure skill sets are up to date and relevant to the Group’s business. The Group has introduced flexible working practices into its Canadian and UK operations to manage periods of Covid related travel and working practice regulations. There is no requirement for overnight accommodation at any of the Group’s field operations which minimises COVID related risks.	Decrease
JV partner alignment	The Group has both operated and non-operated interests in Canada and in early-2021 announced a farm down of its interest in the UK. Where the Group operates as non-operating partner it may have limited control over the day-to-day management or operations of these assets. A third-party operator's mismanagement of an asset may result in significant delays or materially increased costs to the Group, or to liabilities over which the Group is joint and severally liable. There is no guarantee that a third-party operator's HSSE standards are aligned with the Group's.	The Group continually engages with its operating partners and closely monitors the operation of its assets. The Group will complete thorough due diligence reviews before entering future farm down transactions to ensure that their strategic and operational objectives are aligned with those of the Group.	No change

Strategic:

Key Risk	Description	Mitigation	Change in the period
Climate change and energy transition	A global transition to alternative energy sources could have an adverse impact on commodity prices and/or the Group's access to and cost of capital.	The Group maintains compliance with current environmental regulations. It is committed to conducting its operations with net zero GHG emissions by 2050. Our strategy development includes consideration of these risks and potential mitigants. A strategy to participate in the energy transition is being developed in concert with discussions with the investment community to ensure our investment proposition remains relevant to the market. i3 Energy plc is in the process of completing its first Sustainability Report which we anticipate releasing in Q2 2022.	No change
Lack of growth	The Group is seeking opportunities to expand its portfolio of assets and to increase production rates from existing assets but may not find such assets to be able to deliver value from such acquisitions. The Group considers the risk level to have decreased in 2021 due to the significant acquisitions completed in 2020 and 2021 and the ability to grow production through the Canadian 2P portfolio which is within the Group's control.	The Group engages with a range of advisors and active competitor monitoring to provide a range of opportunities for screening. The Group is led by experienced professionals spanning key disciplines to screen and fully assess growth opportunities. The Group has strong relationships within the sector, both in the UK and Canada. The Group continually reviews its portfolio of assets to identify internal growth opportunities.	Decrease
Development of North Sea assets	Further appraisal drilling is required to develop the Serenity discovery, the results of which are uncertain until the work is completed. There is a high cost associated with further appraisal drilling and therefore it is contingent upon raising the necessary funds. There is uncertainty whether a subsequent development of the field would be commercial or whether this would require access to third-party production, processing and transportation facilities. See Financial Statements note 3 where the carrying value of intangible exploration and evaluation assets has been identified as a	The Group is in active farm-down discussions, and in early-2022 welcomed Europa as a 25% working interest joint venture partner in the Company's Serenity oil discovery which will be effective upon the execution of a farm-in, joint operating agreement, and trust deed (each essentially agreed between the parties). The Group is considering multiple field development approaches and will proceed in accordance with a strategy contingent on the results of the future appraisal drilling programme.	No change

Key Risk	Description	Mitigation	Change in the period
	critical accounting judgement.		
Financial:			
Commodity price volatility	Oil and gas commodity prices can be volatile and are dependent on the level of supply and demand for oil and gas products at any given time, as most recently illustrated following Russia's invasion of Ukraine in 2022. The Group's operating cash flows in the short-term and returns on capital projects in the long-term may be negatively impacted by depressed oil and gas prices. See Financial Statements note 3 where the carrying value of intangible exploration and evaluation assets and oil and gas assets have been identified as critical accounting judgements.	The Group plans based on a range of commodity prices, stress test scenarios and sensitivities when allocating capital. The Group closely monitors the profitability of its Canadian operations, including trends in both spot and forward commodity pricing. The Group continually reviews its hedging strategy and executed various commodity hedging contracts throughout 2021 and 2022, hedging approximately 50% of corporate volumes on a rolling 12 month forward looking basis. A summary of the Group's hedges are provided in note 18 and note 24 of the financial statements.	No change
Decommissioning costs	The Group forecasts decommissioning costs over the next 50 years. There is a risk that the cost estimates overrun either due to inaccurate estimation or unforeseen site contaminations. See Financial Statements note 3 where decommissioning costs have been identified as a key source of estimation uncertainty.	The Group uses commonly accepted cost estimation techniques based on rates published by the Alberta Energy Regulator ("AER"). The Group employs experienced professionals to oversee the decommissioning cost estimates. The Group continually invests in decommissioning its assets, including participation in Alberta's SRP and Saskatchewan's ASCP programs.	No change
Capital requirements and access to capital	The Group will require significant capital to grow its operations in Canada and to develop its oil and gas assets on the UKCS. The Group may be dependent or partially dependent on access to external capital to deliver this growth, and there is no guarantee the capital will be available at terms acceptable to the Group.	The Group is publicly listed on both the TSX and the AIM which provides access to equity capital markets. The Group successfully accessed these markets and secured equity funding in 2020 and 2021. The Group continually engages with shareholders and industry partners. The Group generates positive cash flows from its Canada operations which will decrease the Group's dependency on external financing.	No change

Key Risk	Description	Mitigation	Change in the period
		The Group continually monitors its capital allocation and will only pursue programs that are of appropriate size and risk relative to the Group's capital resources.	

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.

SECTION 172 STATEMENT

Section 172 (1) of the Companies Act obliges the Directors to promote the success of the Company for the benefit of the Company's members as a whole. This section specifies that the Directors must act in good faith when promoting the success of the Company and in doing so have regard (amongst other things) to:

a. the likely consequences of any decision in the long term,
b. the interests of the Company's employees,
c. the need to foster the Company's business relationship with suppliers, customers, and others,
d. the impact of the Company's operations on the community and environment,
e. the desirability of the Company maintaining a reputation for high standards of business conduct, and
f. the need to act fairly as between members of the Company.

a. the likely consequences of any decision in the long term,	The Board of Directors meets regularly and uses these meetings to consider the likely consequences of any decisions in the long term. This includes its collective responsibility for formulating the Company's strategy, which is to i) acquire undervalued developed producing fields and operate them efficiently, safely and in full regulatory compliance, and ii) ultimately deliver hydrocarbon projects into production by graduating assets through the industry life cycle of exploration, appraisal, development, production, and optimisation. Some key decisions were taken by the Board since the beginning of 2021 which were aimed to deliver on this strategy. These included: • Raising £40 million of equity and in order to complete the Cenovus acquisition; • Acquiring a sizeable asset portfolio from Cenovus which will enhance cash flow generation and the Group's ability to fund a regular dividend and provide capital for additional organic or inorganic expansion; • Implementing an active hedging strategy designed to protect shareholder returns; and • Continuing the search for farminees on the Serenity oil discovery, including the early-2022 announcement that i3 would be welcoming Europa as a 25% working interest joint venture partner in the Company's Serenity oil discovery which will be effective upon the execution of a farm-in, join operating agreement, and trust deed (each essentially agreed between the parties). The decisions outlined above considered the interests of the Company's stakeholders, including revenue and cash flow generation which can be returned to shareholders through dividends, improved funding position to settle obligations to suppliers, and longer-term stability for i3's employees. The Board places equal importance on all shareholders and strives for transparent and effective external communications, within the regulatory confines of an AIM-listed company. The primary communication tool for regulatory matters and matters of material substance is through the Regulatory News Service, ("RNS"). The Company's website is also updated regularly and provides further details on the business as well as links to helpful content such as our latest investor presentations. We also hold regular investor events which are open to all shareholders and provide an environment where shareholders can interact with the Board and management, ask questions, and raise their concerns.
b. the interests of the Company's employees,	Our employees are one of the primary assets of our business and will be critical to the future success of the Company. Our employee headcount expanded significantly through the Company's wholly owned subsidiary i3 Energy Canada

	Limited following the integration of the Gain and Toscana acquisitions which closed in 2020 and the Cenovus acquisition which closed in 2021. The Company has an employee onboarding process in place that provides new employees the information, relationships, and tools they need to be comfortable and confident in their work. First and foremost, the Directors strive to ensure a safe working environment for all its staff and contractors, and we are proud of our safety achievements in 2021. We also seek to reward employees with remuneration packages which align the interests of the Company and its shareholders with those of its employees. We believe we have achieved this through the award of share options which contain vesting conditions aligned with the strategic objectives of the Group. To ensure our remuneration packages are competitive and appropriate the Remuneration Committee seeks external advice on market practice and benchmarks. Employees are also provided with challenging work and external training opportunities to ensure their continual development. The Board engages with the Group's employees continually throughout the year, both formally at Board meetings, and also informally through interaction and operational, financial and M&A discussions with certain employees.
c. the need to foster the Company's business relationship with suppliers, customers and others,	The Company fosters its business relationships with suppliers, customers, contractors, and its various joint venture business partners in Canada. The Group engages frequently with key suppliers through a regular review of vendor due diligence, creating efficiencies within the supply chain, and considering their interests in our operations. Examples in 2021 include continued discussion with key vendors and the repayment of balances due from the 2019 drilling campaign, the renegotiation of a long-term accounts payable and associated share warrants and engaging with vendors regarding liabilities assumed through the Toscana acquisition. The Group also works extensively with joint interest partners, in particular through our Canadian operations where we operate primarily through joint interests on our producing assets and communicates frequently with these partners. The Executive Directors engage directly with joint venture partners, including potential farminees on the UK assets. The Group and its suppliers, customers, contractors, and various joint venture partners are committed to ethical principles and place great value on integrity and compliance with the applicable laws and regulations. The Company expects all of its business partners to follow similar standards in their behaviour.
d. the impact of the Company's operations on the community and environment,	The Company considers the impact of its operations on the community and the environment. The Group maintains offices in both Aberdeen and Calgary through which we integrate with the local communities and engage directly with local municipalities on various matters. The Company regularly engages with the AER following our introduction to Canadian operations and have been recognised as an upstanding operator in the region. The Company closely monitors its decommissioning obligations in Canada which it intends to responsibly decommission in accordance with local regulations and in collaboration with the AER. This was demonstrated by incurring decommissioning spend and assistance under the Alberta SRP and Saskatchewan ASCP programs. i3 Energy plc is in the process of completing its first Sustainability Report which we anticipate releasing in Q2 2022.
e. the desirability of the Company maintaining a reputation for high	The Board has an obligation to ensure the Company acts responsibly and maintains a reputation for high standards of business conduct. There is regular communication between the Directors, Executive Directors, and key members of

standards of business conduct, and	the management team to ensure this culture is promoted and maintained throughout the organisation. The Company operates with open, transparent, and two-way communication and consistent access to the Directors. All of the Company's employees must adhere to i3's anti-bribery and corruption policies and uphold the Company's business ethics at all times.
f. the need to act fairly as between members of the Company.	The Company recognises its broad range of stakeholders and the need to operate in a manner that is fair to all these stakeholders. The Board meets regularly and considers the interests of the various stakeholders in the decisions they make. This was demonstrated through the Company's approach to the Cenovus acquisition which were structured to create value for shareholders, but also to ensure continuity and integration of certain employees from Cenovus and to present growth opportunities to existing employees of the i3 Group. The Company communicates regularly with external stakeholders through investor roadshows and meetings and regular operational and financial updates through RNS announcements.

The Directors believe they have acted in the way they consider most likely to promote the success of the Company for the benefit of its members as a whole, as required by Section 172 (1) of the Companies Act 2006.

FINANCIAL REVIEW

Fundraising

In July 2021 the Group issued 363,700,000 new Ordinary Shares at 11 pence per Ordinary share, for gross proceeds of £40.0 million (£38.0 million net of issuance costs). The proceeds were primarily used to fund the Cenovus acquisition, and for ongoing operations and general corporate purposes.

Acquisitions

On 20 August 2021 the Group completed the acquisition of certain petroleum and infrastructure assets (the "Cenovus Assets") from Cenovus Energy Inc. ("Cenovus") for gross consideration of CAD65 million. The Cenovus Assets include approximately 8,400 boepd (51% oil and NGLs) of predictable low-decline production, 79.5 MMboe of 2P reserves, an inventory of greater than 140 net drilling locations and 80 net reactivation opportunities across approximately 212,000 net acres, an 1,140 km network of operated pipelines, and key processing facilities. The acquisition enabled the Group to expand its Canadian operations through cash flow generating assets. The net consideration of £33.3 million resulted in the recognition of PP&E assets of £117.4 million, prepaid expenses of £1.0 million, inventory of £0.2 million, a decommissioning provision of £53.8 million, a deferred tax liability of £7.2 million, and a resulting gain on bargain purchase of £24.3 million. Further details are provided in note 4 to the financial statements.

In addition to the Cenovus acquisition, the Group completed smaller oil and gas asset acquisitions in Canada which did not meet the definition of business combinations, resulting in the recognition of PP&E assets of £5.4 million and associated decommissioning provision of £2.6 million.

Production and revenue

Total average daily production in the year ended 2021 was 12,442 boepd, which increased 42% from total average daily production of 8,732 boepd from 3 September 2020 to 31 December 2020. The increase in average daily production is mostly attributed to the Cenovus assets acquisition, which closed on 20 August 2021 and averaged approximately 8,400 boepd from close to 31 December 2021. In addition, i3 completed two strategic asset acquisitions, with one in Simonette and the other in Wapiti adding approximately 250 boepd. i3's daily average production also increased as a result of new production adds from i3 participating in non-operated drills and planned recompletions and workovers. Average production additions in 2021 were partially offset by natural production declines and temporary production disruptions due to cold temperatures in late December 2021. i3 also sold all of its assets in the province of Saskatchewan with the sale of its Weyburn property. The sale closed 29 November 2021 and had a minor impact on overall 2021 production. Daily average production mix in 2021 was comprised of 56% natural gas and 44% oil and natural gas liquids, compared to daily average production mix in 2020 comprised of 59% natural gas and 41% oil and natural gas liquids.

Total revenue for the year ended 31 December 2021 was £86.8 million, compared to £13.0 million for the year ended 31 December 2020. Revenue in 2021 was comprised of proceeds from the sale of oil, gas and natural gas liquids of £96.0 million, less associated royalties of £12.1 million, plus processing income and other operating income of £2.8 million. Total revenue of £13.0 million for the year ended 31 December 2020 was reflective of the period from 3 September 2020 to 31 December 2020 and is comprised of sales of oil, gas and natural gas liquids and processing income, net of associated royalties. Revenue for 2021 from the sale of oil and gas, before royalties, processing income and other operating income was £96.0 million, of which, 64% was from the sale of oil and natural gas liquids and 36% was from the sale of natural gas. Crown, freehold, and gross overriding royalties of £12.1 million, as a percentage of oil and gas sales, was 13%. Processing income in 2021 of £2.6 million is from fees charged to third party users of various facilities which are partially or wholly owned by i3.

Expenses

Production costs for the year ended 31 December 2021 associated with the extraction and processing of i3's Canadian oil and gas assets were £37.9 million, or £8.36/boe. These costs are primarily comprised of field labour and general field maintenance, land retention and taxes, well repairs and workovers, processing, and product transportation. Production costs for the year ended 31 December 2020 associated with the extraction and processing of i3's Canadian oil and gas assets were £8.1 million, or £7.51/boe. Costs in this period were incurred from 3 September 2020 to 31 December 2020.

Administrative expenses increased from £5.8 million to £13.1 million, largely due to the increased overhead resulting from the effect of a full year expansion of the Group's Canadian business.

Finance costs

The Group incurred finance costs of £7.6 million (2020 - £7.4 million). The increase is largely attributable to the interest and accretion expense on the H1-2019 loan note facility, which accrue interest on amounts previously paid in kind. There were also increases in the unwinding of the decommissioning provision. These increases were partially offset by a decrease in warrant modification expense relating to the H1-2019 warrants which had their strike prices reduced in 2020, and a 2021 gain on a non-current accounts payable balance whose repayment amount is reduced based on the market value of the associated Warrant Shares. Further details are provided in financial statements note 8 and note 15.

Profit, EPS, Net operating income, EBITDA, Adjusted EBITDA

The Group made a profit of £25.1 million (2020 – £11.7 million), equating to basic and diluted earnings per share of 2.84 pence and 2.60 pence per share, respectively (2020 – 3.78 pence and 3.46 pence per share, respectively). Net operating income was £48.8 million, EBITDA was £55.0 million and adjusted EBTIDA was £30.2 million (2020 – Net operating income was £4.9 million, EBITDA was £22.8 million and adjusted EBTIDA was a loss of £0.8 million). Net operating income, EBITDA and Adjusted EBITDA are non-IFRS measures, refer to Appendix B.

PP&E and E&E

The Group had PP&E assets of £224.1 million (2020 - £108.5 million) and intangible E&E assets of £49.8 million (2020 – £48.8 million) as at 31 December 2021. The increase in PP&E was largely due to the Cenovus acquisition, through which £117.4 million was recognised, offset by depletion in the period. Total PP&E additions of £11.2 million was comprised of work associated with the Group's Canadian oil and gas assets. Of the £11.2 million, the Group spent £5.3 million on drilling and completing various wells in addition to their associated abandonment liabilities. Most significantly, wells in Marten Hills, Elmworth and Drayton Valley for £4.6 million. £2.9 million was spent on well equipment additions and various facility and pipeline upgrades. The Group spent £1.0 million on three recompletions at Marten Hills and one in Carmangay. £1.3 million was also spent on various well optimizations. The remaining £0.7 million was spent on land acquisitions and seismic purchases.

The increase in intangible E&E assets was due to £1.0 million of capitalised costs during the period.

Key Performance Indicators ("KPIs")

i3 spent the first half of 2021 securing an acquisition from Cenovus that doubled the size of the Company during the second half. The newly acquired assets, operations and human resources were integrated during the fourth quarter, including the incorporation and reconciliation of post completion financial and lease operating data for the enlarged asset portfolio. The Company also commenced a detailed analysis of the enlarged portfolio to establish baseline ESG and GHG emissions data as input to its maiden sustainability report. Following 2021's material growth, i3 has commenced the development of KPIs which are focussed on shareholder return, leverage ratio, operating cost optimisation, health, and safety and ESG targets, and the Company plans to begin reporting against these in 2022.

Going concern

The Directors have considered the going concern of the Group and are satisfied that the Group has sufficient resources to operate and to meet their commitments as they come due over the going concern period. The Group continues to closely monitor its cash balances which stood at £15.3 million as at 31 December 2021. Further details are provided in the Directors Report and note 2 to the financial statements.

Approval of the Strategic Report

This report was approved by the Board of Directors on 11 April 2022 and signed on its behalf by:

Linda Beal
Non-Executive Interim Chairperson
11 April 2022

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:

Linda Beal
Non-Executive Interim Chairperson (Appointed Interim Chairperson of the Board on 7 February 2020)

Ms. Beal has over 30 years' experience advising international E&P clients and since 2016 has been a board member of various companies. As a Director of other small cap natural resources businesses, she brings corporate governance and financial expertise and experience as Audit & Risk Committee Chair. Ms. Beal joined Grant Thornton in 2013 as a Tax Partner and was Global Leader for Energy and Natural Resources, mandated to build its global energy and natural resources capability. Previously, she spent 30 years at PwC and its legacy firm Price Waterhouse in Audit and Tax, 16 of them as a Partner. Launching PwC's Natural Resources Independents business in the mid-2000s, she focused on advising international E&P clients across the AIM, FTSE350, overseas listed and private sectors.

Ms. Beal graduated in 1982 from the University of Nottingham with a BSc (Hons) in Mathematics, thereafter, qualifying at Price Waterhouse as a Chartered Accountant in 1985.

Majid Shafiq
Chief Executive Officer

Mr. Shafiq has over 30 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 circa 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 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. Mr. Shafiq 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 boepd, 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 17-year career focused on energy-related tech start-ups 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.

Neill Carson
Non-Executive Director

Mr. Carson, Bsc (Hons) Combined Geology & Physics, MSC Geophysics, has 35 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. Mr. Carson's 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 boepd and capital budgets in excess of US$50 million. 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 boepd 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 boepd.

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

Richard Ames

Non-Executive Director

Mr. Ames BS MS, brings to the Board 38 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. Mr. Ames 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. Mr. Ames joined Amoco in 1981 and worked as a geologist responsible for reserve definition in several international petroleum basins including the North Sea.

John Festival

Non-Executive Director

Mr. John Festival is a chemical engineer with 37 years of experience in the Canadian oil and gas sector, focused on the WCSB and has an excellent track record of founding, growing and monetising oil and gas ventures in Canada. He is currently the CEO of Broadview Energy and was the President and CEO of Black Pearl Resources Inc. prior to its acquisition by International Petroleum in December 2018 in a stock and debt transaction valued at c. US$715 million. He was previously the founder and President of Black Rock Ventures Inc. which was established in 2001 and sold to Shell Canada for CAD2.4 billion in 2006. He graduated in 1984 with a BSc in Chemical Engineering from the University of Saskatchewan.

CORPORATE GOVERNANCE REPORT

Overview of Board Governance

The Group believes that its success is dependent upon sound and effective governance. The Directors recognise the importance of strong corporate governance and have developed a corporate governance framework and policies appropriate to the size of the Group. The Board places strong emphasis on health and safety, good financial discipline, governance, and environmental stewardship. The Group has established clearly defined responsibilities and accountability, clear delegated authority limits, robust systems and processes and risk management procedures to safeguard shareholder value.

Business Conduct

i3 has a Code of Business Conduct and Ethics which sets out the behavior it expects of its Directors, management, employees, contractors, sub-contractors, agents intermediaries and suppliers. i3 has a zero-tolerance policy to bribery and corruption and is committed to conducting business ethically, with integrity and complying with all applicable legal requirements.

Our Code of Business Conduct and Ethics addresses anti-bribery and corruption, health and safety, environment, confidentiality, conflicts of interest, data protection, fair competition, export controls and sanctions compliance, information technology and internet usage and employment practices.

The Company is respectful of human rights and believe that is it important to embed it in our culture and the way we do business, treat our employees and engage with our stakeholders.

The Company also has policies and procedures guidance which is provided to all Directors and employees for share dealing, whistleblowing, disclosure and social media policy.

The Code of Business Conduct and Ethics and the other procedures are updated at least annually and reviewed by the Corporate Governance Committee or Audit and Risk Committee and approved by the Board annually.

i3 believes in organizational diversity and asserts that discrimination isn't acceptable, irrespective of age, disability, gender, ethnicity, faith, race, sexual orientation, or any other factor that makes people different.

The Company maintains a risk register and as part of the Group's risk management procedures, the risks the Group is facing are updated by management and are reviewed by the Audit and Risk Committee at least twice per year and reviewed and approved by the Board annually.

Board agenda and activities during the year

The Board of Directors at the year-end included two Executive Directors and four Non-Executive Directors. The Board, through the Non-Executive Interim Chairperson and Non-Executive Directors, maintain regular contact with 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 and Board meetings. During the year to 31 December 2021 the Board met for a total of fifteen meetings, one sub-committee meeting and passed resolutions in writing on fourteen occasions. The Board is responsible for formatting, 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 the Board on all significant financial and operational matters. Consequently, decisions are made promptly and following consultation amongst the Directors where necessary and appropriate.

Regular CEO updates are sent to the Board twice per month, Board agendas with board packs are circulated in advance of each board meeting detailing the items to be covered at the meeting and any resolutions to be passed. The Company requires that its Non-Executive Directors meet among themselves to freely consider management's strategy and other sensitive issues without the Company's management or Executives present.

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
Linda Beal	15	15
Majid Shafiq	15	15
Graham Heath	15	15
Neill Carson	15	15
Richard Ames	15	15
John Festival	15	14

In addition to the above meetings there was also one meeting of a sub-committee of the Board.

Governance framework

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 Directors are of the opinion that the recommendations of the QCA code have been implemented to an appropriate level.

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

During 2021 the Company completed a significant acquisition in the Western Canadian Sedimentary Basin ("WCSB") which doubled the Company's daily production. The Board has concluded that the highest near to medium term value can be delivered to its shareholders through organic development by drilling upside opportunities on i3's WCSB acreage portfolio and acquiring additional developed producing assets in the WCSB if opportunities at attractive metrics arise, in addition to farming down i3's UK North Sea licences for further appraisal drilling and eventual development. Acquisitions during 2000 and 2021 have enabled the Company to become a monthly dividend payer while providing multiple potential streams of future value creation.

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 or via telephone conference with the Company. In addition, all shareholders, when applicable and safe to do so and in consideration of UK Government guidance, are encouraged to attend the Company's Annual and General Meetings. 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 enquiries.

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, following COVID-19 best practices, the NEDs participated in management calls and engaged with staff to ensure that there is two-way communication with staff members to create proper alignment between corporate goals, targets, and employee aspirations. This feedback loop assists the Company in responding 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.

The Board is focused on the need to advance the Company's sustainability strategy, and i3 is in the process of releasing its inaugural 2022 Sustainability Report in Q2 of 2022. The Board established a HSES Committee of the Board during 2021 to provide structured oversight of its programmes. i3 is committed to complying with evolving reporting requirements and will align with industry and regulatory efforts to decarbonise Western Canadian Sedimentary Basin operations.

Principle Four

Risk Management

In addition to its other roles and responsibilities, the Audit & Risk 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.

A detailed list of the Company's key risks are listed on pages 10 through 14 of this Annual Report.

The Directors have established procedures 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 Audit and Risk Committee and the Board will continue to monitor the need for an internal audit function. The Non-Executive Directors works closely with and has regular ongoing dialogue with both the Chief Executive Officer and 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 is comprised of two Executive Directors, Mr. Majid Shafiq and Mr. Graham Heath, Interim Chairperson Ms. Linda Beal and three Non-Executive Directors, Mr. Richard Ames, Mr. Neill Carson and Mr. John Festival. Mr. David Knox resigned on 7 February 2020 and Ms. Linda Beal was appointed Interim Chairperson on that same date. The Executive Directors have direct responsibility for business operations, whilst the Interim Chairperson 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 Interim Chairperson 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 & Risk Committee, a Corporate Governance Committee, a Health, Safety, Environmental and Security 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 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.

Principle Six

Appropriate Skills and Experience of the Directors

The Board currently consists of six Directors, and, in addition, the Company has employed the outsourced services of Burness Paull to act as the Company Secretary. The Directors collectively have significant experience in oil and gas, North Sea production, WCSB production, UK and Canadian listings, growing businesses, transactions, finance and accounting. 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 includes one female Director and various nationalities. Diversity 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 by the Interim Chairperson, who consults with the other Directors as appropriate regarding effectiveness and performance as well as the Directors' continued independence.

The results and recommendations of these internal evaluations of the Board shall identify the key targets and requirements that are relevant to the Board.

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 Company and employee performance. 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 to the Company in a manner that encourages open dialogue with the Board. The Company values open and respectful dialogue with employees, suppliers and other stakeholders and places a high degree of importance on sound ethical judgement and behaviours to achieve its corporate objectives. The Company provides a NED liaison, Mr. John Festival, to all staff as part of its Whistleblowing Policy. The Board expects these values to permeate throughout every aspect of the organization – employees, relationships, actions. The Directors foster an open culture which invites feedback and positive 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 judgement to Board decisions. There is clear separation of the roles of the Chief Executive Officer and Non-Executive Interim Chairperson. The Interim Chairperson 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 Company operates the following Board committees:

Audit & Risk Committee
Corporate Governance Committee
Health, Safety, Environment and Security Committee
Reserves Committee
Remuneration Committee

The Committee chairs and members have been selected based on the most relevant experience and expertise. Each Non-Executive Director sits on a minimum of three committees and of these is chair of at least one committee ensuring that the committees are well qualified with a range of contributions and experience. The roles and responsibilities and terms of reference for each of the committees are reviewed at least annually to ensure they remain applicable.

The Interim Chairperson has overall responsibility for corporate governance matters in the Company and chairs the Corporate Governance Committee and the Audit and Risk Committee.

The Board receives twice monthly updates regarding the principal areas of activity of the Company including production 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 Interim Chairperson maintains close dialogue with other Directors, both through the forum of Board meetings and through Non-Executive Director meetings and meetings with the CEO and ad hoc communication on an individual level.

Audit & Risk Committee

The Audit & Risk Committee meets at a minimum of twice a year. As of the date of this document, the members of the Audit & Risk Committee are Ms. Linda Beal (Chair), Mr. Richard Ames and Mr. John Festival. Each of the members of the Audit & Risk Committee are independent. Each of the members of the Audit & Risk 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 & Risk Committee of the Company.

The Audit & Risk Committee's primary responsibilities are the planning and reviewing of the Annual Report and interim statements and accounts and to ensure that internal controls and risk management is maintained. The Audit & Risk Committee approves the appointment of external auditors and determines their fees and ensures the auditors' independence as well as focusing on compliance requirements, accounting standards and review of key accounting judgements. It is also responsible for monitoring and ensuring 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 & Risk Committee are available on the Company's website.

Corporate Governance Committee

The Corporate Governance Committee meets as required, but at least once a year, increasing to at least twice a year in 2022. Its members are Ms. Linda Beal (Chair), Mr. Neill Carson and Mr. John Festival.

The Corporate Governance Committee's primary purpose is to develop and recommend to the Board guidelines, policies and procedures relating to corporate governance as well as compliance with AIM and TSX rules.

The Committee is also responsible for monitoring the overall effectiveness of the Board.

Health, Safety, Environment and Security (HSES)

The HSES Committee meets as required, but at least twice a year. Its members are Mr. John Festival (Chair), Mr. Neill Carson, Mr. Majid Shafiq, Mr. Ian Schafer (COO, i3 Energy Canada Ltd.) and Mr. John Woods (COO, i3 Energy NSL Limited).

The HSES Committee assists the Board in conducting business in a manner that promotes a safe, secure, and healthful workplace for its employees and contractors, protects the environment and ensures that the Company will continue to be a valued member of the communities in which it operates.

Reserves Committee

The Reserves Committee meets as required, but at least twice a year. Its members are Mr. Neill Carson (Chair), Mr. Richard Ames and Mr. John Festival. 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.

Remuneration Committee

The Remuneration Committee meets at least twice a year. Its members are Mr. Richard Ames (Chair) and Ms. Linda Beal. 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 Interim Chairperson, 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, when applicable and safe to do so and in consideration of UK Government guidance, are encouraged to attend the Company's Annual and General Meetings.

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.

Internal controls

The Directors acknowledge their responsibility for the Group's system 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, uncertainties and treasury policy

Risk assessment and evaluation is an essential part of the Group's planning and is an important aspect of the Group's internal controls system – a crucial activity for achieving its strategic objectives.

There is a process of evaluation of projects, activities, and performance targets wherein the Board regularly reviews actual progress to that previously forecast. Project milestones and timelines are regularly reviewed.

The Group finances its operations through debt, equity, and operating cash flows, 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 22 for further detail on how the Board manages financial risk.

The principal risks facing the Group are set out in the Strategic Report.

Securities trading

The Board has adopted a Share Dealing Code that applies to Directors, senior management and any employee who is in possession of material non-public information ("MNPI"). All such persons are prohibited from trading in the Company's securities if they are in possession of MNPI. 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.

"Linda Beal"

Linda Beal
Non-Executive Interim Chairperson
11 April 2022

AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee assists the Board's oversight of the integrity of the financial statements and other financial reporting and the internal controls and risk management of the Group.

The Audit and Risk Committee comprises Linda Beal (Non-Executive Director and Committee Chairperson), Richard Ames (Non-Executive Director) and John Festival (Non-Executive Director). All the Committee members are independent Non-Executive Directors with recent and relevant financial experience in the energy sector. Under its terms of reference the Audit and Risk Committee meets at least 2 times per annum but generally meets more often. The Audit and Risk Committee met five times during 2021 with all members in attendance at every meeting and will meet at least four times during 2022. The Audit and Risk Committee had two meetings with the auditors during 2021 including sessions without management present. The CEO and key members of the Finance team attended the majority of the Committee meetings in 2021. The Audit and Risk Committee Chair also speaks regularly with the Group Finance team and the audit partner outside the formal Committee meetings.

Key responsibilities

The terms of reference of the Audit and Risk Committee were reviewed and updated during the year to reflect best practice and the integration of the 2020 and 2021 acquisitions. The principal roles and responsibilities of the Committee include:

- Monitoring the integrity of the interim and annual financial statements and ensuring full compliance with accounting standards.
- Reviewing key accounting policies, judgements, and estimates.
- Reviewing the disclosures in the interim and annual report and financial statements.
- Overseeing the relationship with the external auditor, appointment and approval of auditor remuneration and assessment of the auditor's independence and objectivity.
- Reviewing and monitoring the effectiveness of the Group's financial reporting, internal control policies, and procedures for the identification, assessment, and reporting of risk.
- Considering the need for an internal audit function.

2021 meetings

During 2021 the key areas covered by the Committee were:

- Review of the Company's internal controls including the Finance team structure, responsibilities and reporting lines, the Company's Delegation of Authority and Whistleblowing Policy and the Company's risk management framework, management's assessment of key risks and the risk register all of which were updated following acquisitions and associated integration of teams and systems.
- Review of audit planning and approach for 2020, the first year of production for the Group.
- Review of the 2020 annual financial statements including review of key accounting judgements and estimates and discussion with the external auditors their audit findings. Consideration of the independence of the auditors.
- Review of the 2021 interim financial statements including review of key accounting judgements and estimates and discussion with the external auditors.
- Consideration of the external auditor's independence and effectiveness and whether their reappointment should be recommended. Whilst PKF Littlejohn have been the Company's auditors for many years and PKF Littlejohn provided reporting accountant services in relation to the 2020 reverse takeovers, the Audit and Risk Committee are comfortable that PKF Littlejohn remain independent.
- Consideration of whether the Company should implement an internal audit function. The Committee concluded that this was not appropriate in view of the integration of the Finance teams and systems and

additional review procedures implemented following the acquisitions.

- Review of the Committee's terms of reference and membership.

2021 Group financial statements key judgements and estimates

An essential element of the integrity of the financial statements lies around the key assumptions and estimates or judgements to be made. The Audit and Risk Committee reviews key judgements prior to publication of the financial statements at both the end of the financial year and at the end of the six-month interim period, as well as considering significant issues throughout the year.

In particular, this includes reviewing any subjective material assumptions within the Group's activities to enable an appropriate determination of asset valuation, provisioning and the accounting treatment thereof. The Audit and Risk Committee reviewed and was satisfied that the judgements exercised by management on material items contained within the Report and Financial Statements are reasonable.

Key judgements and estimates in the 2021 Group financial statements considered by the Audit and Risk Committee were:

- Carrying value of intangible exploration and evaluation assets.
- Carrying value of property, plant, and equipment – oil and gas assets.
- Cenovus acquisition accounting, including the fair value judgements therein.
- Decommissioning provision estimates.
- Recognition and measurement of deferred tax assets.
- Various other financial reporting matters including the IFRS 2 share-based payment charge for employee stock options granted during the year and the accounting and fair value assessment following the 2021 modification of the non-current accounts payable.

2022 and beyond

The Audit and Risk Committee, shall continue to work according to its Terms of Reference, and keep under review the Company's control and risk management framework and ensure it remains appropriate as the Group's business develops.

Linda Beal
Chairperson of the Audit and Risk Committee
11 April 2022

CORPORATE GOVERNANCE COMMITTEE REPORT

The Corporate Governance Committee assists the Board in the oversight of Corporate Governance. The primary purpose is to develop and recommend to the Board guidelines, policies and procedures relating to corporate governance and compliance with AIM and TSX rules. The Committee is also responsible for monitoring the overall effectiveness of the Board.

The Corporate Governance Committee's membership comprises Linda Beal (Non-Executive Director and Committee Chairperson), Neill Carson (Non-Executive Director) and John Festival (Non-Executive Director).

The Governance Committee met once during 2021 and will meet at least two times during 2022.

Independence of Non-Executive Directors

The Corporate Governance Committee and the Board are satisfied that each Non-Executive Director serving at the end of the year remains independent and continues to have sufficient time to discharge their responsibilities to the Company.

2021 activities

The Corporate Governance Committee oversaw a review by the Executives of the functions, capabilities and responsibilities in the Group and put forward a recommendation for the roles, responsibilities and membership of the Board Committees following the 2020 acquisitions.

The Committee also monitored and reviewed the Companies transactional activities, stakeholder engagement and ABC Policy, i3 Dealing Code, Whistleblowing Policy and other various governance policies which were updated during the year following the Cenovus assets acquisition and compliance with Canadian and UK regulatory and legal requirements.

2022 looking forward

The Corporate Governance Committee will continue to monitor and advise on Corporate Governance and pay particular attention to Board structure, diversity and reviewing and ensuring the Company's policies and procedures are reviewed at least annually and implemented as detailed.

Linda Beal
Chairperson of the Corporate Governance Committee
11 April 2022

HEALTH, SAFETY, ENVIRONMENT AND SECURITY COMMITTEE REPORT

The Health, Safety Environmental and Security Committee ("HSES") provides assurance to the Board on occupational health, safety environmental and security policies. It is primarily focused on ensuring that effective HSE policies are adopted and applied across the Group. Since Q2 2021, the HSES Committee has added Environmental, Social and Governance (ESG) assurance into their remit.

The HSES Committee comprises of John Festival (Non-Executive Director and Committee Chairman), Neill Carson (Non-Executive Director), Majid Shafiq (Executive Director) and the COO's of i3 Energy Canada Ltd, Ian Schafer, and i3 Energy North Sea Limited, John Woods.

Safety is the number one core value at i3 Energy plc. We strive to achieve an injury-free workplace by making safety an integral part of our culture and incorporating it into every aspect of our operations. We empower employees to take ownership of safety at the local level. The HSES Committee meets quarterly to:

- Oversee our policies, procedures, practices, and strategies relating to health, safety, environment, security, and climate-related issues to ensure due consideration of risks, opportunities, and potential performance improvements.
- Review and report to the Board with respect to the consideration and integration of climate-related issues in the development of our business strategy and financial planning.
- Review our disclosure, reporting and external communication practices pertaining to climate issues, including assessments of materiality and ESG report development.
- Consider and review the establishment of, and performance against targets, benchmarks, procedures, and disclosures used to measure progress in absolute terms and relative to peers.
- Review our enterprise risk management program as it relates to identifying, assessing, and managing related risks and report to our audit committee.

HSES Policy

i3 Energy plc and its subsidiaries (i3 Energy North Sea Limited and i3 Energy Canada Ltd.), together "i3 Energy", will conduct business in a manner that promotes a safe, secure, and healthy workplace for our employees and contractors, while protecting the environment and ensuring that we will continue to be a valued member of the communities in which we operate and a valued supplier to our customers.

We believe that HSES performance is a primary measure of our company's success, and we apply the following guiding principles when conducting our day-to-day operations:

- We are compliant, respectful, and ethical; we act with integrity, and we expect the same from our suppliers and customers.
- We design and operate our sites and processes in a manner that ensures the safety and security of our employees, contractors, environment, and the communities where i3 Energy operations are located.
- We support our customers and contractors to help ensure that i3 Energy's products are handled, transported, and processed in a safe, secure, and environmentally responsible manner.
- We focus on good corporate citizenship, giving due consideration to sustainable use of resources, reduction of emissions and environmental impacts.
- We set goals and objectives that demonstrate our core values of safety & integrity.

2021 activities

The Company completed its acquisition of Toscana Energy Income Corporation and Gain Energy in late 2020 and followed up with the acquisition of assets from Cenovus Energy in Q3 2021. This resulted in an intense period of consolidation and integration of these assets and harmonisation of HSES policies and procedures across the different business units and throughout the enlarged workforce. As part of this effort the Company developed procedures, documentation, and training on our Safety Loss Management System (SLMS) including:

- Health and Safety Management System (HSMS), including Safe Operating Procedures (SOPs).
- Emergency Response Plans (ERPs).
- Pipeline Operating Manual (POM).
- Pressure Equipment Integrity Management Program Manual (PEIM).

The Company conducted quarterly HSE Committee meetings, monthly safety meetings and quarterly inspections of at least one active work site in addition to three emergency response (ERP) exercises.

We are very pleased with the safety performance of our operations throughout the year, with only one recorded incident requiring medical treatment.

In December we commenced work on our maiden annual sustainability report which will be published in Q2 2022 and will set out targets for GHG emission reductions from a 2020 baseline and achieving net zero emissions. The Company made considerable efforts in 2021 to proactively reduce its GHG emissions. The entire inventory of pneumatic controllers (which use natural gas) were converted from high bleed to low bleed units or replaced with instrument air. We also commenced an analysis of our portfolio to identify sites which could be electrified, and three sites were converted and a project to install flowlines in the Carmangay field was initiated to reduce infield trucking.

2022 looking forward

In 2022 we will continue to review and improve HSES procedures, evaluate HSES performance against industry standards and strengthen work force engagement, ownership, and delivery of HSES goals. We will place a greater focus on ESG and increase our efforts to reduce GHG emissions and set out our targets and goals in our maiden annual sustainability report to be published in Q2 2022.

John Festival
Chairman of the Health, Safety, Environment and Security Committee
11 April 2022

RESERVES COMMITTEE REPORT

The Reserves Committee's purpose is to assist the Board in monitoring and reviewing the appointment of an independent engineering firm retained by the Company to report on the quantity and the value of the Company's oil and gas reserves. 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.

The Reserves Committee comprises of Neill Carson (Non-Executive Director and Committee Chairman), Richard Ames (Non-Executive Director) and John Festival (Non-Executive Director). The Reserves Committee met twice in 2021 and typically meets twice a year prior to publication of the semi-annual and annual results.

2021 activities

- Reviewed the Company's procedures for providing information to the qualified reserves auditor who reported on reserves data.
- Met with management and the qualified reserves auditor to review the reserves data and the auditor's annual reserves report.
- Reviewed and recommended to the Board (via the Audit and Risk Committee) approval of the content and filing of the Company's annual statement of reserves data and other oil and gas information.

2022 looking forward

- Meet with the reserves auditor and review year-end 2021 reserve revisions and booking.
- Make a recommendation to the Board (via the Audit and Risk Committee) regarding the Company's annual statement of reserves data and other oil and gas information.

Neill Carson
Chairman of the Reserves Committee
11 April 2022

REMUNERATION COMMITTEE REPORT

The Remuneration Committee is a standing Committee of the Board and meets regularly to consider all material elements of Executive Director remuneration including salary, share schemes, and incentivization. The Committee makes recommendations to the Board on the framework for Executive Director remuneration and its cost. The Remuneration Committee assists the Board in discharging its oversight responsibilities relating to the attraction, compensation, evaluation and retention of Executive Directors and key senior management employees, in particular the Chief Executive Officer. The Remuneration Committee aims to ensure that the Company has the right skills and expertise needed to enable the Company to achieve its goals and strategies and that fair and competitive compensation is awarded with appropriate performance incentives across the Company.

The Remuneration Committee comprises Richard Ames (Non-Executive Director and Committee Chairman) and Linda Beal (Non-Executive Director). The Remuneration Committee met three times in 2021 and proposes to meet at least twice during the next financial year.

The Remuneration Committee is responsible for making recommendations to the Board regarding the framework for the remuneration of the Executive Directors and other members of executive management. The Remuneration Committee works within its terms of reference, and its role includes:

- Reviewing and approving the Company's overall compensation philosophy programs.
- Determining and agreeing with the Board, the Remuneration Policy for all Executive Directors and, under guidance of the Executive Directors, other members of the key senior Management Team.
- Ensuring Executive remuneration packages are appropriate.
- Determining whether annual bonus payments should be made and approving levels for individual Executive Directors.
- Determining each year whether any awards/grants should be made under the incentive schemes and the value of such awards.
- Considering any new long-term incentive scheme awards and performance criteria.
- Agreeing Directors’ service contracts and notice periods.

2021 activities

- Approved the level of the 2021 cash bonus.
- Agreed the 2021 Executive salary increases after using benchmarks.
- Approved the grant of Long-Term Incentive Plan (LTIP) awards for 2021.
- Approved the vesting of performance awards granted in 2021.

2022 looking forward

- Proposing and agreeing the remuneration packages for Executive Directors.
- Reviewing and agreeing the bonus to be awarded to Executives in year 2022.

Details of the Directors’ Remuneration are provided in note 10 to the financial statements. The Directors’ interests are provided in the Directors’ Report.

Richard Ames
Chairman of the Remuneration Committee
11 April 2022

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 2021.

Principal Activities

The principal activities of the Group consist of the appraisal of oil and gas assets on the UK Continental Shelf and of oil and gas production in Western Canadian Sedimentary Basin. The Company's wholly-owned subsidiaries - i3 Energy North Sea Limited and i3 Energy Canada Limited are independent oil and gas companies with appraisal assets in the UK and producing assets in Canada, respectively. The Company's principal activity is that of a listed holding company.

Business Review and Future Developments

The budgetary constraints of the last several years have begun to abate with the recent strengthening in commodity prices and the stark realisation that country-level energy security is absolutely critical. The Group continues to be well-positioned to take advantage of this environment through its Canadian production-focused growth programme and the further appraisal of its UKCS asset base. The business developments during the year are highlighted in the Interim Chairperson and Chief Executive Officer's Statement.

Results and Dividends

The profit on ordinary activities of the Group after taxation amounted to £25.1 million (2020: £11.7 million). Dividends of £3.4 million were declared and paid in 2021 (2020- Nil).

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, after consultation with an external advisor, and believes the levels uphold these objectives. Details of the Directors' emoluments and payments made for professional services rendered are set out in note 10 to the financial statements.

Directors and their interests

The beneficial interests of the Directors in the shares and options of the Company at 31 December are as follows:

Director	2021 Shares	2020 Shares	2021 Options	2020 Options
Neill Carson	7,246,509	6,712,133	1,198,800	534,376
Graham Heath	8,550,495	6,816,213	13,802,847	1,734,282
Majid Shafiq	2,951,541	143,765	18,517,500	2,807,776
Richard Ames	738,951	204,575	1,198,800	534,376
Linda Beal	700,000	-	788,827	123,058
John Festival	199,060	-	1,198,800	134,262

On 29 April 2021, the Company announced that certain of its Directors exercised options over 6,045,072 shares in the Company and on 22 October 2021 a Director exercised options over 400,000 shares in the Company.

Share Capital

At 31 December 2021, 1,126,425,992 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 28 February 2022, 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:

Cairn Capital	26.13%
Premier Miton Investors	13.96%
Slater Investments	9.33%
Amati Global Investors	7.16%
Hargreaves Lansdown Asset Mgt	4.57%
Interactive Investor	4.35%
AJ Bell Securities	3.15%

As at 28 February 2022 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 22 to 28. The Group has adopted the Quoted Companies Alliance Corporate Governance Code ("the Code"). Details of how the Group complies with the Code, and the reasons for any non-compliance, are set out on page 22 to 28, together with the principles contained within the Code.

Information on the Audit & Risk Committee, Corporate Governance Committee, Reserves Committee, Remuneration Committee, and Health, Safety, Environment and Security Committee is included in the Corporate Governance section of the Annual Report.

Environmental Responsibility

The Company is aware of the potential impact that its subsidiaries and investments may have on the environment. Accordingly, the Group ensures that with regard to the environment, all its companies and associated subsidiaries at a minimum comply with applicable jurisdictional regulatory guidelines including those of the UK North Sea Transition Authority, the Alberta Energy Regulator, Saskatchewan Energy and Resources, the BC Oil and Gas Commission and other local regulators. i3 Energy plc is in the process of completing its first Sustainability Report which we anticipate releasing in Q2 2022. See HSES Committee Report on page 32.

Engagement with employees and stakeholders

The Group is committed to promoting policies that ensure 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.

The Board is committed to effectively communicating with the stakeholders 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 i3 aims to deliver 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).

In consideration of environmentally sustainable business practices, the Board has approved the adoption electronic communications as its default method of communication with shareholders going forward for reasons of efficiency and to reduce the volume of paper used in shareholder mailings.

Insurance and indemnities

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 and Canada.

Each of the Directors have signed an Indemnity Deed which provides that the Company indemnifies the Director or Officer to the maximum extent permitted by law in respect of legal proceedings and any claims made against that Director or Officer.

Information contained elsewhere in this Annual Report

Information regarding the Group's key performance indicators, subsequent events, principal risks and uncertainties, and future developments are set out in the Strategic Report. Information regarding the Group's financial instruments and risk management policies are set out in note 22 to the Group Financial Statements.

Statement of Disclosure of Information to the Auditor

As at the date of this report the serving Directors confirm that:

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

Auditor

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

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report in the Interim Chairperson's and Chief Executive's Statement and Strategy and KPIs sections. The financial position of the Group, its net cash position and liabilities are described in the Financial Review. Further information on the Group's commitments is provided in note 23 and on the Group's exposure to financial risks and management thereof is provided in note 22.

The Group ended the year with cash and cash equivalents of £15.3 million, current assets of £42.3 million, and current liabilities of £23.1 million. The Group's debt primarily consists of the £22.0 million H1-2019 LNs which mature in 2023. During 2021, the Group generated £24.4 million of cash from operating activities.

The Directors have given careful consideration to the appropriateness of the going concern assumption, including cash forecasts through the end of 2023, committed capital expenditure, and the principal risks and uncertainties faced by the Group. The cash flow forecasts include the continued payment of regular dividends, the capital programs in Canada, the drilling of an appraisal well at Serenity, and the repayment of the H1-2019 LNs in May 2023. This assessment also considered various downside scenarios including a combined downside scenario with a US$20/bbl decrease in WTI, a CAD1/GJ decrease in AECO, and a 20% reduction in production rates, risks which are partially mitigated by the risk management contracts the Group currently has in place.

Following this review, the Directors are satisfied that the Group has sufficient resources to operate and to meet their commitments as they come due over the going concern period which considers at least 12 months from the date of approval of the financial statements. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2021.

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable laws 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 accounting standards in conformity with the requirements of the Companies Act 2006. Under Company law 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 the parent Company 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 Financial Reporting Standard 101 *Reduced Disclosure Framework has* 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.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS Standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

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.

Responsibility Statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company’s position, performance, business model and strategy.

Annual General Meeting

The Annual General Meeting of the Company will be held on 30 June 2022 and will be detailed in the Notice of Meeting.

This Director’s Report and Responsibility Statement was approved by the Board and was signed on its behalf:

Linda Beal
Non-Executive Interim Chairperson
11 April 2022

INDEPENDENT AUDITORS REPORT

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 subsidiaries (the 'group') for the year ended 31 December 2021 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted international accounting standards The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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

In auditing the financial statements, we have concluded that the Director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included a review of budgets for the period of 12 months from the date of approval of the financial statements, including checking the mathematical accuracy of the budgets, discussion of significant assumptions used by management, and comparing these with current year and post year end performance. We have also reviewed the latest available post year end management accounts, bank statements, regulatory announcements, board minutes and assessed any external industry wide factors which might affect the group and the parent company.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group or parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Our application of materiality

The scope of our audit was influenced by our application of materiality. The quantitative and qualitative thresholds for materiality determine the scope of our audit and the nature, timing, and extent of our audit procedures. The materiality for the group financial statements was set at £5,644,000 (2020 – £3,075,000), with performance materiality set at £3,386,400 (2020 – £1,845,000).

The materiality for the group financial statements as a whole has been calculated as 4% of net assets, which we have determined, in our professional judgement, to be one of the principal benchmarks within the financial statements relevant to members of the group in assessing financial performance. The benchmark is deemed to be relevant as the key areas of focus of the group relate to the value of the producing and exploration assets, as well as the accompanying decommissioning provision, and the loan notes outstanding.

The parent company materiality for the financial statements as a whole was set at £2,101,000 (2020 - £1,406,000) for statement of financial position items and £98,000 (2020 – £106,000) for statement of comprehensive income items testing. The parent company performance materiality was set at £1,260,600 (2020 - £843,600) and £58,800 (2020 - £63,600), respectively. The reason being a result of the key area of focus for the parent company financial statements being the recoverability of loans to subsidiaries. A separate materiality for profit and loss items was calculated in order to ensure sufficient appropriate coverage was obtained in order to provide an opinion. For each component in the scope of our group audit, we allocated a materiality that was less than our overall group materiality. We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £282,200 (group audit) and £105,050 and £4,900 for company's statement of financial position and company's statement of comprehensive income respectively.

Our approach to the 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 judgement by the Directors such as the impairment of intangible assets and the assumptions used in calculating the fair value of financial assets. and considered future events that are inherently uncertain We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The group holds three companies that are consolidated within these financial statements, two based in the UK and one based in Canada. We identified three significant components, being the parent company, i3 Energy North Sea Limited and i3 Energy Canada Ltd, which were subject to a full scope audit by a team with relevant sector experience from the PKF London office. No component auditors were engaged.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year 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.

Key Audit Matter	How our scope addressed this matter
<u>Carrying Value of Property, plant & equipment ("PPE") (Note 12)</u> As at 31 December 2021, the carrying value of the producing assets in relation to the group's projects in Canada are £224 million.	Our work in this area included: • Verifying the inputs into the impairment indicators assessment, including the reserves, pricing indices and forecasts. • A review of the competent persons report ("CPR") in place, assess their scope of work, including an evaluation of their competence, capabilities and independence and confirming the reserves thereto;

Key Audit Matter	How our scope addressed this matter
Management are required to assess the producing assets for impairment indicators under IAS 36. This is considered to be a key audit matter due to the significant judgement and estimates involved in assessing whether any impairment has arisen at the year end, and in quantifying any such impairment. Whilst the oil prices have increased significantly in the current year, the recent and historic volatile nature of long-term oil prices give rise to an increased risk, especially in the circumstances of the company being its key source of revenue.	• A review of management's internal production forecasts to the CPR in place and assessing the appropriateness of any differences which arise; • A review of management's assessment on the impact of market conditions on the carrying value of assets; • Discussions with internal valuation experts to independently develop a reasonable range of discount rates for the Western Canadian Sedimentary Basin ("WCSB") assets and compared those to the discount rate applied by management; • An assessment of any further management assumptions by reference to third party information, our knowledge of the group and industry and also budgeted and forecast performance; and • An assessment of whether management's presentation and disclosures relating to estimation uncertainty are adequate. We consider Management's assessment of impairment is reasonable in concluding no impairment is required to be recognised at year-end.
Carrying Value of Exploration Assets (note 13) The group holds intangible assets of £49.8 million as at 31st December 2021, comprising capitalised exploration costs in respect of the Liberator and Serenity projects. There is a risk that additions in assets have not been capitalised in accordance with IFRS 6 criteria and that the carrying value of the asset is overstated as at 31 December 2021. Particularly for early-stage exploration projects where the calculation of recoverable amount via value in use calculations is not possible, management's assessment of impairment under IFRS 6 requires significant estimation and judgement.	Our work in this area included: • Substantive testing of a sample of exploration and evaluation expenditures to assess their eligibility for capitalisation under IFRS 6 by corroborating to original source documentation; • Confirming that i3 Energy North Sea Limited holds good title to the relevant licence areas; • Making enquiries of management regarding future plans for each project including obtaining cashflow projections where necessary and corroborating to minimum spend requirements attached to licences, where appropriate; • Considering whether there are indications of impairment on a project by project basis in accordance with IFRS 6; and • Reviewing management's impairment paper in respect of the carrying value of intangible assets and providing challenge, corroborating any key assumptions used. We consider Management's assessment of impairment is reasonable in concluding no impairment is required to be recognised at year-end.
Acquisition from Cenovus Energy Inc (Note 4)	Our work in this area included:

Key Audit Matter	How our scope addressed this matter
During the year, the company acquired the assets of Cenovus Energy Inc. The acquisition included approximately 8,400 boepd with low-decline production and 79.5MMboe of 2P reserves. The company acquired the assets free of all encumbrances (apart from industry standard or acceptable permitted encumbrances) for gross consideration of CAD 65 million (US$53.7 million). There is a risk that the appropriate fair values have not been applied to the assets acquired and the resulting goodwill or gain on bargain purchase has been accounted for incorrectly. This is considered to be a key audit matter due to the significant judgement and estimates required by management in order to assess the fair values of the assets acquired.	• Reviewing the Asset Sale Agreement entered into between the company and Cenovus Energy Inc, reconciling the key terms within the agreement to the working paper provided by management and the accounting treatment applied; • Reviewing the fair value adjustments made by management against the book value of the assets acquired, and challenging the assumptions and inputs made by management thereto; • Review and challenge of management's assessment of the asset acquisition meeting the business combination criteria per IFRS 3. • Recalculating the resulting goodwill or gain on bargain purchase recorded in the financial statements; • Assessing whether management's presentation and disclosures relating to the resulting Goodwill or gain or bargain purchase and the estimation uncertainty are adequate. We consider Management's assessment and treatment of the acquisition reasonable.

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 contained within the Annual Report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

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

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

Responsibilities of Directors

As explained more fully in the 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, and application of audit knowledge and experience of the sector.

We determined the principal laws and regulations relevant to the group and parent company in this regard to be those arising from financial reporting legislation being IFRS for the consolidated financial statements and FRS 101 for the Company financial statements, the Companies Act 2006, taxation legislation, AIM Rules, local employment law and Canada Oil and Gas Drilling and Production Regulations.

Our audit procedures were designed to ensure the audit team considered whether there were any indications of non-compliance by the group and parent company with those laws and regulations.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, industry research, and application of cumulative audit knowledge and experience of the sector.

- We determined the principal laws and regulations relevant to the group and parent company in this regard to be those arising from:
  - Companies Act 2006
  - Canada Business Corporations Act

  - Securities Law
  - Anti Money Laundering Legislation
  - Local tax laws and regulations

- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the group and parent company with those laws and regulations. These procedures included, but were not limited to:
  - A review of the Board minutes throughout the year and post year end
  - A review of the RNS announcements;
  - A review of general ledger transactions;
  - Discussion with management;
  - Confirmation from legal advisors.

- We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, the risk relating to the valuation of the assets and liabilities acquired to be an area of potential for management bias. The valuation of the assets acquired are classified as "level 3" in the fair value hierarchy table and supporting evidence has been obtained from the financial information available to support the fair value of the assets acquired.

- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: *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

Joseph Archer (Senior Statutory Auditor)

For and on behalf of PKF Littlejohn LLP

Statutory Auditor

11 April 2022

15 Westferry Circus
Canary Wharf
London E14 4HD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Year Ended 31 December 2021**	Year Ended 31 December 2020
		£'000	£'000
Revenue	6	86,763	12,991
Production costs		(37,945)	(8,075)
Loss on risk management contracts	18	(5,485)	–
Depreciation and depletion	12	(21,643)	(4,854)
Gross profit		**21,690**	62
Administrative expenses	7	(13,094)	(5,755)
Acquisition costs	4	(256)	(1,542)
Gain on bargain purchase and asset dispositions	4	25,013	25,211
Operating profit		**33,353**	17,976
Finance costs	8	(7,609)	(7,368)
Profit before tax		**25,744**	10,608
Tax (charge) / credit for the year	9	(661)	1,110
Profit for the year		**25,083**	11,718
Other comprehensive income / (loss):			
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange differences on translation of foreign operations		1,511	(147)
Other comprehensive income / (loss) for the year, net of tax		**1,511**	(147)
Total comprehensive income for the year		**26,594**	11,571
Earnings per share		**Pence**	Pence
Earnings per share – basic	11	**2.84**	3.78
Earnings per share - diluted	11	**2.60**	3.46

All operations are continuing.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets	**Notes**	**31 December 2021**	31 December 2020
		£'000	£'000
Non-current assets			
Property, plant & equipment	12	224,080	108,509
Exploration and evaluation assets	13	49,819	48,809
Deferred tax asset	9	–	1,052
Other non-current assets		74	678
Total non-current assets		**273,973**	159,048
Current assets			
Cash and cash equivalents		15,335	6,178
Trade and other receivables	14	25,503	8,731
Risk management contracts	18	814	–
Inventory		665	164
Total current assets		**42,317**	15,073
Current liabilities			
Trade and other payables	15	(19,709)	(13,156)
Risk management contracts	18	(925)	–
Borrowings and leases	16	(69)	(28)
Decommissioning provision	17	(2,368)	(1,234)
Total current liabilities		**(23,071)**	(14,418)
Net current assets		**19,246**	655
Non-current liabilities			
Non-current accounts payable	15	(557)	(3,000)
Borrowings and leases	16	(23,855)	(17,958)
Decommissioning provision	17	(123,155)	(65,549)
Deferred tax liability	9	(7,486)	–
Total non-current liabilities		**(155,053)**	(86,507)
Net assets		**138,166**	73,196
Capital and reserves			
Ordinary shares	19	113	70
Deferred shares	19	50	50
Share premium	19	44,203	61,605
Share-based payment reserve	20	9,102	6,337
Warrants – LNs	16	2,045	9,714
Foreign currency translation reserve		1,364	(147)
Retained earnings / (accumulated deficit)		81,289	(4,433)
Shareholders' funds		**138,166**	73,196

The accompanying notes form an integral part of these financial statements.

The consolidated financial statements of i3 Energy plc, company number 10699593, were approved by the Board of Directors and authorised for issue on 11 April 2022. Signed on behalf of the Board of Directors by:

Majid Shafiq

Majid Shafiq, Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Ordinary shares	Share premium	Deferred shares	Share-based payment reserve	Warrants - LN	Foreign currency translation reserve	Retained earnings	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 December 2019		11	32,572	50	3,803	11,375	–	(16,151)	31,660
Total comprehensive income for the year		–	–	–	–	–	(147)	11,718	11,571
Transactions with owners:									
Issue of share capital	19	58	27,372	–	–	–	–	–	27,430
Exercise of warrants – LNs	20	1	1,661	–	–	(1,661)	–	–	1
Share-based payment expense	20	–	–	–	2,534	–	–	–	2,534
Balance at 31 December 2020		70	61,605	50	6,337	9,714	(147)	(4,433)	73,196
Total comprehensive income for the year		–	–	–	–	–	1,511	25,083	26,594
Capital reduction	19	–	(64,056)	–	–	–	–	64,056	–
Transactions with owners:									
Issue of share capital	19	36	37,970	–	–	–	–	–	38,006
Exercise of options	20	2	112	–	–	–	–	–	114
Exercise of warrants	20	5	8,572	–	(452)	(7,669)	–	–	456
Share-based payment expense	20	–	–	–	3,217	–	–	–	3,217
Dividends declared in 2021	19	–	–	–	–	–	–	(3,417)	(3,417)
Balance at 31 December 2021		**113**	**44,203**	**50**	**9,102**	**2,045**	**1,364**	**81,289**	**138,166**

The accompanying notes form an integral part of these financial statements.

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
Warrants – LNs	Represents the accumulated balance of share-based payment charges recognised in respect of warrants granted by the Company in respect to warrants granted to the loan note holders
Foreign currency translation reserve	Exchange differences arising on consolidating the assets and liabilities of the Group's non-Pound Sterling functional currency operations (including comparatives) recognised through the Consolidated Statement of Other Comprehensive Income.
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 consolidated nominal value exceeds the required minimum issued capital of £50,000.

CONSOLIDATED STATEMENT OF CASH FLOW

	Notes	Year ended 31 December 2021	Year ended 31 December 2020
		£'000	£'000
OPERATING ACTIVITIES			
Profit / (loss) before tax		25,744	10,608
Adjustments for:			
Depreciation and depletion	12	21,643	4,854
Gain on bargain purchase and asset dispositions	4	(25,013)	(25,211)
Finance costs	8	7,609	7,368
Unrealised loss on risk management contracts	18	111	–
Unrealised FX (gain) / loss	7	(154)	68
Share-based payments expense – employees (including NEDs)	7	3,217	336
Operating cash flows before movements in working capital:			
(Increase) in trade and other receivables		(15,297)	(7,217)
Increase in trade and other payables		6,862	4,974
(Increase) / decrease in inventory		(283)	69
Net cash from / (used in) operating activities		**24,439**	(4,151)
INVESTING ACTIVITIES			
Business acquisitions	4	(37,079)	(18,474)
Cash assumed on business acquisitions	4	–	262
Expenditures on property, plant & equipment		(9,465)	(229)
Disposal of property, plant & equipment		529	–
Expenditures on exploration and evaluation assets		(3,317)	(17,403)
Expenditure on decommissioning oil and gas assets	17	(648)	(131)
Tax credit for R&D expenditure	9	487	383
Net cash used in investing activities		**(49,493)**	(35,592)
FINANCING ACTIVITIES			
Proceeds on issue of ordinary shares, net of issue costs	19	38,125	27,253
Interest and other finance charges paid	8	(448)	(114)
Lease payments	16	(30)	(10)
Dividends paid	19	(3,417)	–
Net cash from financing activities		**34,230**	27,129
Effect of exchange rate changes on cash		(19)	(278)
Net Increase / (decrease) in cash and cash equivalents		**9,157**	(12,892)
Cash and cash equivalents, beginning of year		6,178	19,070
CASH AND CASH EQUIVALENTS, END OF YEAR		**15,335**	6,178

Included within cash and cash equivalents is £315 thousand of restricted cash, which relates to guarantees for product marketing.

Non-current accounts payables reconciliation is show in note 15 and the debt reconciliation is shown in note 16.

The accompanying notes form an integral part of these financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

1 General information

i3 Energy plc ("the Company") is a Public Company, limited by shares, registered in England and Wales under the Companies Act 2006 with registered number 10699593. The Company's ordinary shares are traded on the Toronto Stock Exchange and 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 appraisal of oil and gas assets on the UK Continental Shelf and of oil and gas production in Western Canadian Sedimentary Basin.

2 Basis of preparation

The financial statements of i3 Energy plc have been prepared in accordance with UK-adopted international accounting standards in accordance with the requirements of the Companies Act 2006 and in accordance with the requirements of the AIM rules.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The financial information is presented in Pounds Sterling (£, GBP), which is the Company's functional currency, and rounded to the nearest thousand unless otherwise stated. The functional currency of the Company's UK subsidiary, i3 Energy North Sea Limited, is GBP, and the functional currency of its Canadian subsidiary, i3 Energy Canada Limited, is CAD.

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.

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 2021.

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 Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have 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 financial statements. The use of this basis of accounting takes into consideration the Group's current and forecast financing position, additional details of which are provided in the going concern section of the Directors' Report on page 38.

3 Significant accounting policies

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 impairment of these receivables using the expected credit loss model. 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.

Trade and other payables

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

Loan Notes

These financial liabilities are all interest bearing and are initially recognised at amortised cost and include the transaction costs directly related to the issuance. The transaction costs are amortised using the effective interest rate method over the life of the Loan Notes.

Financial liabilities at Fair Value Through Profit or Loss (“FVTPL”)

Financial liabilities at FVTPL comprise of the Group’s risk management contracts and non-current accounts 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 IFRS 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 statement of comprehensive income.

3 Significant accounting policies - continued

Risk management contracts

Financial risk management contracts are measured and recognised in accordance with the Group's accounting policy for financial liabilities at FVTPL as described above. Physical risk management contracts represent physical delivery sales contracts in the ordinary course of business and are therefore not recorded at fair value in the consolidated financial statements. Settlements on these physical risk management contracts are recognised within realised gains or losses on risk management contracts at the time of settlement.

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.

Leases

Lease liabilities are initially measured at the present value of lease payments unpaid at the commencement date. Lease payments are discounted using the incremental borrowing rate (being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions) unless the rate implicit in the lease is available. The Group currently uses the rate implicit in the lease as the discount rate for all leases. For the purposes of measuring the lease liability, lease payments comprise fixed payments.

Right-of-use assets are measured at cost, which comprises the initial measurement of the lease liability, plus any lease payments made prior to lease commencement, initial direct costs incurred and the estimated cost of restoration or decommissioning, less any lease incentives received. The right-of-use assets is depreciated on a straight-line basis over their expected useful lives. Right-of-use assets are subject to an impairment test if events and circumstances indicate that the carrying value may exceed the recoverable amount.

Lease repayments made are allocated to capital repayment and interest so as to produce a constant periodic rate of interest on the remaining lease liability balance.

Right-of-use assets are presented within property, plant, and equipment. Lease liabilities are presented within borrowings and leases. In the cash flow statement, lease repayments (both the principal and interest portion) are presented within cash used in financing activities, except for payments for leases of short-term and low-value assets and variable lease payments, which are presented within cash flows from operating activities.

Leases of low-value items (such as office equipment) and short-term leases (where the lease term is 12 months or less) are expensed on a straight-line basis to the statement of comprehensive income.

Inventory

Inventories comprise oil and gas in tanks and field parts and supplies, all of which are stated at the lower of production cost (including royalties, depletion and amortisation of plant, property, and equipment), and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less marketing costs. The cost of inventory is expensed in the period in which the related revenue is recognised.

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.

Foreign currency

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 statement of comprehensive income. The functional currency of the Company is GBP, and the Group results and financial position are presented in GBP.

3 Significant accounting policies - continued

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity (attributed to non-controlling interests as appropriate).

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)

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 capitalised 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.

Drilling costs and intangible licences

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 field-by-field basis. Costs are held, unamortised, within Petroleum mineral leases until such time as the exploration phase of the field area is complete or commercial reserves have been discovered. The cost of the licence is subsequently transferred into property, plant and equipment and depreciated over its estimated useful economic life.

3 Significant accounting policies - continued

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.

Impairment

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 expenditure capitalised as intangible assets. Examples of indicators of impairment include whether:

(a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed.

(b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

(c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

(d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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, which is the higher of its fair value less costs to sell and its value in use. Any impairment identified is recorded in the statement of comprehensive income.

Property, plant and equipment

Oil and gas assets - cost

Oil and gas assets are accumulated generally on a cost generating unit (CGU) basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the intangible exploration and evaluation asset expenditures incurred in finding commercial reserves transferred from intangible exploration and evaluation assets. The cost of oil and gas properties also includes the cost of directly attributable overheads, borrowing costs capitalised and the cost of recognising provision for future restoration and decommissioning.

Oil and gas assets - depreciation

Oil properties, including certain related pipelines, are depreciated using a unit-of-production method. The cost of producing wells is amortised over proved plus probable reserves. Licence acquisition, common facilities and future decommissioning costs are amortised over total proved plus probable reserves. The unit-of-production rate for the depreciation of common facilities takes into account expenditures incurred to date, together with estimated future capital expenditure expected to be incurred relating to as yet undeveloped reserves expected to be processed through these common facilities.

Oil and gas assets - impairment

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of an oil and gas property may exceed its recoverable amount.

The carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash-generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single cash-generating unit where the cash inflows of each field are interdependent.

Any impairment identified is charged to the income statement. Where conditions giving rise to impairment subsequently being reversed, the effect of the impairment charge is also reversed as a credit to the income statement, net of any depreciation that would have been charged since the impairment.

3 Significant accounting policies - continued

Non-oil and gas assets

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 where indicators of impairment are present.

Property, plant, and equipment – disposals

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Decommissioning provision

Liabilities for decommissioning costs are recognised when the Group has an obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Where an obligation exists for a new facility or item of plant, such as oil production or transportation facilities, this liability will be recognised on construction or installation. Similarly, where an obligation exists for a well, this liability is recognised when it is drilled. An obligation for decommissioning may also crystallise during the period of operation of a well, facility or item of plant through a change in legislation or through a decision to terminate operations; an obligation may also arise in cases where an asset has been sold but the subsequent owner is no longer able to fulfil its decommissioning obligations, for example due to bankruptcy. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. The provision for the costs of decommissioning wells, production facilities and pipelines at the end of their economic lives is estimated using existing technology, at future prices, depending on the expected timing of the activity, and discounted using a risk-free rate.

An amount equivalent to the decommissioning provision is recognised as part of the corresponding intangible asset (in the case of an exploration or appraisal well) or property, plant, and equipment. The decommissioning portion of the property, plant and equipment is subsequently depreciated at the same rate as the rest of the asset. Other than the unwinding of discount on or utilisation of the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding asset where that asset is generating or is expected to generate future economic benefits. If government assistance is obtained to reduce the liability, the carrying value of the decommissioning provision and the corresponding E&E or PP&E asset are reduced by the estimated amount of the extinguished liability.

Joint operations

The majority of the Group's exploration and production activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Group's interest in such activities.

Revenue

Revenue from contracts with customers is recognised, net of royalties, when or as the Group satisfies a performance obligation by transferring control of a promised good or service to a customer. The transfer of control of oil, natural gas, natural gas liquids and petroleum, and other items usually coincides with title passing to the customer and the customer taking physical possession. The Group principally satisfies its performance obligations at a point in time; the amounts of revenue recognised relating to performance obligations satisfied over time are not significant.

When, or as, a performance obligation is satisfied, the Group recognises as revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price is the amount of consideration to which the group expects to be entitled. The transaction price is allocated to the performance obligations in the contract based on standalone selling prices of the goods or services promised.

3 Significant accounting policies - continued

Contracts for the sale of commodities are typically priced by reference to quoted prices. Revenue from term commodity contracts is recognised based on the contractual pricing provisions for each delivery. Certain of these contracts have pricing terms based on prices at a point in time after delivery has been made. Revenue from such contracts is initially recognised based on relevant prices at the time of delivery and subsequently adjusted as appropriate. All revenue from these contracts, both that recognised at the time of delivery and that from post-delivery price adjustments, is disclosed as revenue from contracts with customers.

Royalty income is recognised as it accrues in accordance with the terms of the overriding royalty agreements.

Processing income is recognised at the time the services are rendered.

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.

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. When non-employee share options or warrants are exercised, the initial fair value ascribed to the instruments and recorded as a reserve is reclassified to share premium.

Business combinations

Acquisitions of business are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirers previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired, and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirers previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Changes in accounting standards

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

Standards which are in issue but not yet effective:

At the date of authorisation of these financial statements, the following Standards and Interpretation, which have not yet been applied in these financial statements, were in issue but not yet effective. The Group does not anticipate they will have a material impact.

3 Significant accounting policies - continued

Standard Interpretation	Description	Effective date for annual accounting period beginning on or after
IAS 1	Amendments – Presentation and Classification of Liabilities as Current or Non-current	TBC
IAS 16	Amendments - Property, Plant and Equipment	1 January 2022*
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1 January 2022*
IAS 8	Amendments - Definition of Accounting Estimates	1 January 2023*
IAS 1	Amendments – Disclosure of Accounting Policies	1 January 2023*
IFRS 3	Amendments – Business Combinations – Conceptual Framework	1 January 2022*
IFRS	Annual Improvements to IFRS Standards 2018-2020	1 January 2022*

**Subject to UK endorsement*

The Group has not early adopted any of the above standards and intends to adopt them when they become effective.

Critical accounting judgements and key sources of estimation uncertainty

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.

Critical Accounting Judgements

The following are critical judgements, apart from those involving estimations (which are presented separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognises in the financial statements.

Carrying value of intangible exploration and evaluation assets

At 31 December 2021, the Group held oil and gas E&E assets of £49.8 million (2020: £48.8 million), note 13. The carrying value of E&E assets are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. In making this judgement the Management considers the indicators of impairment in the intangible exploration and evaluation asset accounting policies set out above. Management has considered the expiration of the P.1987 licence on 31 December 2020, prevailing commodity prices, and budgeted spend and future activity on the P2358 licence, concluding that these do not represent an indicator of impairment. Further discussion is provided in note 13. Refer to note 24 for discussion around the early-2022 farm-out of Serenity.

3 Significant accounting policies - continued

Carrying value of property, plant and equipment – oil and gas assets

At 31 December 2021, the Group held oil and gas PP&E assets of £224.0 million (2020: £108.4 million), note 12, with the majority of the 2021 increase being acquired through the Cenovus acquisition which completed in the period, note 4. These assets are subject to an annual impairment assessment under IAS 36 'Impairment of assets' whereby management is first required to consider if there are any indicators of impairment, and if so, management is then required to estimate the asset's recoverable amounts. The judgement over indicators of impairment considers several internal and external factors, including changes in estimated commercial reserves, changes in oil prices, and changes in expected future operating and capital expenditure, decommissioning expenditure, the NPV10 of 2P reserves per the 31 December 2021 independent competent person's report, and increases in cost of capital which may indicate a higher discount rate is likely required in assessing the assets recoverable amount. After considering the above, Management has concluded that there were no indicators of impairment of oil and gas PP&E assets as at 31 December 2021.

Fair value judgements for businesses acquired

The Group completed 1 business combination during the year ended 31 December 2021. Management has applied judgement in concluding that the Group had acquired a business in the Cenovus acquisition. In accordance with IFRS 3 'Business combinations', management has then applied judgement in estimating the fair value of assets acquired and liabilities assumed, which included estimates relating to oil and gas reserves, future production rates, oil and gas prices, operating and capital expenditure, decommissioning expenditure, and discount rates. Further details are provided in note 4.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Commercial hydrocarbon reserves estimates

Commercial hydrocarbon reserves are those that can be economically extracted from the Group's oil and gas assets. These estimates are based on information compiled by independent qualified persons as at 31 December 2021 and consider a number of factors, including assumptions about future commodity prices, production rates, operating costs, exchange rates, and various geological and geophysical technical factors to model reservoir size, quality, and extractability. Reserve estimates may change from period to period. Changes to reserves estimates may have a material impact on the depreciation charge for oil and gas PP&E assets, the decommissioning provision, the carrying value of deferred tax assets, and the Group's conclusions around indicators of impairment for oil and gas PP&E assets. The reserve reports are available at https://i3.energy/.

The Group estimates it had commenced the year with 54.0 MMboe of proved plus probable reserves and acquired a further 80.7 MMboe through the Cenovus acquisition. A 1.0 MMboe increase/decrease to each of these estimates would have decreased/increased the oil and gas depreciation charge for the period by £553 thousand, respectively.

Decommissioning costs

At 31 December 2021 the Group had recorded a decommissioning provision of £125.5 million (2020: £66.8 million). In estimating the amount of the provision, Management makes various assumptions around costs, time to abandonment and inflation rates, which are discounted at long term government bond rates, see note 17.

The most difficult, subjective, or complex assumptions include the inflation rate and the discount rate, which have been selected based on market rates published by the Bank of Canada. A 0.5% increase/decrease in the inflation rate would have increased/decreased the decommissioning provision by £18.5 million and £15.4 million, respectively. A 0.5% increase/decrease in the discount rate would have decreased/increased the decommissioning provision by £15.4 million and £18.6 million, respectively.

3 Significant accounting policies - continued

Recognition and measurement of deferred tax assets

At 31 December 2021, the Group held deferred tax liabilities of £7.5 million (2020: asset of £1.1 million) which result from temporary differences at the Group's Canadian operations. This liability has been reduced by certain deferred tax assets from deductible temporary differences at the Group's Canadian operations. In accordance with IAS 12 'Income Taxes', deferred tax assets shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. The Group has generated positive cash flows and profits from its Canadian operations in 2021 and expects to continue to do so in the future. Management has applied judgement in determining the extent to which it is probable that taxable profits will be available based on estimates of future profits, which include estimates of commercial reserves, oil prices, operating and capital expenditure, and decommissioning expenditure. If future taxable profits differ from these estimates, the deferred tax asset associated with these deductible temporary differences could be derecognised and result in a deferred tax charge to the statement of comprehensive income.

4 Business combinations

On 6 July 2021 ("Cenovus ASA Date") the Group through its wholly owned subsidiary i3 Energy Canada Limited ("i3 Canada") entered into a binding purchase and sale agreement to acquire certain petroleum and infrastructure assets (the "Cenovus Assets") from Cenovus Energy Inc. ("Cenovus") for gross consideration of CAD65.0 million (£37.1 million). The transaction completed on 20 August 2021 (the "Acquisition Date") at which point i3 obtained control of the Cenovus Assets, which include approximately 8,400 boepd (51% oil and NGLs) of predictable low-decline production, 79.5 MMboe of 2P reserves, an inventory of greater than 140 net drilling locations and 80 net reactivation opportunities across approximately 212,000 net acres, an 1,140 km network of operated pipelines, and key processing facilities. The acquisition enabled the Group to expand its Canadian operations through cash flow generating assets.

The Cenovus Assets are an integrated set of activities and assets that are capable of being managed and conducted for the purpose of providing a return, and therefore constitute a business. Accordingly, the transaction has been accounted for in accordance with IFRS 3 'Business Combinations' which requires the assets acquired and liabilities assumed to be recognised on the acquisition date at their fair value.

The acquisition had an effective date of 1 April 2021 and therefore the acquisition price of CAD65 million was (i) reduced by CAD7.6 million for the income generated from the Cenovus assets between the "Economic Effective Date" of 1 May 2020 and the Acquisition Date; and (ii) increased by CAD0.9 million for interest accruing from the Economic Effective Date to the Acquisition Date at Canadian Prime + 1.0% on the Gross consideration.

The fair value of oil and gas assets is estimated based on the pre-tax net present value of PDP reserves as derived from a reserves report by a firm of independent reservoir engineers dated 30 April 2021, re-run with an effective date of 20 August 2021 with an updated price deck, discounted at a rate of 10% which management determined to be representative of the risk profile of the assets, along with the market value of the seismic data acquired as estimated from the sale price of similar data. The fair value of the decommissioning provision is estimated based on rates published by the AER. These represent a level 3 valuation in the IFRS 13 fair value hierarchy as they are based on valuation techniques that use inputs which are not based on observable market data. The fair value of the assets acquired, and liabilities assumed exceed the consideration by £24.3 million, reflecting the gain on bargain purchase which has been recorded in the statement of comprehensive income. It is likely that the gain on bargain purchase arose due to the oil price recovery between the date the purchase price was agreed and the acquisition date. Further details of the transaction are provided in the Strategic Report.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

4 Business combinations - continued

	20 August 2021 £'000
Net consideration to allocate	33,264
Property, plant, and equipment – oil and gas assets	117,416
Inventory	218
Prepaid expenses	979
Decommissioning provisions	(53,840)
Deferred tax liability	(7,247)
Gain on bargain purchase	(24,262)
Total	33,264

The Cenovus assets contributed £23.2 million revenue (net of royalties) and £16.8 million to the Group's net operating income for the period between the acquisition date and the reporting date. If the acquisition of the Cenovus assets had been completed on the first day of the financial year, Group revenues for the year would have been £118.4 million and Group net operating income would have been £66.3 million. Net operating income is a non-IFRS measure, refer to Appendix B. It is considered impractical to present the impact on profit as if the acquisition had competed on the first day of the financial year as it would require estimation of commercial reserves, future development costs, various judgements over the decommissioning provision, and certain administrative costs, all of which are not readily available to Management, and therefore the impact on net operating income has been presented instead.

Acquisition costs of £0.3 million (2020 - £1.5 million) relating to the acquisition have been recognised in the statement of comprehensive income.

A gain on asset dispositions arose upon the sale of certain oil and gas assets. Further details are provided in note 12.

The gain on bargain purchase and asset dispositions as per the consolidated statement of comprehensive income is as follows:

	2021 £'000	2020 £'000
Gain on bargain purchase	24,262	25,211
Gain on asset dispositions	751	–
Gain on bargain purchase and asset dispositions	**25,013**	25,211

5 Segmental reporting

The Chief Operating Decision Maker (CODM) is the Board of Directors. They consider that the Group operates as two segments, as follows:

- UK / Corporate - That of Corporate activities in the UK and oil and gas exploration, appraisal and development on the UKCS.
- Canada – That of oil and gas production in the WCSB.

Such components are identified on the basis of internal reports that the Board reviews regularly.

The following is an analysis of the Group's revenue and results by reportable segment in 2021:

5 Segmental reporting - continued

	UK / Corporate £'000	Canada £'000	Total £'000
Revenue	–	86,763	86,763
Production costs	–	(37,945)	(37,945)
Loss on risk management contracts	–	(5,485)	(5,485)
Depreciation and depletion	(4)	(21,639)	(21,643)
Gross (loss) / profit	**(4)**	**21,694**	**21,690**
Administrative expenses	(7,059)	(6,035)	(13,094)
Acquisition costs	–	(256)	(256)
Gain on bargain purchase and asset dispositions	–	25,013	25,013
Operating profit	**(7,063)**	**40,416**	**33,353**
Finance costs	(5,930)	(1,679)	(7,609)
(Loss) / profit before tax	**(12,993)**	**38,737**	**25,744**
Tax (charge) / credit for the year	487	(1,148)	(661)
(Loss) / profit for the year	**(12,506)**	**37,589**	**25,083**

The following is an analysis of the Group's revenue and results by reportable segment in 2020:

	UK / Corporate £'000	Canada £'000	Total £'000
Revenue	–	12,991	12,991
Production costs	–	(8,075)	(8,075)
Depreciation and depletion	(5)	(4,849)	(4,854)
Gross (loss) / profit	**(5)**	**67**	**62**
Administrative expenses	(3,335)	(2,420)	(5,755)
Acquisition costs	(989)	(553)	(1,542)
Bargain purchase gain	5,962	19,249	25,211
Operating profit	**1,633**	**16,343**	**17,976**
Finance costs	(7,108)	(260)	(7,368)
(Loss) / profit before tax	**(5,475)**	**16,083**	**10,608**
Tax credit for the year	383	727	1,110
(Loss) / profit for the year	**(5,092)**	**16,810**	**11,718**

The following is an analysis of the Group's assets and liabilities by reportable segment as at 31 December 2021 and the capital expenditure for the year then ended:

	UK / Corporate £'000	Canada £'000	Total £'000
Total assets	50,129	266,161	316,290
Total liabilities	(25,733)	(152,391)	(178,124)
Capital expenditure – E&E	1,010	–	1,010
Capital expenditure – PP&E	–	11,184	11,184

5 Segmental reporting - continued

The following is an analysis of the Group's assets and liabilities by reportable segment as at 31 December 2020 and the capital expenditure for the year then ended:

	UK / Corporate £'000	**Canada £'000**	**Total £'000**
Total assets	48,932	125,189	174,121
Total liabilities	(24,160)	(76,765)	(100,925)
Capital expenditure – E&E	2,281	–	2,281
Capital expenditure – PP&E	–	697	697

6 Revenue

All revenue is derived from contracts with customers and is comprised of the sale of oil and gas and processing income, net of royalties, as follows:

	2021 £'000	2020 £'000
Oil and natural gas liquids	61,027	7,274
Natural Gas	34,994	5,978
Royalties	(12,094)	(830)
Revenue from the sale of oil and gas	**83,927**	12,422
Processing income	2,605	569
Other operating income	231	–
Total revenue	**86,763**	12,991

All revenue is from the Group's Canadian operations. Revenue from the sale of oil and natural gas liquids is recognised at the point in time when title transfers to the purchaser. Processing income is recognised at the time the service is rendered.

During the year ended 31 December 2021, four (2020: three) customers individually totalled more than 10% of total revenues, totalling 79% (2020: 70%) in aggregate.

7 Administrative expenses

	2021 £'000	2020 £'000
Directors' fees	300	229
Employee costs*	8,503	2,879
Professional fees**	1,728	1,207
Other	2,448	1,388
Realised FX loss / (gain)	269	(16)
Unrealised FX (gain) / loss	(154)	68
Total administrative expenses	**13,094**	5,755

7 Administrative expenses - continued

* Group staff costs comprised:

	2021 £'000	2020 £'000
Wages, salaries, and benefits	6,027	3,185
Social security costs	336	44
Other pension costs	254	64
Share-based payments expense – employees (including NEDs)	3,217	336
Total staff costs	9,834	3,629
Capitalised salaries and overhead recoveries	(1,331)	(750)
Charge to the profit or loss	**8,503**	2,879

i3 Energy plc had no staff during the year ended 31 December 2021 (2020 - Nil) and therefore no payments were made. The Directors of the Group are not considered staff, and their remuneration is disclosed in note 10.

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

Average number of persons employed	**2021 Number**	2020 Number
Operations	29	13
Corporate and administration	18	7
Total	**47**	20

** Included within professional fees are fees payable to the Company's auditor and its associates for the following:

	2021 £'000	2020 £'000
Audit services		
The audit of the Company's annual accounts	120	80
The audit of the Company's subsidiaries	–	–
Total audit fees	120	80
Reporting accountant work in relation to 2020 admission documents	–	170
Total	**120**	250

8 Finance costs

	2021 £'000	2020 £'000
Accretion of loan notes (note 16)	2,824	2,355
Interest expense on loan notes (note 16)	3,144	2,487
Stock-based compensation – warrants (note 20)	451	2,198
Unwinding of discount on decommissioning provision (note 17)	1,539	214
Bank charges and interest on creditors	374	114
(Gain) / loss on BHGE DPIB (note 15)	(723)	–
Total finance costs	**7,609**	7,368

9 Taxation

Taxation credit

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

	2021 £'000	2020 £'000
Profit before income tax	25,744	10,608
Rate of Corporate Tax	40%	40%
Expected tax charge	10,298	4,243
Effects of:		
Interest and other not deductible for SCT	620	491
Permanent differences	(3,804)	(4,415)
Foreign tax rate difference	(6,585)	(3,747)
Change in estimated pool balances	179	–
Derecognition of deferred tax asset	440	2,701
R&D tax credit received	(487)	(383)
Total income tax charge / (credit)	**661**	(1,110)

Of which:	**2021 £'000**	2020 £'000
Current tax (credit) – prior years	(487)	(383)
Deferred tax charge / (credit) – current year	1,148	(727)
Total income tax charge / (credit)	**661**	(1,110)

During the year the Group received £487 thousand in R&D tax refunds in the UK in respect of the 2019 fiscal year. The difference on foreign tax rate results from the 23% rate of corporate taxation at its Canadian subsidiary.

9 Taxation - continued

Deferred tax

The components of the net deferred tax asset and the movement during the year is summarised as follows:

	At 31 December 2020 £'000	Acquired during the year £'000	Recognised in income £'000	FX movement £'000	At 31 December 2021 £'000
UK:					
Deferred tax assets:					
Losses	25,764	–	2,947	–	28,711
Valuation allowance	(6,238)	–	(2,544)	–	(8,782)
Deferred tax liabilities:					
PP&E	(19,526)	–	(403)	–	(19,929)
Net deferred tax asset	–	–	–	–	–
Canada:					
Deferred tax assets:					
Decommissioning provision	15,360	12,383	679	448	28,870
Losses	5,625	–	(3,263)	54	2,416
Risk management contracts	–	–	25	–	25
Other	157	–	48	2	207
Valuation allowance	(7,912)	–	2,360	(87)	(5,639)
Deferred tax liabilities:					
PP&E	(12,178)	(19,630)	(997)	(560)	(33,365)
Net deferred tax asset	1,052	(7,247)	(1,148)	(143)	(7,486)
Net deferred tax asset / (liability)	**1,052**	**(7,247)**	**(1,148)**	**(143)**	**(7,486)**

A deferred tax asset has not been recognised in respect of tax losses and allowances in the UK due to uncertainty over the availability of future taxable profits in the UK to offset these losses against.

The Group recognised a net deferred tax liability through the Cenovus acquisition of £7,247 thousand, and a deferred tax charge of £1,148 thousand for changes in net deductible temporary differences in the year. The deferred tax liability has been partially offset by a deferred tax asset which has been recognised in Canada to the extent that the Group anticipates probable future taxable profits to against which the assets can be utilised.

9 Taxation - continued

The Group's estimated tax pools are summarised in the following table. The non-capital tax loss pools in Canada expire over a period of 20 years. All other tax pools do not expire.

	31 December 2021 £'000	31 December 2020 £'000
UK:		
Taxable losses	29,325	20,585
Mineral extraction allowances	49,819	48,809
	79,144	69,394
Canada:		
Canadian exploration expense	3,107	3,068
Canadian development expense	7,519	4,698
Canadian oil and gas property expense	56,391	39,311
Undepreciated capital cost	11,991	8,383
Non-capital losses	10,503	24,456
Other	833	684
Total	**90,344**	80,600

10 Directors' remuneration

	Salary / Fees £'000	**Bonus £'000**	**Share based payments £'000**	**Total £'000**
2021				
Executive Directors				
Majid Shafiq	384	438	252	1,074
Graham Heath	319	358	156	833
Non-Executive Directors				
Neill Carson	60	–	51	111
Richard Ames	60	–	51	111
Linda Beal	120	–	45	165
John Festival	60	–	13	73
Total	**1,003**	**796**	**568**	**2,367**

2020	**Salary / Fees**	**Bonus**	**Share based payments**	**Total**
Executive Directors				
Majid Shafiq	313	389	–	702
Graham Heath	244	329	–	573
Non-Executive Directors				
David Knox	22	–	–	22
Neill Carson	57	–	–	57
Richard Ames	54	–	–	54
Linda Beal	70	–	–	70
John Festival	6	–	–	6
Total	766	718	–	1,484

10 Directors' remuneration - continued

Share based payments represents the difference between the exercise price and the market value of i3 shares on the date of exercise, multiplied by the number of options exercised. The comparative figures for 2020 have also been presented on this basis.

During the year the Company contributed £2 thousand to i3's CEO's pension scheme (2020 - £3 thousand).

11 Earnings per share

From continuing operations

Basic earnings or loss per share is calculated as profit/(loss) for the year, 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.

Diluted earnings or loss per share amounts are calculated by dividing losses or profits for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares.

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

	Year Ended 31 December 2021	Year Ended 31 December 2020
Earnings		
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to owners of i3 Energy (£'000)	25,083	11,718
Weighted average number of shares		
Weighted average number of Ordinary Shares – basic	883,664,352	309,889,077
Effect of dilutive potential ordinary shares:		
Share options	49,369,708	2,399,909
Warrants	32,758,752	26,700,708
Weighted average number of Ordinary Shares – diluted	965,792,812	338,989,694
Basic earnings / (loss) per share (pence)	**2.84**	3.78
Diluted earnings / (loss) per share (pence)	**2.60**	3.46

In 2021, prior to the BHGE warrant repricing on 17 May 2021, these instruments were anti-dilutive as their exercise price exceed the average market price of the Ordinary Shares over this period. Concurrent with their repricing the BHGE warrants were immediately exercised for ordinary shares. The BHGE shares were therefore included in the basic weighted average number of Ordinary Shares from 17 May 2021 but were not further included in the effect of dilutive potential ordinary shares.

In 2020, prior to the option and warrant repricing on 28 October 2020 and 23 June 2020 (note 20), respectively, these instruments were anti-dilutive as their exercise prices exceeded the average market price of the Ordinary Shares over this period. The Share options and Warrants were dilutive following their re-pricing and their impact is presented in the table above.

12 Property, plant, and equipment

	Oil and gas assets	Right of use assets	Other fixed assets	Total
Cost				
As at 1 January 2020	–	–	22	22
Acquisitions	114,826	–	–	114,826
Additions	697	110	–	807
Changes to decommissioning estimates	(2,310)	–	–	(2,310)
Decommissioning settlements under SRP and ASCP (note 17)	(104)	–	–	(104)
Exchange movement	84	(2)	–	82
As at 31 December 2020	113,193	108	22	113,323
Acquisitions	122,762	–	–	122,762
Additions	11,184	–	50	11,234
Disposals	(8,242)	–	–	(8,242)
Changes to decommissioning estimates	7,603	–	–	7,603
Decommissioning settlements under SRP and ASCP (note 17)	(324)	–	–	(324)
Exchange movement	3,857	1	–	3,858
As at 31 December 2021	**250,033**	**109**	**72**	**250,214**
Accumulated depreciation				
As at 1 January 2020	–	–	(14)	(14)
Charge for the year	(4,843)	(6)	(5)	(4,854)
Exchange movement	54	–	–	54
As at 31 December 2020	(4,789)	(6)	(19)	(4,814)
Charge for the year	(21,611)	(27)	(5)	(21,643)
Disposals	481	–	–	481
Exchange movement	(158)	–	–	(158)
As at 31 December 2021	**(26,077)**	**(33)**	**(24)**	**(26,134)**
Carrying amount at 31 December 2020	108,404	102	3	108,509
Carrying amount at 31 December 2021	**223,956**	**76**	**48**	**224,080**

During the year, i3 disposed of certain assets in its Weyburn, Marten Creek, and Drayton Valley areas for net proceeds of £529 thousand. After removing the associated decommissioning obligations, a resulting gain on disposition of £751 thousand has been recognised in the consolidated statement of comprehensive income.

Right of use assets consist of certain field vehicles whose leases commenced in September 2020.

13 Exploration and evaluation assets (Intangible)

	Year Ended 31 December 2021 £'000	Year Ended 31 December 2020 £'000
At start of year	48,809	46,528
Additions	1,010	2,281
At end of year	**49,819**	48,809

The Directors have considered the carrying value of the exploration and evaluation assets as at 31 December 2021 and concluded that no indicators of impairment arose during the period. In reaching this conclusion, the Directors have given particular attention to the relinquishment of UKCS Licence P.1987 which reached the end of its two-year second term on 31 December 2020. Licence P.1987 encompasses UK Block 13/23d which contains contingent resources for the Group's Liberator asset, which have been evaluated as sub-commercial by i3 and in an 'independent competent person' report and as such do not represent a viable commercial development. i3 may choose to re-apply for Licence P.1987 licence in the future if justified by its appraisal of the Liberator West / Minos High prospective areas and/or the Serenity discovery. The relinquishment will result in a significant saving in licence fees whilst i3 progresses its appraisal of resources on its adjoining P.2358 Licence.

This relinquishment has no impact on Licence P.2358, which commenced its four-year second term on 30th September 2020 and contains the vast majority of the resources and potential reserves in the Company's UK acreage. Licence P.2358 includes the Serenity discovery and the Liberator West and Minos High prospective areas, which will be the focus of plans for appraisal and exploration drilling.

Management also considered the active farm-out discussion which were ongoing at 31 December 2021, which ultimately led to an agreement with a new joint venture partner in early-2022. Further details are provided in note 24.

14 Trade and other receivables

	31 December 2021 £'000	31 December 2020 £'000
Trade receivables	21,982	6,295
Sales tax receivables	–	46
JV receivables	1,483	864
Prepayments & other receivables	2,038	1,526
Total trade and other receivables	**25,503**	8,731

All receivables are all due within one year.

JV receivables represent amounts due from operating partners for operating and capital activity in Canada.

The fair value of other receivables is the same as their carrying values as stated above and they do not contain any impaired assets.

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

15 Trade and other payables

	31 December 2021 £'000	31 December 2020 £'000
Trade creditors	5,169	7,780
Sales tax payable	65	–
Accruals	13,565	5,146
JV payables	910	230
Total trade and other payables	**19,709**	13,156

The average credit period taken for trade purchases is 60 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.

JV payables represent amounts due to operating partners for operating and capital activity in Canada.

Non-current accounts payable

On 2 July 2019 the Group agreed with Baker Hughes, a GE Company, and GE Oil & Gas Limited (collectively referred to as "BHGE" hereafter) that £3.0 million of oilfield service and oilfield equipment contract payments will not become payable until such time as i3 has received its first sales revenues from Liberator Phase I. This payable was previously recorded as a non-current accounts payable.

On 17 May 2021, i3 announced that it had successfully restructured legacy contracts and agreements for equipment, oil field services, and warrants with BHGE. In summary, the remainder of a £5.8 million contract for subsea trees and wellheads was cancelled, 5,277,045 warrants had an exercise price reduction to £0.0001 per share (the "Warrant Shares"), and an outstanding contingent payment for £3.0 million ("Deferred Payment Invoice Balance", or "DPIB") in oil field services and equipment that becomes payable at such time as the Company receives consideration from any sale or farm-down of its Serenity or Liberator assets will be reduced by the exercise value of the Warrant Shares, the market value of the Warrant Shares from time to time, all dividends received by BHGE associated with the Warrant Shares, and certain payments to be made to BHGE. The purpose of this restructuring was to enable i3 to become a dividend payer, as certain conditions of the abovementioned contracts prevented it from reducing its share premium account – a required step in order for i3 to effect dividend distributions to its shareholders. The incremental fair value of the modified warrants was expensed in 2021 (note 8).

The future Market Value reduction of the payable amount will vary with the trading value of i3 shares and therefore represents an embedded derivative. The entire combined contract is designated as at FVTPL. The fair value of £1,789 thousand has been calculated as the £3.0 million payable amount, less the exercise value of the Warrant Shares of £1 thousand, less cash payments of £487 thousand made against the DPIB balance, less the Market Value of the Warrant Shares of £723 thousand, which totals the 5,277,045 Warrant Shares as at the 31 December 2021 share price of 13.35p/share and £19 thousand of dividends paid to the Warrant Shares. The fair value of the combined contract is classified as Level 2 in the fair value hierarchy as defined by IFRS 13 'Fair value measurements'. £1,232 thousand is expected to be paid in 2022 has been classified as a current liability (31 December 2020: nil), and the remaining £557 thousand has been classified as a non-current liability (31 December 2020: £3.0 million). A reconciliation of the balance is as follows:

	Year Ended 31 December 2021 £'000	Year Ended 31 December 2020 £'000
At start of year	3,000	3,000
Exercise value of the Warrant Shares	(1)	–
Cash payments made during the year	(487)	–
Non-cash change in market value of the Warrant Shares (note 8)	(723)	–
At end of year	**1,789**	3,000

15 Trade and other payables - continued

	31 December 2021 £'000	31 December 2020 £'000
Of which:		
Current, within trade accounts payable	1,232	–
Non-current	557	3,000
Total	**1,789**	3,000

16 Borrowings

H1-2019 loan note facility

In May 2019, the Company completed a £22 million H1-2019 loan note facility ("H1-2019 LN"). The H1-2019 LNs have a term of 4 years, maturing on 31 May 2023 and bearing interest, payable on a quarterly basis at the Company's option (i) in cash at a rate of 8% per annum, or (ii) in kind (at i3's option) at a rate of 11% per annum by the issuance of additional H1-2019 LNs.

The noteholders were granted warrants ("H1-2019 LN Warrants") in the notional amount of £1 for each £1 of loan notes issued, with H1-2019 Warrants being issued proportionately across three series. The H1-2019 LN Warrants vested on the issue date and expire 4 years thereafter and can be exercised through either/or a combination of a cash payment and/or surrender of H1-2019 LNs plus accrued interest equal to the aggregate notional amount of the H1-2019 LN Warrants being exercised. Each H1-2019 LN Warrant gives the holder the right to convert the notional amount into such number of shares as is derived by dividing the notional amount by the exercise price. The following table outlines the terms of the warrants as at their issuance date.

	Notional amount of warrants (£)	**Exercise price upon issuance (£/share)**	**Shares to be issued upon exercise of warrants**	**Share price at issuance (£)**	**Time to maturity (years)**	**Value (£/share)**
Tranche 1	7,333,333	0.4070	18,018,018	0.39	4	0.2557
Tranche 2	7,333,333	0.4810	15,246,015	0.39	4	0.2435
Tranche 3	7,333,333	0.5550	13,213,213	0.39	4	0.2313

Total fair value of the Tranche 1, Tranche 2 and Tranche 3 warrants on issuance was £11,375,184 and was bifurcated from the debt contract and classified as equity.

The H1-2019 LNs are comprised of the following components: the debt contract, the conversion feature, the interest rate payment option and the early conversion feature (at i3's option). At inception the debt component was recorded at an estimated fair value of £10,624,816. The debt balance is unwound using the effective interest rate method to the principal value at maturity with a corresponding non-cash accretion charge to earnings.

On the 23 June 2020 the Company amended the 30 April 2020 Development Funding Long-stop Date (previously amended on 8 November 2019 when the Majority Noteholders of the Company's secured loan notes agreed to extend the date by which the Company must either inter into a reserves-based lending facility or find an alternative means of funding to achieve first oil from the Liberator field, to 30 April 2020). As the Company was not in a position to enter into such a facility by 30 April 2020, the Company and the Majority Noteholders have come to an agreement to waive this condition in return for certain amendments to the May 2019 Loan Note Instrument and the associated Warrant Instruments.

The Loan Note Instrument Amendments are as follows:

16 Borrowings - continued

The obligation to enter into a development facility for Liberator by a certain date has been removed. A new Corporate Development Long-stop Date had been set for 30 September 2020 prior to which i3 has to achieve one of the following Corporate Development Longstop Conditions:

- Secure firm irrevocable commitments for a minimum £15 million of unsecured or fully subordinated financing, subject only to closing mechanics; or
- Agree a farm-out and/or funding term sheet, subject only to legal documentation to fund the drilling of a least one appraisal well on Serenity during 2020 or 2021; or
- Execute an acquisition agreement for at least 2500 boepd of production net to i3.

In addition, the Company has an obligation to achieve net corporate production at or above 5000 boepd by 30 April 2021. These requirements were met with the completion of the Gain acquisition on 3 September 2020.

The Loan Note Instrument amendments include the requirement that the currently outstanding i3 management options will be cancelled, and replacement options will be issued to i3 staff and Directors which replicate the terms of the adjusted Loan Note warrants (the "New Options") in relation to the exercise price, to seek alignment between the Noteholders and management (note 20).

The Warrant Instrument Amendments are as follows:

All warrants associated with the Loan Notes will have their strike prices reset to the nominal value of i3 shares (£0.0001/share). The Company calculated the difference in the fair value of the unmodified and modified warrants at the modification date of June 23, 2020, resulting in an additional expense of £2,199 thousand recognised in share-based payment expense in 2020 (note 20). 40,140,172 H1-2019 LN Warrants were exercised in 2021 (note 20).

The H1-2019 LNs are redeemable before the maturity date and the holders are secured against the Group's assets. The Company may repay all or part of the H1-2019 LNs within the first 12 months at 116% of par and at par plus accrued interest thereafter. The fair value of the repayment option is nil at 31 December 2021.

Interest expense and accretion expense to 31 December 2021 was £3,144 thousand and £2,824 thousand respectively.

Borrowings reconciliation

	H1-2019 LN £'000	Leases £'000	Total £'000
At 31 December 2019	13,046	–	13,046
New leases	–	110	110
Increase through interest (non-cash)	2,486	1	2,487
Accretion expense (non-cash)	2,355	–	2,355
Lease payments (cash)	–	(10)	(10)
Exchange movement (non-cash)	–	(2)	(2)
At 31 December 2020	17,887	99	17,986
Increase through interest (non-cash)	3,144	2	3,146
Accretion expense (non-cash)	2,824	–	2,824
Lease payments (cash)	–	(30)	(30)
Exchange movement (non-cash)	–	(2)	(2)
At 31 December 2021	**23,855**	**69**	**23,924**

16 Borrowings - continued

	H1-2019 LN £'000	Leases £'000	Total £'000
Of which:			
Current	–	69	69
Non-current	23,855	–	23,855
At 31 December 2021	**23,855**	**69**	**23,924**

17 Decommissioning provision

	Year Ended 31 December 2021 £'000	Year Ended 31 December 2020 £'000
At start of year	66,783	–
Liabilities assumed through acquisitions	56,350	69,092
Liabilities incurred	312	–
Liabilities disposed	(7,984)	–
Liabilities settled	(670)	(109)
Liabilities settled under SRP and ASCP	(324)	(104)
Change in estimates	7,603	(2,310)
Unwinding of discount (Note 8)	1,539	214
Exchange movement	1,914	–
At end of year	**125,523**	66,783

	31 December 2021 £'000	31 December 2020 £'000
Of which:		
Current	2,368	1,234
Non-current	123,155	65,549
Total	**125,523**	66,783

A summary of the key estimates and assumptions are as follows:

	31 December 2021	31 December 2020
Undiscounted / uninflated cash flows (CAD, thousands)	207,371	122,926
Inflation rate	1.82%	1.00%
Discount rate	1.68%	1.21%
Timing of cash flows	1-50 years	1-50 years

Liabilities settled reflect work undertaken in the period. This includes wells decommissioned under Alberta's Site Rehabilitation Program ("SRP") and Saskatchewan's Accelerated Site Closure Program ("ASCP") whereby certain costs of settling the Group's liabilities were borne by the Government of Canada. Where liabilities were settled through the SRP a corresponding decrease to the decommissioning asset was recorded. The change in estimate for the year ended 31 December 2021 was primarily driven by changes in market interest and inflation rates as published by the Bank of Canada.

18 Risk management contracts

In 2021, the Group entered a variety of risk management contracts to hedge a portion of the Group's exposure to fluctuations in prevailing commodity prices for oil, gas, and natural gas liquids. The Group's physical commodity contracts represent physical delivery sales contracts in the ordinary course of business and are therefore not recorded at fair value in the consolidated financial statements. The Group's financial risk management contracts have not been designated as hedging instruments in a hedge relationship under IFRS 9 and are carried at fair value through profit and loss. The financial risk management contracts are classified as Level 2 in the fair value hierarchy as defined by IFRS 13 'Fair value measurements' (note 22).

The principal terms of the risk management contracts held as at 31 December 2021 are presented in the table below.

Type	Effective date	Termination date	Total Volume	Avg. Price
AECO 5A Financial Swaps	1 Nov 2021	31 Mar 2022	10,000 GJ/Day	CAD 4.0975 / GJ
AECO 5A Physical Swaps	1 Nov 2021	31 Mar 2022	15,000 GJ/Day	CAD 4.3313 / GJ
AECO 5A Physical Swaps	1 Apr 2022	31 Dec 2022	9,000 GJ/Day	CAD 3.6244 / GJ
Chicago Physical Basis Differential	1 Dec 2021	31 Mar 2022	5,000 MMBtu/Day	(USD 1.0450) / MMBtu
WTI Financial Swaps	1 Jan 2022	31 Mar 2022	350 bbl/Day	CAD 83.04 / bbl
WTI Financial Swaps	1 Apr 2022	31 Dec 2022	500 bbl/Day	CAD 87.86 / bbl
Purchased WTI Put Option *	1 Jan 2022	31 Dec 2022	1,000 bbl/Day	CAD 92.20 / bbl
Conway Financial Swaps	1 Jan 2022	31 Dec 2022	500 bbl/Day	USD 1.1175 / gal

* The purchased WTI put option has a strike price of CAD 92.20 / bbl and a premium of CAD 11.00 / bbl. The option premium has been deferred over the effective period of 1 January 2022 to 31 December 2022 and the resulting liability is included in the net carrying value of the financial instrument as of 31 December 2021.

The Group's losses on risk management contracts are presented in the following table.

	2021 £'000	2020 £'000
Unrealised loss on risk management contracts	111	–
Realised loss on risk management contracts	5,374	–
Total	**5,485**	–

19 Authorised, issued and called-up share capital

	Issuance date	Ordinary shares	Deferred shares	Nominal value per Share	Ordinary shares	Deferred shares	Share premium before share issuance costs	Share issuance costs	Share premium after Share issuance costs
		Shares	Shares	£	£'000	£'000	£'000	£'000	£'000
At 31 December 2019		107,719,400	5,000	–	11	50	33,965	(1,393)	32,572
Warrants exercised at 0.01 pence/share	24 Aug 20	6,788,945	–	0.0001	1	–	1,661	–	1,661
Issued at 5 pence/share	28 Aug 20	581,147,255	–	0.0001	58	–	29,000	(1,806)	27,194
Issued for Toscana acquisition	30 Oct 20	4,399,215	–	0.0001	–	–	178	–	178
At 31 December 2020		700,054,815	**5,000**	–	**70**	**50**	**64,804**	**(3,199)**	**61,605**
Issued on exercise of 0.01 pence H1-2019 warrants	Various	40,140,172	–	0.0001	4	–	7,669	–	7,669
Issued on exercise of 0.01 pence options	Various	15,303,960	–	0.0001	2		–	–	–
Issued on exercise of 5 pence options	Various	1,700,000	–	0.0001	–	–	85	–	85
Issued on exercise of 0.01 pence BHGE warrants	4 Jun 21	5,277,045	–	0.0001	1	–	903	–	903
Capital reduction *	6 Jul 21	–	–	–	–	–	(67,255)	3,199	(64,056)
Issued at 11 pence/share	27 Jul 21	363,700,000	–	0.0001	36	–	39,970	(2,000)	37,970
Issued on exercise of 11 pence EMI options	1 Oct 21	250,000	–	0.0001	–	–	27	–	27
At 31 December 2021		1,126,425,992	**5,000**	–	**113**	**50**	**46,203**	**(2,000)**	**44,203**

* On 6 July 2021 the Registrar of Companies registered the cancellation of i3's share premium account. The £64.1 million balance of the Group's share premium net of share issuance costs was accordingly transferred to retained earnings. This created distributable reserves and enables the Company to become dividend paying.

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.

£3.4 million of dividends were proposed and paid in 2021 (2020 - Nil) as follows:

Declaration date	Ex-Dividend date	Record date	Payment date	Dividend per share	Total Dividend
				(pence)	£'000
8 July 2021	15 July 2021	16 July 2021	6 August 2021	0.16	**1,163**
27 September 2021	7 October 2021	8 October 2021	29 October 2021	0.20	**2,254**
Total					**3,417**

20 Share-based payments

During the year the Group had share based payment expense of £3,668 thousand (2020: £2,534 thousand).

Employee and NED Share Options

During the year the Group had share based payment expense relating to the issuance of share options of £3,217 thousand (2020: £335 thousand). Details on the employee and NED share options outstanding during the period are as follows:

	Number of options	Weighted average exercise price (pence)	Weighted average contractual life
At 31 December 2019	12,252,013	46.03	8.91
Cancelled – 28 October 2020	(12,252,013)	46.03	8.09
Issued – 28 October 2020	12,128,955	0.01	4.00
Issued – 3 December 2020	4,028,659	0.01	4.00
At 31 December 2020	16,157,614	0.01	3.85
Issued – 10 January 2021	13,166,358	6.10	10.00
Issued – 10 January 2021	75,184,252	5.00	10.00
Issued – 30 July 2021	57,121,402	11.00	10.00
Issued – 16 December 2021	1,625,000	11.00	10.00
Exercised during the year	(17,003,960)	0.51	3.98
Forfeited during the year	(2,290,291)	7.62	9.75
At 31 December 2021	**143,960,375**	**7.48**	**9.22**

On 10 January 2021, the Company issued options over a total of 75,184,252 ordinary shares as described in the Gain-related Readmission document released on 11 August 2020. The options were issued in accordance with the rules of the Company's Employee Share Option Plan at an exercise price of 5 pence per share. Of the options issued to employees of i3 Canada. One-third of the options vested immediately, with a further one-third vesting in July 2021 if production exits at or above 9,000 boepd, and 100 per cent will vest if there is an addition of 5,000 boepd or, alternatively, 25 MMboe 2P reserves. Of the options issued to employees of i3 North Sea Limited, one-third of the options vested immediately, with a further one-third vesting at the spud of the next Serenity / Liberator appraisal well, and 100 per cent will vest upon a third-party reserve auditor attributing 25 MMbbls 2P post drilling of a Serenity / Liberator appraisal well. The options will otherwise fully vest on the third anniversary. Of the options issued to the Executive and Non-Executive Directors and one corporate employee, one-third of the options vested immediately, with a further one-third vesting upon the earlier of spud of the next Serenity or Liberator appraisal well; and July 2021 production exits being at or above 9,000 boepd, and 100% will vest upon the earlier of a third-party reserve auditor attributing 25 MMbbls 2P post drilling of a Serenity or Liberator appraisal well and the addition of 5,000 boepd or 25 MMboe 2P reserves. The fair value was calculated using the Black Scholes model with inputs for stock price of 6.10 pence, exercise price of 5.0 pence, time to maturity of 10 years, volatility of 114%, the Risk-Free Interest rate of 0.360%, and a dividend yield of 11%. The resulting fair value of £1,384 thousand will be expensed over the expected vesting period.

On 10 January 2021, the Company also issued options over a total of 13,166,358 ordinary shares to key staff that joined its Canadian subsidiary, i3 Energy Canada Ltd., following the acquisition of Gain's oil & gas assets. The options were issued in accordance with the rules of the Company's Employee Share Option Plan at an exercise price of 6.1 pence per share, the closing price on 8 January 2021The fair value was calculated using the Black Scholes model with inputs for share price of 6.1 pence, exercise price of 6.1 pence, time to maturity of 10 years, volatility of 114%, the Risk-Free Interest rate of 0.360%, and a dividend yield of 11%. The options contain the same vesting conditions as the 5 pence options for employees of i3 Canada as described in the paragraph above. The resulting fair value of £240 thousand will be expensed over the expected vesting period.

20 Share-based payments - continued

On 30 July 2021, the Company issued options over a total of 53,705,491 ordinary shares to i3 staff and board and has additionally issued 1,750,000 options to incoming staff and conditionally allocated 3,750,000 for additional hires as part of the Acquisition. A total of 57,121,402 options were ultimately issued. The options were issued in accordance with the rules of the Company's Employee Share Option Plan at an exercise price of 11 pence per share. Of the options issued to employees of i3 Canada, one-third of the options vested immediately, with a further one-third vesting if production of 20,000 boepd is achieved prior to July 2022 (substantially funded from internally generated cash flow); and 100 per cent will vest upon the addition of 9,250 boepd or 50 MMboe 2P reserves. Of the options issued to employees of i3 North Sea Limited, one-third of the options vested immediately, with a further one-third vesting at spud of the earlier of a second appraisal well or first development well at either Serenity or Liberator, and 100 per cent will vest upon the addition of 2,500 boepd of European production. Of the options issued to the Executive and Non-Executive Directors and one corporate employee, one-third of the options vested immediately, with a further one-third vesting (i) at spud of the earlier of a second appraisal well or first development well at either Serenity or Liberator; or (ii) if production of 20,000 boepd is achieved prior to July 2022 (substantially funded from internally generated cash flow), whichever is first to occur, and 100 per cent will vest upon (i) the addition of 2,500 boepd of European production; or (ii) the addition of 9,250 boepd or 50 MMboe 2P reserves, whichever is first to occur. The fair value was calculated using the Black Scholes model with inputs for stock price of 10.95 pence, exercise price of 11.0 pence, time to maturity of 10 years, volatility of 110%, the Risk-Free Interest rate of 0.647%, and a dividend yield of 6%. The resulting fair value of £3,202 thousand will be expensed over the expected vesting period.

On 16 December 2021, the Company issued options over a total of 1,625,000 to new employees of i3 Canada. The vesting conditions mirror those of the 30 July 2021 grant described above, except for the first one-third of options vesting on the 6-month employment anniversary rather than immediately.

In addition, to incentivise the UK and Canadian offices of the Enlarged Group to work as one team and assist each other as required going forward, if one of the offices satisfies one of the early vesting criteria for the options described above then the equivalent vesting criteria for the other office shall be deemed 20 per cent satisfied (and a further 6.67 per cent. of the options held by employees in the other office would vest immediately).

All options issued on 10 January 2021, 30 July 2021, and 16 December 2021 will otherwise fully vest on the third anniversary of their grant dates.

99,721,892 outstanding employee share options as at 31 December 2021 were fully vested and exercisable.

Warrants

During the year the Group had share based payment expense relating to the modification and issuance of warrants of £451 thousand (2020: £2,198 thousand). Details on the warrants outstanding during the period are as follows:

	Number of warrants	Weighted average exercise price (pence)	Weighted average contractual life
At 31 December 2019	65,483,293	46.98	3.04
Modified – 23 June 2020	(55,981,044)	46.09	2.67
Modified – 23 June 2020	55,981,044	0.01	2.67
Exercised – 24 August 2020	(6,788,945)	0.01	2.77
At 31 December 2020	58,694,348	5.27	1.98
BHGE warrants modified – 17 May 2021	(5,277,045)	56.85	0.34
BHGE warrants modified – 17 May 2021	5,277,045	0.01	0.34
BHGE warrants exercised – 17 May 2021	(5,277,045)	0.01	0.3
H1-2019 LN warrants exercised throughout the year	(40,140,172)	0.01	1.34
At 31 December 2021	**13,277,131**	15.07	1.85

20 Share-based payments - continued

On 17 May 2021, i3 announced that it had successfully restructured legacy contracts and agreements for equipment, oil field services, and warrants with BHGE. This resulted in the exchange of 5,277,045 warrants with a strike price of 56.85 pence for Ordinary Shares with a nominal value of 0.01 pence. Further details are provided in Note 15.

EMI Options

The Company operates an Employee Management Incentive (EMI) share option scheme. Grants were made 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.

250,000 options were exercised on 1 October 2021 at a price of £0.11 per share. 250,000 options remain outstanding and were exercisable at both 31 December 2021 and 2020 at a price of £0.11 per share. 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. The options outstanding at 31 December 2021 have a weighted average exercise price of £0.11 and a weighted average remaining contractual life of 4.93 years.

21 Related party transactions

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

Remuneration of Key Management Personnel

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

Ultimate parent

There is no ultimate controlling party of the Group.

22 Financial instruments, financial and capital risk management

Financial instruments

Fair value measurements

The Group carries risk management contracts, and following its modification in May 2021, non-current accounts payable at FVTPL. The fair value of the risk management contracts is determined by discounting at a risk-free rate the difference between the contracted prices and the published forward curves at the reporting date. The fair value of non-current accounts payable is determined by subtracting the value of the Warrant Shares, being the 5,277,045 Warrant Shares multiplied by the higher of (i) the quoted price of one i3 share at the reporting date, and (ii) the 5-day volume weighted average value of one i3 share during the 5-day dealing period to 17 September 2021, from the remaining Deferred Payment Invoice Balance. The risk management contracts and non-current accounts payable are classified as Level 2 valuations within the fair value hierarchy as defined by IFRS 13 *Fair Value Measurement* which is as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no financial assets or liabilities measured at Level 1 or 3 or reclassified between Levels 1, 2 or 3 during the year.

22 Financial instruments, financial and capital risk management - continued

The fair value of the Group's financial assets and liabilities approximate to their carrying amounts at the reporting date. The following tables combine information about the Group's classes of financial instruments and their fair value and carrying amounts at the reporting date.

As at 31 December 2021	Carried at FVTPL	Carried at amortised cost
Financial assets		
Cash and cash equivalents	–	15,335
Trade and other receivables	–	25,792
Risk management contracts (Level 2)	814	–
Total	814	41,127
Financial liabilities		
Trade and other payables	1,232	17,746
Risk management contracts (Level 2)	925	–
Borrowings and leases	–	23,924
Non-current accounts payable (Level 2)	557	–
Total	2,714	41,670

As at 31 December 2020	Carried at FVTPL	Carried at amortised cost
Financial assets		
Cash and cash equivalents	–	6,178
Trade and other receivables	–	8,731
Deposit	–	678
Total	–	15,587
Financial liabilities		
Trade and other payables	–	13,156
Borrowings and leases	–	7,986
Non-current accounts payable	–	3,000
Total	–	24,142

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.

22 Financial instruments, financial and capital risk management - continued

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 Canadian dollar and US Dollar. Foreign exchange risk arises from recognised monetary assets and liabilities (USD and CAD bank accounts) where they may be denominated in a currency that is not the local functional currency. The Group mitigates is foreign exchange exposure by holding monetary assets and liabilities primarily in the local functional currency. All of the monetary assets and liabilities held by the Group's Canadian operations were held in CAD, the functional currency, and therefore there is no foreign exchange exposure in the Canadian operations. The UK operations did not hold significant monetary assets or liabilities as at 31 December 2021.

The Group is also exposed to exchange differences on translation of its foreign operations in Canada, which resulted in a gain of £1,511 thousand for the year ended 31 December 2021 (2020: £185 thousand). A 10% strengthening of GBP against CAD as at 31 December 2020 would have resulted in a loss on translation of £8,876 thousand (2020: £4,522 thousand), and a 10% weakening of GBP to CAD would have resulted in a gain of £14,222 thousand (2020: £5,201 thousand). Profit after tax would not be impacted.

b Credit Risk

Credit risk arises from cash and cash equivalents and trade receivables from the sale of hydrocarbons. It is Group policy to assess the credit risk of new customers.

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 sells hydrocarbons to reputable purchasers and are settled the month following their sale. Long-term deposits for decommissioning provisions are lodged with government bodies. The carrying value of cash and cash equivalents and trade and other receivables represents the Group's maximum exposure to credit risk at year end.

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 Canadian Dollar, 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.

c Liquidity Risk

The Group relies upon debt and equity funding, and cash flow from its Canadian operations to finance operations. The Directors are confident that adequate liquidity 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.

The Group's expected cash flows for its financial liabilities are presented in the following table and includes undiscounted principal and expected interest payments.

	6 Months	**6-12 months**	**1-2 years**	**2+ years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Trade and other payables	18,970	740	–	–	19,710
Non-current payable *	–	–	557	–	557
H1 2019 LNs	–	–	22,000	–	22,000
H1 2019 PIK interest **	–	–	9,680	–	9,680
Leases	11	6	–	–	17
At 31 December 2021	**18,981**	**746**	**32,237**	–	**51,964**

22 Financial instruments, financial and capital risk management - continued

	6 Months £'000	6-12 months £'000	1-2 years £'000	2+ years £'000	Total £'000
Trade and other payables	13,155	–	–	–	13,155
Non-current payable *	–	–	–	3,000	3,000
H1 2019 LNs	–	–	–	22,000	22,000
H1 2019 PIK interest **	–	–	–	9,680	9,680
Leases	15	15	17	–	47
At 31 December 2020	13,170	15	17	34,680	47,882

* The non-current payable will not become payable until such time as i3 has received consideration from any sale or farm-down of its Serenity or Liberator assets (see note 15). However, as the DPIB will be reduced by certain payments to BHGE, management expects the balance will be repaid by 2023.

** The H1 2019 LNs have an early redemption option and the interest can be paid in either cash or in kind (see note 16). The table assumes no early redemption and that all interest is paid in kind at the maturity.

d Commodity Price Risk

Commodity price risk in the Group primarily arises from price fluctuations in markets for the Group's oil, gas and NGL products. Commodity prices can be volatile and may be impacted by various supply and demand factors which are outside the Group's control. Fluctuations in commodity prices could have a significant impact on future results of operations, cash flow generation, and development opportunities.

The Group manages commodity price risks by entering a variety of risk management contracts. Further details of risk management contracts entered in 2021 are provided in note 18, and of risk management contracts entered after the reporting period are provided in note 24.

The following table illustrates the impact on the Group's profit before tax and equity due to reasonably possible changes in commodity prices and their impact on the fair value of financial instruments, with all other variables held constant.

	Decrease in commodity price / increase in profit before loss and equity £'000	Increase in commodity price / (decrease) in profit before loss and equity £'000
Change in WTI – CAD 5.00 / bbl	1,555	(651)
Change in AECO – CAD 0.50 / GJ	262	(262)
Change in Conway – USD 5.00 / bbl	677	(677)

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 development and production activities. The capital structure of the Group consists of borrowings and leases of £23,924 thousand at 31 December 2021 (2020 - £17,986 thousand) (note 16), has capital, defined as the total equity and reserves of the Group of £138,731 thousand (2020 - £79,888 thousand) and cash and equivalents of £15,335 thousand (2020 - £6,178 thousand).

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.

23 Commitments

	1 year £'000	2-3 years £'000	4-5 years £'000	5+ years £'000	Total £'000
Operating	–	–	–	–	–
Transportation	1,663	1,322	298	55	3,338
Total	**1,663**	**1,322**	**298**	**55**	**3,338**

The Group previously held an operating commitment to lease offices in the UK that expired in April 2022, which was terminated early by the Group in 2021.Transportation commitments relate to take-or-pay pipeline capacity in Alberta.

The Group did not have any capital commitments as at 31 December 2021 (2020 - £3,960 thousand).

24 Events after the reporting period

After 31 December 2021 i3 entered into various risk management contracts, as summarised below.

Type	Effective date	Termination date	Total Volume	Avg. Price
AECO 5A Physical Swaps	1 Apr 2022	30 Jun 2022	7,500 GJ/Day	CAD 3.2500 / GJ
AECO 5A Physical Swaps	1 Apr 2022	31 Oct 2022	20,275 GJ/Day	CAD 3.9371 / GJ
AECO 5A Physical Swaps	1 Jul 2022	31 Jul 2022	7,500 GJ/Day	CAD 3.2700 / GJ
AECO 5A Physical Swaps	1 Aug 2022	31 Aug 2022	7,500 GJ/Day	CAD 3.3300 / GJ
AECO 5A Physical Swaps	1 Sep 2022	30 Sep 2022	7,500 GJ/Day	CAD 3.2600 / GJ
AECO 5A Physical Swaps	1 Oct 2022	31 Dec 2022	7,500 GJ/Day	CAD 3.5000 / GJ
AECO 5A Physical Swaps	1 Nov 2022	30 Nov 2022	2,500 GJ/Day	CAD 5.0050 / GJ
AECO 5A Financial Swaps	1 Nov 2022	31 Mar 2023	10,000 GJ/Day	CAD 4.1500 / GJ
AECO 5A Physical Swaps	1 Nov 2022	31 Mar 2023	5,000 GJ/Day	CAD 4.3800 / GJ
AECO 5A Physical Swaps	1 Dec 2022	31 Dec 2022	2,500 GJ/Day	CAD 5.0800 / GJ
AECO 5A Physical Swaps	1 Jan 2023	31 Jan 2023	2,500 GJ/Day	CAD 5.1500 / GJ
AECO 5A Financial Swaps	1 Jan 2023	31 Mar 2023	5,000 GJ/Day	CAD 4.3800 / GJ
AECO 5A Physical Swaps	1 Jan 2023	31 Mar 2023	5,000 GJ/Day	CAD 4.7500 / GJ
AECO 5A Physical Swaps	1 Feb 2023	28 Feb 2023	2,500 GJ/Day	CAD 5.1300 / GJ
WTI Financial Swaps	1 Apr 2022	30 Jun 2022	250 bbl/Day	CAD 100.00 / bbl
WTI Financial Swaps	1 Apr 2022	31 Dec 2022	500 bbl/Day	CAD 97.41 / bbl
WTI Financial Swaps	1 Jul 2022	30 Sep 2022	250 bbl/Day	CAD 100.09 / bbl
WTI Physical Swaps	1 Oct 2022	31 Oct 2022	250 bbl/Day	CAD 100.00 / bbl
WTI Physical Swaps	1 Nov 2022	30 Nov 2022	250 bbl/Day	CAD 100.00 / bbl
WTI Physical Swaps	1 Dec 2022	31 Dec 2022	250 bbl/Day	CAD 101.05 / bbl
WTI Physical Swaps	1 Jan 2023	31 Jan 2023	250 bbl/Day	CAD 100.00 / bbl
WTI Financial Swaps	1 Jan 2023	31 Mar 2023	250 bbl/Day	CAD 106.00 / bbl
WTI Physical Swaps	1 Feb 2023	28 Feb 2023	250 bbl/Day	CAD 100.00 / bbl
WTI Physical Swaps	1 Mar 2023	31 Mar 2023	250 bbl/Day	CAD 109.53 / bbl
Sold WTI Call Option *	1 Mar 2022	31 Dec 2022	500 bbl/Day	CAD 92.20 / bbl

* The sold WTI call option has a strike price of CAD 92.20 / bbl and a premium of CAD 17.60 / bbl. The option premium has been deferred over the effective period of 1 March 2022 to 31 December 2022.

24 Events after the reporting date - continued

On 3 February 2022 the Group announced it had revised its dividend guidance from bi-annually to monthly. In early-2022 the Company has declared dividends as summarised in the following table:

Declaration date	Ex-Dividend date	Record date	Payment date	Dividend per share	Total Dividend
				(pence)	£'000
9 February 2022	17 February 2022	18 February 2022	11 March 2022	0.105	**1,183**
9 March 2022	17 March 2022	18 March 2022	8 April 2022	0.105	**1,183**
6 April 2022	14 April 2022	19 April 2022	6 May 2022	0.105	**1,183**
Total					**3,549**

On 2 March 2022 the Group noted the announcement by Europa Oil & Gas Limited ("Europa") (company number 03093716) regarding its agreement in principle to farm-in to the Company's Serenity oil discovery in the UK North Sea and the equity funding it is conducting to fund its farm-in obligations.

We can confirm that the farm-in, joint operating agreement and trust deed have been essentially agreed between the parties to enable Europa to acquire a 25% non-operated working interest ("WI") in a sub-area of UKCS Licence P.2358 Block 13/23c (containing the Serenity discovery) by funding a 46.25% paying interest for one appraisal well on the field, whereafter i3 will retain a 75% operated WI in the Block.

The well cost is estimated to be circa £14 million and Europa's 46.25% paying interest will be applied up to a capped gross well cost of £15 million. Any well costs exceeding £15 million will be paid by the companies in proportion to their respective working interests. Completion of the deal and transfer of the licence interest to Europa will be subject to the following principal conditions:

1. Europa funding an escrow account with their paying interest obligation. We note that closing of Europa's equity funding is subject to the approval of its shareholders at an EGM. This shareholder approval was obtained by Europa on 25 March 2022.

2. Approval of the UK Oil and Gas Authority ("OGA") to the creation of the Serenity area of Block 13/23c as a new block of Licence P.2358 (the "New Serenity Block").

3. Consent of the OGA to assignment of an interest in the Licence and New Serenity Block to Europa.

4. UK National Security and Investment Act approval.

5. Approval of i3's Loan Note holders of the assignment of the Licence interest.

Following this farm-out i3 will retain a 100% WI in the remainder of Block 13/23c which contains the Minos High prospect and Liberator discovery.

On 4 April 2022 the Group announced the reserves of i3 Energy Canada Limited as of 31 December 2022. Highlights include Company Interest PDP reserves of 46MMboe, 1P reserves of 85MMboe, and 2P reserves of 154MMboe. Further details can be found on the Company's website at www.i3.energy.

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2021 £'000	31 December 2020 £
Assets			
Non-current assets			
Investment in subsidiary	4	324	324
Loans to subsidiaries	4	99,861	67,754
Other non-current asset		75	–
Total non-current		**100,260**	68,078
Current assets			
Cash at bank and in hand		66	70
Trade and other receivables	5	140	49
Total current assets		**206**	119
Current liabilities			
Trade and other payables	6	(131)	(1,294)
Total current liabilities		**(131)**	(1,294)
Net current assets / (liabilities)		**75**	(1,175)
Net assets		**100,335**	66,903
Capital and reserves			
Ordinary shares		113	70
Deferred shares		50	50
Share premium		44,203	61,605
Share-based payment reserve		9,098	6,333
Warrants – LNs		2,045	9,714
Retained earnings / (accumulated deficit)		44,826	(10,869)
Shareholders' funds		**100,335**	66,903

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 Company for the year was £4,944 thousand (2020 - £4,900 thousand).

The accompanying notes form an integral part of these financial statements.

Signed on behalf of the Board of Directors by:

Majid Shafiq

Majid Shafiq, Director
11 April 2022

COMPANY STATEMENT OF CHANGES IN EQUITY

	Ordinary shares	Share premium	Deferred shares	Share-based payment reserve	Warrants - LNs	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 December 2019	11	32,572	50	3,799	11,375	(5,969)	41,838
Loss for the year	–	–	–	–	–	(4,900)	(4,900)
Issue of share capital	58	27,372	–	–	–	–	27,430
Exercise of warrants	1	1,661	–	–	(1,661)	–	1
Share-based payment expense	–	–	–	2,534	–	–	2,534
Balance at 31 December 2020	70	61,605	50	6,333	9,714	(10,869)	66,903
Total comprehensive loss for the year	–	–	–	–	–	(4,944)	(4,944)
Capital reduction	–	(64,056)	–	–	–	64,056	–
Transactions with owners:							
Issue of share capital	36	37,970	–	–	–	–	38,006
Exercise of options	2	112	–	–	–	–	114
Exercise of warrants	5	8,572	–	(452)	(7,669)	–	456
Share-based payment expense	–	–	–	3,217	–	–	3,217
Dividends declared	–	–	–	–	–	(3,417)	(3,417)
Balance at 31 December 2021	**113**	**44,203**	**50**	**9,098**	**2,045**	**44,826**	**100,335**

The accompanying notes form an integral part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Summary of significant accounting policies

General Information and Authorisation of Financial Statements

i3 Energy plc ("the Company") is a Public Company, limited by shares, registered in England and Wales under the Companies Act 2006 with registered number 10699593. The Company's ordinary shares are traded on the Toronto Stock Exchange and 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's principal activity is that of a listed holding company and the ultimate parent of the i3 Energy plc Group, whose principal activities consist of the development and production of oil and gas on the UK Continental Shelf (UKCS) and the Western Canadian Sedimentary Basin (WCSB).

2 Basis of preparation

The Company meets the definition of a qualifying entity under FRS 100, and as such these financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The financial statements have been prepared under the historical cost convention. In 2020 the Company transitioned from IFRS as adopted by the European Union for all periods presented. There were no amendments on the adoption of FRS 101.

The financial information is presented in Pounds Sterling (£, GBP), which is the Company's functional and presentation currency, and rounded to the nearest thousand unless otherwise stated.

The Company has taken advantage of the exemption provided by Section 408 of the Companies Act 2006 not to publish its individual income statement and related notes, and has also taken advantage of the following disclosure exemptions under FRS 101:

- paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined), as equivalent disclosures are included within the consolidated financial statements;
- paragraphs 62, B64(d), B64(e). B64(g), B64(h), B64 (j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 'Business Combinations' as equivalent disclosures are included within the consolidated financial statements;
- all requirements of IFRS 7 'Financial Instruments: Disclosures', as equivalent disclosures are included in the consolidated financial statements;
- paragraph 38 of IAS 1 'Presentation of Financial Statements' – the requirement to disclose comparative information in respect of:
- paragraph 79(a)(iv) of IAS 1 (a reconciliation of the number of shares outstanding at the beginning and end of the period);
- paragraph 73(e) of IAS 16 'Property, Plant and Equipment' (reconciliations between the carrying amount at the beginning and end of the period); and
- paragraph 118(e) of IAS 38 'Intangible Assets' (reconciliations between the carrying amount at the beginning and end of the period);
- IAS 7 'Statement of Cash Flows';
- paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (the requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective); and
- paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation), and the other requirements of that standard to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

3 Significant accounting policies

The Company's accounting policies are aligned with the Group accounting policies as set out within the Group financial statements, with the addition of the following:

Investments

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

Critical accounting judgements and key sources of estimation uncertainty

Refer to note 3 of the Group financial statements for a description of critical account judgements and key sources of estimation uncertainty. There were no further key sources of estimation uncertainty identified for the Company. The following is the critical judgement 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 Company financial statements.

Carrying value of loans to subsidiaries

At 31 December 2021, the Company held loans to subsidiaries of £99.9 million (2020: £67.8 million), note 4. The carrying value of loans to subsidiaries are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. In making this assessment, Management has considered the underlying assets of its subsidiaries, which for i3 Energy North Sea Limited primarily consists of intangible E&E assets and for i3 Canada Limited primarily consists of oil and gas PP&E assets. The recoverability of both intangible E&E assets and oil and gas PP&E assets have been identified as a critical accounting judgement by the Group, and following detailed assessments by Management, no indicators of impairment have been identified as at 31 December 2021. Further details are in note 3 to the Group financial statements. Accordingly, through the expected recoverability of these E&E and PP&E assets, management expects the Group to recovery the carrying value of its loans to subsidiaries.

4 Investment in subsidiaries

At 31 December 2021 the Company held 100% of the share capital of the following wholly owned subsidiaries:

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
i3 Energy Canada Limited	Canada	4600, Bankers Hall West Calgary, Alberta T2P 5C5	100%	Exploration & Production

	Total £'000
As at 31 December 2020	324
Additions	–
As at 31 December 2021	**324**

For the year ended 31 December 2021, i3 Energy North Sea Limited was entitled to exemption from audit under section 479A of the Companies Act 2006.

As at 31 December 2021 the Company had total net funds receivable from subsidiaries of £99,861 thousand (2020 - £67,754 thousand). Included within these balances are management service fees of £861 thousand (2020 - £1,420 thousand) for administrative services provided to i3 Energy Canada Limited.

Loans advanced from or to the subsidiaries are unsecured, interest free and have no fixed repayment date. On 30 March 2020, the Company purchased the rights and interests in TEIC's CAD24.8 million senior and CAD3.2 million junior debt facilities for CAD3.0 million and CAD0.4 million, respectively (£2.0 million), with cash consideration being paid 50% up front and 50% payable on 31 December 2020. The Company later acquired 100% of the share capital on 30 October 2020, and therefore this amount is included within loans to subsidiaries as at 31 December 2020 and 2021.

5 Trade and other receivables

	31 December 2021 £'000	31 December 2020 £'000
VAT receivable	25	–
Prepayments & other receivables	115	49
Total trade and other receivables	**140**	49

Other receivables are all due within one year.

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 Company does not hold any collateral as security.

6 Trade and other payables

	31 December 2021 £'000	31 December 2020 £'000
Trade creditors	37	1,123
Accruals	94	171
Total trade and other payables	**131**	**1,294**

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.

7 Disclosures included in the Group Financial Statements

Certain information relevant to the Company Financial Statements is included in the notes to the Group financial statements. These include:

- Note 2 – Basis of preparation
- Note 3 – Significant accounting policies
- Note 4 – Business combinations
- Note 7 – Administrative expenses
- Note 19 – Authorised, issued, and called-up share capital
- Note 20 – Share-based payments
- Note 22 – Financial instruments and capital risk management
- Note 24 – Events after the reporting period

CORPORATE INFORMATION

Registered number	**10699593**
Directors	**Linda Janice Beal** – Non-Executive Director and Interim Non-Executive Interim Chairperson **Majid Shafiq** – Chief Executive Officer **Graham Andrew Heath** – Chief Financial Officer **Richard Millington Ames** – Non-Executive Director **Neill Ashley Carson** – Non-Executive Director **John Festival** – 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)** 15 Westferry Circus Canary Wharf London E14 4HD United Kingdom
Solicitors	**Burness Paull LLP** 50 Lothian Road Festival Square Edinburgh EH3 9WJ
Nominated Advisor and Broker	**WH Ireland Limited** 24 Martin Lane London EC4R 0DR
Brokers	**Tennyson Securities** 23 Floor 20 Fenchurch Street London EC3M 3BY **Canaccord Genuity Limited** 88 Wood Street London EC2V 7QR **Stifel Nicolaus Europe Limited** 150 Cheapside London EC2V 6ET
Registrars	**Link Group** 10th Floor Central Square 29 Wellington Street Leeds LS1 4DL
Principal Bankers	**Royal Bank of Scotland**
Company Website	www.i3.energy
Company Telephone Number	+44 (0) 1224 945 980

APPENDIX A: GLOSSARY

1P	Proved reserves
2P	Proved plus probable reserves
AER	Alberta Energy Regulator
AIM	The Alternate Investment Market of the London Stock Exchange
APM	Alternate Performance Measure
ARO	Asset Retirement Obligation
ASCP	Saskatchewan's Accelerated Site Closure Program
bbl	Barrel
BHGE	Baker Hughes, a GE Company, and GE Oil & Gas Limited
BOE	Barrels of Oil Equivalent
BOEPD	Barrels of Oil Equivalent Per Day
CAD	Canadian Dollars
Cenovus	Cenovus Energy Inc.
Cenovus Acquisition Date	20 August 2021
Cenovus Assets	Certain petroleum and infrastructure assets acquired from Cenovus
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLNs	Convertible Loan Notes
Company	i3 Energy plc
CPR	Competent person's report
E&E	Exploration and evaluation
Europa	Europa Oil & Gas Limited
FCF	Free cash flow
FVTPL	Fair Value through Profit or Loss
Gain	Gain Energy Ltd.
Gain Acquisition Date	3 September 2020
Gain Assets	Assets retained by i3 following the purchase from Gain and sale to Harvard
gal	Gallon
GBP	British Pounds Sterling
GJ	Gigaloule

Group	i3 Energy plc, together with its subsidiaries
Harvard	Harvard Resources Inc.
i3	i3 Energy plc, together with its subsidiaries
i3 Canada	i3 Energy Canada Limited
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IP30	Average daily production of a well over its initial 30-day production period
LLR	The licensee's deemed asset to deemed liability ratio as determined under Directive 006 (Licensee Liability Rating (LLR) Program and Licence Transfer Process) of the Alberta Energy Regulator (AER). The deemed asset value is calculated by multiplying the licensee's reported production of oil and gas for the prior 12 months by the rolling 3-year provincial industry average netback (determined by the AER). The deemed liability is the total cost for the future abandonment and site reclamation of all a licensee's wells and upstream facilities based on provincial industry average costs (determined by the AER).
MMboe	Million Barrels of Oil Equivalent
MMBtu	Metric Million British Thermal Unit
NGL	Natural gas liquids
NED	Non-Executive Director
NOI	Net Operating Income
NTM	Next Twelve Months
OGA	UK Oil and Gas Authority
PDP	Proved, developed, producing reserves
PP&E	Property, plant and equipment
RTO	Reverse Take-over
SRP	Alberta's Site Rehabilitation Program
TEIC	Toscana Energy Income Corporation
Toscana	Toscana Energy Income Corporation
Toscana Acquisition Date	30 October 2020
TSX	Toronto Stock Exchange
UKCS	UK Continental Shelf
USD (US$)	United States Dollar

APPENDIX B: ALTERNATE PERFORMANCE MEASURES

The group uses Alternate Performance Measures ("APMs"), commonly referred to as non-IFRS measures, when assessing and discussion the Group's financial performance and financial position. APMs are not defined under IFRS and are not considered to be a substitute for or superior to IFRS measures. Other companies may calculate similarly defined or described measures, and therefore their comparability may be limited. The group continually monitors the selection and definitions of its APMs, which may change in future reporting periods.

EBITDA and Adjusted EBITDA

EBITDA is defined as earnings before depreciation, depletion, financial income, and tax. Adjusted EBITDA is defined as EBITDA before gain on bargain purchase and acquisition costs. Management believes that EBITDA provides useful information into the operating performance of the Group, is commonly used within the oil and gas sector, and assists our management and investors by increasing comparability from period to period. Adjusted EBITDA removes the gain on bargain purchase and the related acquisition costs which management does not consider to be representative of the underlying operations of the Group.

A reconciliation of profit as reported under IFRS to EBITDA and Adjusted EBITDA is provided below.

	2021 £'000	2020 £'000
Profit for the year	25,083	11,718
Depreciation and depletion	21,643	4,854
Finance costs	7,609	7,368
Tax	661	(1,110)
EBITDA	**54,996**	22,830
Acquisition costs	256	1,542
Gain on bargain purchase and asset dispositions	(25,013)	(25,211)
Adjusted EBITDA	**30,239**	(839)

Net operating income

Net operating income is defined as gross profit before depreciation and gains or losses on risk management contracts, which equals revenue net of royalty expenses, less production costs. Management believes that net operating income is a useful supplement measure as it provides investors with information on operating margins before non-cash depreciation and depletion charges and gains or losses on risk management contracts.

A reconciliation of gross profit as reported under IFRS to net operating income is provided below.

	2021 £'000	2020 £'000
Gross profit	21,690	62
Depreciation and depletion	21,643	4,854
Loss on risk management contracts	5,485	–
Net operating income	**48,818**	**4,916**

Acquisitions & Capex

Acquisitions & Capex is defined as cash expenditures on acquisitions, PP&E, and E&E. Management believes that Acquisition & Capex is a useful supplement measure as it provides investors with information on cash capital investment during the period.

A reconciliation of the various line items per the statement of cash flows to Acquisitions & Capex is provided below.

	2021 £'000	2020 £'000
Acquisitions	37,079	18,474
Expenditures on property, plant & equipment	9,465	229
Expenditures on exploration and evaluation assets	3,317	17,403
Acquisitions & Capex	**49,861**	36,106

Free cash flow (FCF)

FCF is defined as cash from / (used in) operating activities less cash capital expenditures on PP&E and E&E. Management believes that FCF provides useful information to management and investors about the Group's ability to pay dividends.

A reconciliation of cash from / (used in) operating activities to FCF is provided below.

	2021 £'000	2020 £'000
Net cash from / (used in) operating activities	24,439	(4,151)
Expenditures on property, plant & equipment	(9,465)	(229)
Expenditures on exploration and evaluation assets	(3,317)	(17,403)
FCF	**11,657**	(21,783)