

Delivering an energy independent & secure future for Britain.



IGas Energy plc
Annual Report and Accounts 2019

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Financial & Operational Performance

The production business has performed well in 2019 and generated strong free operating cash flow.

Financial

Revenues

£40.9m

2019  £40.9m
2018  £42.9m

Adjusted EBITDA

£13.8m

2019  £13.8m
2018  £10.8m

Loss after tax

£(49.8)m

2019  £(49.8)m
2018  £(21.4)m

Underlying operating profit

£4.6m

2019  £4.6m
2018  £4.0m

Operating cash flow before working capital movements

£14.3m

2019  £14.3m
2018  £11.6m

Net debt

£6.2m

2019  £6.2m
2018  £6.4m

Cash and cash equivalents

£8.2m

2019  £8.2m
2018  £15.1m

Net assets

£113.1m

2019  £113.1m
2018  £161.7m

[+](#) To read more on our results see page 20

Operational

Production

- Net production averaged 2,325 boepd for the year (2018: 2,258 boepd).

Reserves

- Significant 2P reserves replacement ~277% (1P ~192%);
- 2P reserves of 16.05 MMboe at 31 December 2019 (2018: 14.56 MMboe).

Incremental production

- Our waterflood projects at Welton and Scampton remain on track both in terms of delivery and budget, and are expected to be online in the summer of 2020.

Shale exploration & appraisal

- During 2019, ahead of the moratorium, we made significant progress on our shale assets in the East Midlands, confirming our prognosis that we have a world-class gas resource in the Gainsborough Trough.

Health & Safety

- IGas presented with ROSPA Presidents Award, representing 13 years of commitment to Occupational Health and Safety.

[+](#) Read more on pages 10 to 15



Engagement with our stakeholders informs our Company decisions.



Britain's energy mix 2035 projection¹

36%
Oil

Our vision
for securing
energy
for Britain.


Natural gas demand is forecast to decrease by around 30% by 2050, when the Government has committed to net zero emissions, but import dependency is set to rise from 50% today to 86% in 2050.⁴

¹ Source: www.gov.uk/government/publications/updated-energy-and-emissions-projections-2018.

² Renewables and waste includes generation from solar, wind and hydro. It also includes road biofuel use and other transport related biofuel uses.

³ Energy use or losses from final energy production for imported energy is not included.

⁴ Source: CCC Net Zero Report.



31%
Natural
gas



16%
Renewables &
waste²



13%
Nuclear



2% Electricity net imports³

Our vision for securing energy for Britain

IGas has played an important role in Britain's onshore energy production; safely exploring, developing and producing oil and gas at our sites for over three decades.

To improve the UK's balance of payments and to ensure that the oil and gas we are buying is not further inflating global GHG emissions, we believe the UK Government must continue to encourage the development of Britain's oil and gas reserves over foreign imports and promote its support for Britain's oil and gas industry and its jobs.

Meeting Britain's future energy demand

Energy security is increasingly relevant in the world today. All major predictions, including the most recent statistics published in 2019, show oil and gas continues to dominate the energy mix. The independent Committee on Climate Change also states that we will need oil and gas for decades; both to meet demand and our net zero commitment in 2050.

Gas plays a significant role in providing energy to the UK, whether through heating over 80% of peoples' homes or contributing c. 50% to electricity generation. The UK currently imports over 50% of the natural gas it consumes. In 2019 alone, the nation spent £200 million a week on gas imports.

Importing our gas from outside the UK increases the carbon footprint fourfold, while handing the potential job and supply chain benefits to those gas suppliers. With our North Sea assets on the decline, the UK's imported gas share is expected to hit 86% by 2050.

The UK needs energy producers that can deliver affordable energy, with lower emissions.

Capitalising on our domestic natural resources.

> 80%

Without new supplies of gas it is expected that we will be importing over 80% of our gas requirements by 2050

1,329tcf 70%

Gas lying deep beneath northern and central England¹

Of gas consumed today will still be required in 2050

2.75tcf 87.5%

As a nation we use 2.75 tcf a year

Of the 22 million homes connected to the gas grid, 87.5% of their heat and electricity comes from gas

¹ Source: BGS central estimate.

The potential of shale gas exploration

The sheer scale of the UK's shale gas resource is immense. The British Geological Survey's mid-case scenario estimates that we have 1,329 trillion cubic feet's (tcf) worth of gas lying underneath northern and central England.

As a nation we use 2.75 tcf a year, meaning that if we extract just 10% of the shale gas we have, we could meet our UK demand for half a century. That's the needs of homes, businesses and British industry covered – all using an indigenously produced product that will create significant community benefits, local supply chain opportunities and new skilled jobs.

Political and Regulatory Review

2019 saw an upheaval in the UK's political landscape from a minority Government under Theresa May, with Government unable to pass anything of significance through the Commons, to a significant Conservative victory over Labour by Boris Johnson.

A key report for the future of oil and gas in a decarbonised economy was published in May 2019, the UK Committee on Climate Change (CCC) Net Zero report. This report clearly forecast a very significant UK gas demand out to 2050 and beyond. It is estimated that we will still require 600 TWh per year of natural gas in 2050 to meet the target. That amounts to 70% of our current annual consumption.

Under the CCC's recommended pathway to net zero CO₂ by 2050, this gas would be used as both a feedstock for making hydrogen and a backup supply for generating electricity, and they have recommended that we use domestically produced gas. Without new supplies of gas it is expected that we will be importing over 80% of our gas requirements by 2050.

There is also a recognised role for oil in the 2050 net zero scenario. The assessment made by the CCC however, did not include the use of oil as a feedstock, as it is not combusted, which today represents 9.5 Mtoe per year (177,000 barrels per day). This is assumed to at least remain constant over the next 30 years given the lack of suitable replacements. Therefore, the UK looks set to have an oil import dependency of 48% in 2050.

The Committee also recommended not to further offshore our emissions by relying on imported fuels.

Later in the year, the Government endorsed the report by issuing a supportive statement ahead of Cuadrilla commencing hydraulic fracturing at Preston New Road in August 2019.

In October 2019, the National Audit Office Report published a report 'Fracking for Shale Gas in England'. This report set out the facts behind the Government's support of shale gas extraction. The report highlighted what is already known: there is a very significant regulatory structure in place, the Environment Agency has assessed shale gas operations as low risk and they have put in place a significant compliance visit schedule.

“Shale gas could be an important new domestic energy source, reducing the level of gas imports while delivering broad economic benefits, including through the creation of well-paid, quality jobs. It could also support our transition to net zero emissions by 2050.”

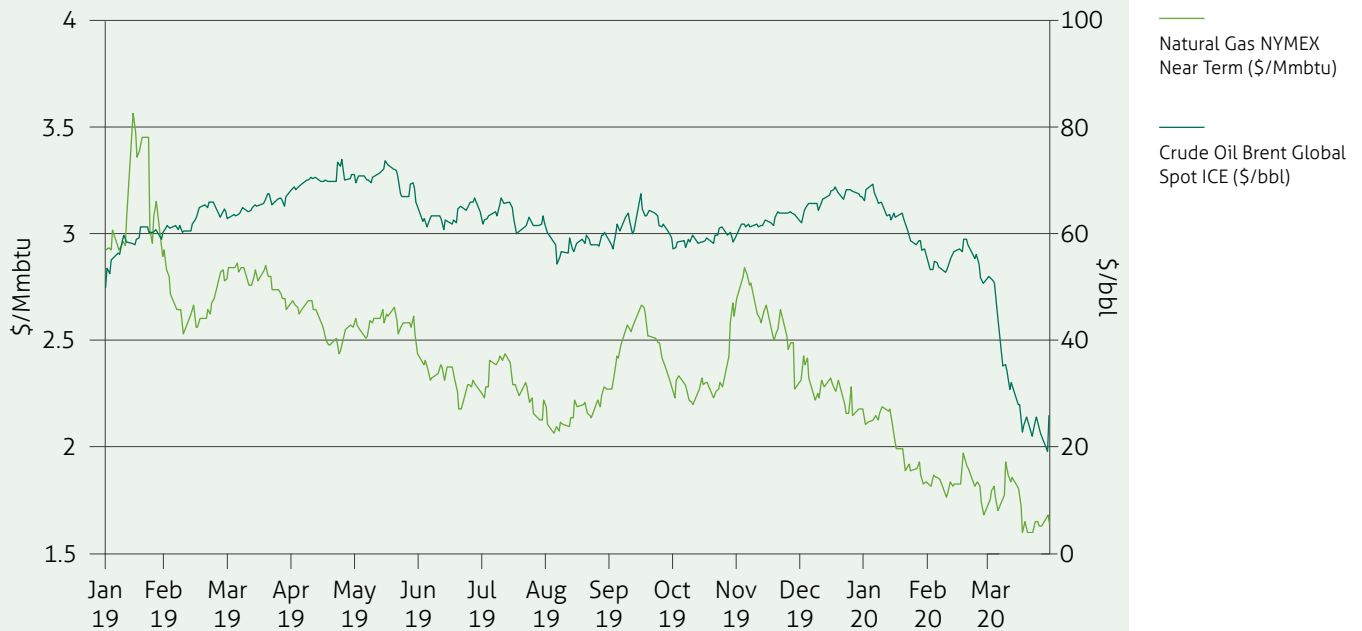
Source: BEIS

2019 saw one of the most stable oil price environments in recent history, with crude oil prices starting the year near \$60 a barrel and finishing the year at \$66 a barrel.

However, in 2020 the industry has to date witnessed a dramatic decline in the oil price. The continued global impact of COVID-19 on demand and OPEC's failure to agree to production cuts, in early March, have seen the oil price trading below \$30/bbl.

+ CCC predict we will need c. 70% of the gas we consume today in 2050 and beyond under net zero

Commodity prices



Further to this, the Health and Safety Executive has confirmed there have been no breaches of their regulations – including for well integrity.

The report also commented on the need for hydrogen and carbon capture and storage, recommended by the CCC as essential in meeting the net zero target.

In November 2019, the UK Government announced an effective moratorium on the process of hydraulic fracturing in England based on the analysis of one well, Cuadrilla's PNR1 well in Lancashire, by the Oil and Gas Authority (OGA), until new evidence is provided. The OGA report found that susceptibility to seismicity depends strongly on a location's specific geology with the mere presence of faulting or the parameters of the injection possibly of less importance. Each site and basin can have substantially different geology.

“The design of the policy framework to reduce UK industry emissions must ensure it does not drive industry overseas, which would not help to reduce global emissions, and be damaging to the UK economy.”

Source:
CCC Net Zero Report

A Written Ministerial Statement was issued that the Government will take a presumption against issuing any further Hydraulic Fracturing Consents. This position, an effective moratorium, will be maintained until compelling new evidence is provided which addresses the concerns around the prediction and management of induced seismicity. While future applications for Hydraulic Fracturing Consent will be considered on their own merits by the Secretary of State, in accordance with the law, the shale gas industry should take the Government's position into account when considering new developments.

At the same time, the Government announced it will not be taking any of the consultations forward – NSIP, Permitted Development or community consultation.

The industry is confident it can demonstrate the differences between the various shale basins and intends to undertake a body of scientific work that will culminate in the submission of a Hydraulic Fracture Plan for a well in a basin that is known to be less geologically complex.

Responding to a changing environment.



Cuth McDowell
Interim Non-executive
Chairman

We continued to deliver on our strategic priorities and generated strong operating cash flow in 2019, alongside further reducing our financing costs through a \$40 million Reserve Based Lending facility (RBL), which we secured in October 2019.

Notwithstanding the uncertain political backdrop throughout the year and challenging operational conditions, we have delivered production well within guidance, made progress in advancing incremental production projects and made a potentially world-class gas discovery at our Springs Road well site.

In November 2019, the UK Government announced an effective moratorium on hydraulic fracturing in Britain, based on analysis of one well in Lancashire by the OGA, until new scientific evidence is provided in respect of the impacts of seismicity during the process of hydraulic fracturing. We have been working, and will continue to work closely, with the relevant regulators to demonstrate that we can operate safely and environmentally responsibly. We have done this to date in our shale business, and across our existing c. 100 conventional wells that have been operating onshore UK for many decades.

As an onshore operator, we have, and must continue to have, a deep understanding of the potential environmental impacts and any mitigating actions we must take. Each site and basin can have substantially different geology. The OGA report found that susceptibility to seismicity depends strongly on a location's specific geology with the mere presence of faulting or the parameters of the injection possibly of less importance.

Whilst we are cognisant that the consumption of fossil fuels has an impact on the environment, we maintain that the oil and gas industry is an essential component in delivering secure, efficient and cost-effective energy, as the world tries to balance its energy requirements, and is a key enabler in the transition to increased supply of renewable energy. Delivering a domestic source of affordable energy is key to a nation's security of supply, growth of its economy, heating homes and making a contribution to satisfying the growth of energy demand.

We are committed to supporting the British Government's target of reducing greenhouse gas emissions to net zero by 2050.

The CCC in its May 2019 report, clearly forecast a very significant UK gas demand out to 2050 and beyond – approximately 70% of 2019 gas demand still existing in 2050 in a net zero scenario.

+

Read more on
page 10

Stakeholder engagement

IGas is committed to continuous engagement with all its stakeholders.

Board changes

In May 2019, Hans Årstad was appointed as a Non-executive Director, exercising the right of KKR to take a seat on the Board through their 14.7% investment in IGas. We welcome Hans to the Board.

In October 2019, our Chairman, Mike McTighe stepped down for personal reasons. We thank Mike for his considerable contribution to the Company and valued leadership over the last three years.

People

All the teams around the business have worked incredibly hard during 2019. Production teams in keeping the volumes on track, finance and legal teams in securing the new RBL, our drilling and operational teams for the Springs Road well which was drilled significantly ahead of schedule and budget, and our lands, planning and project teams for securing permissions and advancing projects through to the execution phase. Thanks to all the support teams around the business; it is you supporting all these activities that enable us to achieve success.

Outlook

The Coronavirus pandemic is a deeply concerning international public health emergency which everyone hopes to see contained quickly. Our primary focus is the health and safety of our employees and other stakeholders and we have acted promptly in that regard.

We continue to monitor the situation closely and act within Government guidelines and to that end we have worked up a number of contingency plans should our operations be significantly affected by the Coronavirus.

In February 2020, the oil price began to be affected by the global spread of COVID-19 and the resultant reduction in oil demand. This situation has since been compounded by the failure of OPEC to reach an agreement on constraining supply and the position of Saudi Arabia to increase output.

Whilst we have better financial flexibility and a reduced overall cost of debt, we have re-evaluated our priorities in the short term to ensure we weather the current oil price disruption. However, if oil prices remain low for a prolonged period of time we cannot rule out future impacts on the business given the material uncertainty that currently exists.

In the longer term we will continue to drive to maximise our existing assets, many of which still have significant potential, whilst developing new assets to deliver future shareholder value, as we ensure IGas is an important part of the onshore UK energy transition.



Cuth McDowell
Interim Non-executive Chairman

+ Employees



+ Government & Regulators



+ Communities



“Thanks to all the support teams around the business; it is you supporting all these activities that enable us to achieve success.”

Trust can only be earned, and kept, if people see that we share their concerns and hopes for the future. They can only see that if we are transparent about what we do and why we do it. Transparency goes beyond publishing financial results; it is about being as open as we can be with all our stakeholders.

The more transparent we are about our activities, the better equipped our investors, communities and wider society are to decide whether we merit their trust.

[You can read more about our approach to sustainability on pages 30 to 34](#)

Across the Company we strive to achieve the highest standards of health, safety and environmental protection. All of our production and drilling operations retained their ISO 14001 and 9001 certifications and we were awarded the ROSPA Presidents Award again, representing 13 years of commitment to Occupational Health and Safety.

Under the CCC's recommended pathway to net zero CO₂, this gas would be used as both a feedstock for making hydrogen and a backup supply for generating electricity, and they have recommended that we use domestically produced gas. Without new supplies of gas, it is expected that we will be importing over 80% of our gas requirements by 2050.

Engaging with communities local to our sites, and earning and maintaining our social licence to operate is imperative to our success as a business. We endeavour to build respectful, long term relationships and earn the trust of those who host our activities.

Creating value through a robust strategy to capitalise on future energy potential.

Our vision is to build a long term material energy company in Britain in collaboration with the communities in which we operate and deliver value for all our stakeholders.

Despite the significant challenges we are currently faced with in respect to COVID-19 and the low oil price environment, our strategy remains clear and focused. It is our intention to deliver sustainable growth by focusing on exploiting our existing reserves, commercialising and developing our assets and converting resources into reserves.

The adoption of best available technologies to unlock value in our assets remains a key part of this.

Our approach to sustainability aligns with a number of the United Nation's Sustainable Development Goals.

1 Responsible exploration



2 Responsible operations



3 Responsible production



For more information visit: sustainabledevelopment.un.org



Reserves & production growth

Established and stable conventional production base with a proven track record of significant reserves replacement.

Related risk factors

- 6. Oil or gas production
- 9. Pandemic
- 10. Oil market price risk

+ UN SDG

1 2 3

Our resources & relationships

Our communities

We seek to build long term relationships with our stakeholders in the communities we operate in.

+ To read more see pages 12 to 13

Our people

We constantly strive to develop our employees and their knowledge and skills.

+ To read more see page 11

Our regulators

In order to operate we must pass rigorous health and safety, environmental and planning permission processes.

+ To read more see pages 14 to 15

c. £1m

Funds that have been awarded to community projects since 2008, in the areas in which we operate



Developing a portfolio of growth opportunities

In-depth technical analysis and commercial evaluation help us to identify and advance the next generation of energy producing assets.

Related risk factors

- 5. Planning, environmental, licensing and other permitting risks
- 7. Shale gas resources

+
UN
SDG

1 2



Local & national engagement

The way in which we conduct ourselves with our host communities and other key stakeholders and our record on health, safety and the environment, is crucial to our success as a business.

Related risk factors

- 1. Exposure to political risk
- 5. Planning, environmental, licensing and other permitting risks

+
UN
SDG

1 2 3

Continuous assessment

Risks and uncertainties
We constantly assess the risks facing our business and develop mitigation strategies.

+ To read more see pages 26 to 29

Key Performance Indicators

The success of our business is measured against a series of KPIs.

+ To read more see pages 24 to 25

ESG assessment

We are in the process of putting in place a framework to demonstrate our environmental and social competencies.

+ To read more see pages 30 to 34

+

2,325 boepd

2,325 average boepd in 2019 from existing operations

Maintaining competitive advantage

Disciplined asset portfolio management

We focus on core, high potential areas and will relinquish licences that do not fit with our criteria for future value creation.

Optimisation of assets

To optimise economic production we constantly seek initiatives to extend asset uptime and optimise our processes and costs whilst continuously monitoring and evaluating results.

Integrated management tools and financial management

Controlling costs and managing operations efficiently allows us to manage the business effectively.

Operating capability

We are a highly responsible onshore operator focused on achieving safe and sustainable operations and minimising environmental and social impacts.

+

80%

c. 80% of our assets have digital monitoring capabilities

Engaging in a meaningful way with those who matter.



“Listening and responding to the views of our stakeholders helps IGas better achieve its business objectives and deliver optimum outcomes for its communities, regulators, employees and shareholders.”



IGas's success depends on its ability to engage effectively and work constructively with stakeholders who have an interest in IGas and its operations.

Listening and responding to the views of our stakeholders helps IGas better achieve its business objectives and deliver optimum outcomes for its communities, regulators, employees and shareholders.

Interacting with these various groups is consistent with the ethos of Section 172 of the Companies Act 2006, which sets out that a director should have regard to stakeholder interests whilst discharging their duty to promote the success of the company.

IGas engages with a number of stakeholder groups – shareholders, Government and regulators, employees, communities and suppliers and contractors.

Government and Regulators

IGas works constructively with the Government and regulators in the UK.

Our approach to public and regulatory affairs is to directly engage with policymakers and pursue positive and constructive relationships. We also collaborate as a group of operators through our industry body, UKOOG (United Kingdom Onshore Oil and Gas) to promote better and more open dialogue with key stakeholders.

[Read more about our Regulators on pages 14 to 15](#)



“We are committed to open and transparent communications and listening and reacting to the concerns of the public.”

Communities

The support of our local communities is a key component of our social licence to operate. The majority of our workforce lives and works in the areas in which we operate, and the strength of our relationships with local residents is vital to us.

Whilst communities are involved in the statutory process of planning and environmental permitting we seek to go beyond what is required of us from a regulatory perspective to better understand each community in which we operate.

We are committed to open and transparent communication and listening and reacting to the concerns of the public.

[Read more about community engagement on pages 12 to 13](#)

Our values



Respect

Respect is paramount, for our people, our environment, our partners and the safety of others.



Performance

Performing to the highest standards internally and externally and delivering against our targets.



Collaboration

We take on challenges and find solutions through mutual trust, knowledge sharing and teamwork.



Commitment

We are fully committed to preserving the environment and providing safe and healthy working conditions.



Transparency

We are honest about what we do, how we do it and the challenges we face. We are open to challenge, to discussion and to improving how we work to reflect our values.

Employees

We are committed to providing a working experience for our staff that offers equal opportunities, safe working conditions, competitive terms of employment and quality learning and development experiences. In doing so, we seek to attract, develop and retain the high-quality talent to drive the success of our business over the long term.

We want to continue to be an employer of choice, attracting and retaining the brightest and the best talent as our business adapts to a constantly changing business environment. A crucial part of this is behaving fairly and treating everyone equally because we believe that a diverse workforce makes us stronger and better equipped to meet the challenges of the future.

We are committed to creating a business that better represents society as a whole, and want to attract more people from ethnically diverse backgrounds at different levels of our organisation.

Gender diversity	2018	2019
Board diversity	0% (0/5)	0% (0/5)
Excom diversity	25% (2/8)	25% (2/8)
Workforce diversity	17% (26/151)	19% (29/147)

We engage with our employees in a number of ways:

- Workplace 'town hall' meetings;
- Tool box talks (for operators in the field);
- Suggestion boxes;
- Employee newsletters;
- Notice boards and electronic channels; and
- Management site visits.

During 2019, we continued our ongoing training programmes, partnering with a new online provider to ensure variety in the scope and range of courses offered to our employees. Between July 2016 and December 2019 employees participated in over 50 different online safety-based courses, successfully completing over 4,000 individual training assignments.



Our Communities

Why we interact

- To ensure that we act as a good neighbour;
- To support the sustainable socio-economic welfare of the regions in which we operate;
- To address community needs, including social or environmental concerns; and
- To foster open and transparent communications between ourselves and the communities in which we operate.



How we create value

IGas is committed to maintaining high standards of corporate governance through stakeholder engagement.

We choose to operate our business in a way that adds both financial and non-financial value to the communities where we work. For example, our policy is to buy goods and services locally, from our supply chain partners where possible. We aim to create jobs and opportunities nearby, thereby giving local economies a boost.

UKOOG Community Engagement Signatory

IGas is a signatory to the UKOOG 'Shale Community Engagement Charter', which outlines the steps the industry will take to address concerns around safety, noise, dust, truck movements and other environmental issues.





How we interact

- Engage with individuals and organisations in the local communities from an early stage;
- Implement community liaison groups;
- Public consultation events;
- Online and offline materials;
- Site visits and educational sessions; and
- We sponsor the IGas Community Fund.



“Thank you to the IGas Community Fund for your support to our life changing work with disabled children and young people in Hampshire.”

+ Focus on

IGas Community Fund

During 2019, the IGas Community Fund awarded £50,000 to community projects.

Near Glentworth in Lincolnshire we made an award to the RAF Ingham Heritage Centre. The project, entirely undertaken by the Centre's community volunteers, was to renovate the main visitor entrance and plant 15 metres of box hedging along the Memorial Pathway.

Royal Air Force Station Ingham was a grass airfield, used mainly by No1 Group, Bomber Command, Royal Air Force and only ever existed during the Second World War. An enthusiastic group of local volunteers got together and formed the RAF Ingham Heritage Group in 2010. Their aim is to preserve the memories and deeds of those who had served and flown from the airfield during the war years by renovating the mess hall and cookhouse on the site. They eventually plan to open to the public as a memorial and museum to the Polish aircrew and groundcrew of Bomber Command who fought and gave their lives for our country.

IGas was delighted to donate to this important local piece of heritage.

In April 2019, IGas donated to KIDS Smile Centre in Waterlooville, Hampshire. Our support enabled them to purchase specialised musical equipment that allowed KIDS to deliver music therapy sessions for local disabled children and young people most in need.

The music therapy sessions benefit over 120 children and young people with a variety of disabilities, the majority being those coping with autism and sensory impairments. Music played as a group helped to develop a sense of self and a feeling of achievement and empowerment. Having a sense of group identity and togetherness is particularly important for this group whose needs are so often misunderstood.

Our Regulators

The UK is recognised as a leading example for oil and gas industry regulation.

Onshore oil and gas regulation is handled by four separate bodies.



The Health and Safety Regulator

The Health and Safety Executive (HSE) monitors oil and gas operations from a well integrity and site safety perspective. It ensures that safe working practices are adopted by onshore operators as required under the Health and Safety at Work Act 1974, and regulations made under the Act.

HSE works closely with the environment regulator and the Department for Business, Energy and Industrial Strategy to share relevant information on such activities and to ensure that there are no material gaps between the safety, environmental protection and planning authorisation considerations, and that all material concerns are addressed.



The Environmental Regulator

The role of environment regulation is handled by the Environment Agency (EA).

Onshore oil and gas exploratory activities require environmental permits issued under the Environmental Permitting Regulations (EPR 2010) and other permissions from the environmental regulator, depending on the methods used and the geology of the site.

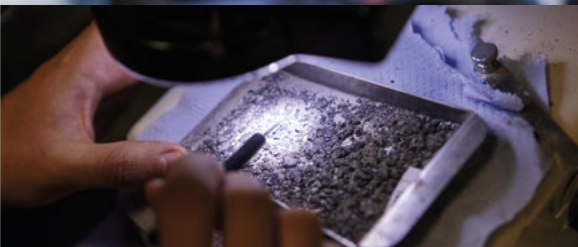
The environmental regulator is also a statutory consultee during the planning application conducted by the Mineral Planning Authority (MPA) and also in the assessment of the Environmental Impact Assessment if this is required.



BEIS/Oil & Gas Authority

Under the Petroleum Act of 1998, the Crown has all ownership rights to hydrocarbon resources in the UK. Responsibility for administration on behalf of the Crown falls to the Secretary of State for the Department for Business, Energy and Industrial Strategy (BEIS), supported by the Oil and Gas Authority (OGA) as an independent body.

BEIS issues a 'Petroleum Exploration and Development Licence' (PEDL), which gives a company or group of companies (a joint venture) exclusive rights to explore for, and develop, the resource in a particular defined area.



Mineral Planning Authority (MPA)

Mineral Planning Authorities (as part of local councils) grant planning permission for the location of any wells and well pads, and impose conditions to ensure that the impact on the use of the land is acceptable.

The planning system controls the development and use of land in the public interest. This includes ensuring that any new development is appropriate for its location. This takes into account the effects (including cumulative effects) of potential pollution on health, the natural environment or general amenity. In doing so, the focus of the planning system is on whether the application is an acceptable use of the land, and the impacts of those uses. Any control processes, health and safety issues or emissions themselves are then subject to the approval of the other regulators.

How we engage

We engage with Government departments and regulatory bodies to ensure that we meet or exceed the appropriate regulatory standards.

We are subject to regular onsite inspections both scheduled and unannounced to ensure we are always fully compliant.

Providing a secure supply of energy responsibly.



Stephen Bowler
Chief Executive Officer

Introduction

I am pleased to report a solid set of results for 2019, which reflect a good operational performance across the business and continued progress delivering our strategy of optimising our existing assets and seeking to provide future energy solutions through our world-class shale gas discovery at Springs Road in the Gainsborough Trough.

In October 2019, we signed a \$40 million RBL with BMO Capital Markets (BMO). The facility reduces our overall cost of debt and provides the financial flexibility for continued investment into our conventional portfolio to grow our production over the coming years.

[Read more detail in the Financial Review on pages 20 to 23](#)

Over recent weeks we have witnessed an unprecedented global situation in the form of COVID-19 combined with depressed oil prices.

Currently, the Group's operations continue to function as normal. Of our 148 employees, those that are able to work from home have been doing so, in a phased way, since early March 2020. We have approximately 65% of staff who are in operational roles and have been identified as key workers by the Government.

Many of these are 'lone' workers who had already been 'identified, trained and equipped' pre-COVID-19 so the pandemic does not represent a significant change to existing procedures or protocols.

In respect of IGas's operational sites, our facilities are designed with operational control provisions that ensure safe and compliant operation within the normal operational envelope and automated shutdown functionality should there be an unexpected excursion outside of these routine conditions. In addition to these local control and shutdown systems, IGas has the ability to monitor the site operations from remote locations utilising its digital systems which allow efficient intervention by operational and maintenance staff to be coordinated alongside the standard monitoring visits that are conducted by our staff.

However, the inbuilt control systems are able to make any site and well safe without the need for human intervention and we continue to liaise with all our regulators.

Whilst we are reliant on transporting oil to UK refineries, we have significant capacity for managing our production inventory. All key contractors in terms of transport and refineries are also classified as key workers.

Operating review

Production

Production for the year was 2,325 boepd which was in the upper end of the production target range of 2,200-2,400 boepd.

Production in our East Midlands assets benefited from the success of waterflood and optimisation activities conducted in 2018, alongside 2019 projects being brought online ahead of schedule and wells performing in the upper range of expectation. These efforts resulted in not only the complete offset of the annual decline rate but an uplift of overall production for the year compared to that delivered in 2018. These results were also mirrored in our southern operations, where following the successful completion of our routine maintenance and integrity programs, and the implementation of a series of optimisation works we were also able to finish 2019 at a higher production rate than that delivered in 2018. Our Gas to Wire and Gas to Grid facility at Albury continued to improve during 2019 and by the close of the year we were capable of achieving a peak maximum daily production rate of c. 200 boepd from the combined export streams.

Reserves and resources

Independent reserves and resources evaluations

In February 2020, IGas announced the publication of the full and final results of the Competent Persons Report (CPR) by DeGolyer & MacNaughton (D&M), a leading international reserves and resources auditor.

The report comprised an independent evaluation of IGas' conventional oil and gas interests as of 31 December 2019.

The full report can be found on the IGas website www.igasplc/investors/publications-and-reports

The report confirms a continuing high reserves replacement of 2P reserves of approximately 277% (1P ~192%) reflecting the good performance of our production assets and progression of projects demonstrating the significant upside that remains in our conventional portfolio. IGas has a track record of significant reserves replacement with a three-year average of over 200%.

This independent report valued our conventional assets at c. \$180 million on a 2P NPV10 basis, an increase of \$20 million compared to 2018 (based on forward oil curve of 2020 \$61.78/bbl; 2021 \$58.39/bbl; 2022 \$56.97/bbl; 2023 \$56.54/bbl; 2024 \$57.67/bbl).

Development – Conventional

We continue to mature our production portfolio opportunities and achieved final approvals for our Scampton North Waterflood project during the first half of 2019. This c. £2.0 million project to install water injection capability and convert a suspended well into a water injector has advanced significantly during the year, with the project remaining on schedule and budget ready to deliver initial production in the summer of 2020. This secondary recovery project (waterflood) is forecast to double the current output of the field to over 200 bopd and increase the ultimate recovery from the field. The D&M CPR estimated 180 Mbbl of incremental 2P (Proved plus Probable Undeveloped) reserves and our mid-case economics for the project have an IRR of over 40% and a NPV of £2.5 million*.

Following the success of the first phase of the Welton waterflood project the technical team recommended an additional opportunity in the southern section of the Welton Field in the Tupton & Deep Hard Rock Reservoirs. The project involves converting a suspended production well (WCO1) to a water injector to improve reservoir sweep and increase field recovery by c. 660 Mbbl (2P reserves) with a peak incremental production rate of c. 100 bopd.

The Company's estimated base-case project economics have an IRR of over 100% and a NPV10 of c. £7.0 million*. Positive well integrity and injectivity tests allowed full sanction of the project in the third quarter of 2019, with engineering activities, regulatory approvals and long lead items all being progressed in line with the project schedule, with full completion planned by the summer of 2020.

This is part of the wider Welton Full Field Development and as well as increasing production, will aid in de-risking further injection projects into other areas of the field and provide critical infrastructure to assist with water disposal and support future rationalisation work across Welton sites.

We have continued to mature other projects across the portfolio as we seek to maximise returns on our existing operations and infrastructure and will flex our capital spending plans, if and when the oil price improves from its current depressed level.

For example, Bletchingley is a Gas Monetisation, Gas to Wire project which recently received planning approval. The project involves the installation of up to 6MW of electrical generation capability at the Bletchingley Central site fuelled by gas from the Bletchingley 2 well, which is currently suspended. However, in light of the current oil price, we have reduced our expenditure in progressing projects such as this significantly and will not take this project further forward until energy prices improve.

As part of our ongoing active portfolio management, we relinquished two non-core PEDLs in the East Midlands, PEDL 137 and PEDL 337.

“Natural gas is one of the mainstays of global energy. Where it replaces more polluting fuels, it improves air quality and limits emissions of carbon dioxide.”

Dr Fatih Birol,
IEA Executive Director

IGas group net reserves and contingent resources as at 31 Dec 2019 (MMboe)	1P	2P	2C
Reserves and resources as at 31 Dec 2018	9.78	14.56	19.20
Production during the period	(0.84)	(0.84)	–
Total change during the period	1.61	2.33	0.40
Reserves and resources as at 31 Dec 2019	10.55	16.05	19.60

* Which assumes a long-term oil price of \$55/bbl.

Development – Shale

We mobilised a drill rig and ancillary equipment to our Springs Road site in North Nottinghamshire in early January 2019 and spudded the well on 22 January 2019. In mid-February 2019, we encountered shales on prognosis, at c. 2,200 metres depth and drilled through a significant hydrocarbon bearing shale sequence, including the Upper and Lower Gainsborough Shale.

The well sought to assess three target zones: the Gainsborough Shale; the Millstone Grit and the Arundian Shale. All three targets were encountered, with c. 400 metres of Gainsborough Shale, the primary target, with key shale attributes such as Total Organic Content, kerogen type and clay content akin to world-class shale plays observed in North America.

IGas acquired 147 metres of core within the Gainsborough Shale, the first extensive core sample from this basin, which has subsequently been analysed by Stratum Reservoir (formerly Weatherford Labs) in their laboratories in both the UK and the USA. The results from the core analysis confirm that a nationally significant hydrocarbon resource is present in the Gainsborough Trough.

The key characteristics of the Gainsborough Shale in the SR-01 well compare favourably to commercial shale operations observed in North America such as the Eagle Ford, Barnett and the Marcellus. The core results indicate a mature, organic rich source rock with good porosity confirming favourable gas resource density, and, additionally, the low clay content in large sections of the Gainsborough Shale is an encouraging indication of the suitability for effective hydraulic fracture stimulation.

The analysis we have undertaken will help delineate the resource potential and help refine the subsequent appraisal programme. Working with our joint venture partners, IGas will now consider the attributes of the data set alongside a reprocessed 3D seismic for the area. This will allow us to commence planning for both a future potential appraisal programme and a pilot development within the Gainsborough Trough, a geologically well understood and quiescent basin.

As well as obtaining extremely positive geological results, the two well drilling programme was highly successful operationally. Both wells were drilled significantly under budget, principally due to faster than expected drilling and coring rates. The Springs Road well, the deepest penetration into the Gainsborough Trough to date, was 25% under budget, despite obtaining 50% more core than planned.

Through our local sourcing programme, our direct East Midlands spend through the two well drilling programme was in excess of £10 million, supporting local, skilled jobs. Throughout operations we were compliant with all stringent planning permissions and environmental permits for both sites and have been commended on the high standard of our operations by regulators and the local community. Whilst protest did occur during the drilling of the well at Springs Road, the level of protest was negligible and generally took the form of monitoring as opposed to obstruction.

The well that was drilled at Tinker Lane, which delineated the southern extent of the Gainsborough Trough, was plugged and abandoned earlier in the year and the site was fully restored to farmland and handed back to the landowner in September 2019, ahead of schedule.

In the North West, the Ellesmere Port appeal was recovered by the Secretary of State (SoS) at the end of June 2019 in order to determine a decision. The Planning Inspectorate then set a deadline for the report and recommendation by the inquiry inspector of 23 January 2020. The recommendation was sent to the SoS in early January 2020 and a decision was expected around 8 April 2020. We have been informed that, similar to other decisions, this has now been delayed until further notice.

In November 2019, the UK Government announced an effective moratorium on the process of hydraulic fracturing in England based on a report by the OGA which found that it is not currently possible to accurately predict the probability or magnitude of earthquakes linked to fracking operations. The report found that susceptibility to seismicity depends strongly on a location's specific geology with the mere presence of faulting or the parameters of the injection possibly of less importance. Each site and basin can have substantially different geology.

The Company operates multiple licences across the East Midlands and in the North West. In the East Midlands along with the OGA, we are seeking to simplify and focus the various work programmes so that more rapid and directed appraisal and then development of the shale resource can take place. As such all licences are now on 2014 model clauses and have linked work plans.

The OGA has granted three-year extensions to the initial terms on the following 14th Round, Company operated licences: PEDL 189, PEDL 235, PEDL 257, PEDL 273, PEDL 278, PEDL 305, PEDL 316 and PEDL 326.

* IGas 2C resources includes c. 1.4 MMBoe www.igasplc.com/media/39949/DM-CPR-IGas-Reserves-and-Resources-as-of-31-December-2018.pdf.

Moving resources to reserves

Significant exploration potential exists in our prospective resources.

In early July 2019, we announced plans for a proposed new site in the Weald basin on PEDL 235, which IGas owns and operates 100%. The intention is to drill up to two wells to explore and evaluate the resource potential of both the Portland Sandstones and the Kimmeridge Micrites.

The Portland Sandstone has an existing gas discovery* and technical studies conducted by the IGas team have concluded that there is significant upside potential for the Portland reservoir to be considerably larger with five to ten MMBoe of recoverable gas. Additionally, the underlying Kimmeridge Micrite formations, has the potential for a large additional resource.

Work has temporarily ceased on this project, but when energy prices improve we will seek to submit a planning application given the significant returns available. As part of the planning process, IGas would undertake community consultation to take account of feedback from local residents before submitting the full planning application.



+ Focus on

Our production in 2019

We currently operate 28 fields with some 80 sites around the country, producing predominantly oil.

28

We currently operate 28 fields

80

80 sites around the country, producing predominantly oil

“Projects, particularly on existing sites, offer good returns with reduced risk and minimal incremental operating costs and we look forward to bringing forward further projects as energy prices improve.”



Diversifying our energy portfolio

IGas has a wide land portfolio across the East Midlands and the Weald basin where our well sites, gathering centres and pipelines are located. As a part of broadening the Company's approach to energy production, not least in light of its intentions to play an important role in the UK's energy transition, work has commenced on assessing various sites for their suitability for electricity generation and storage as well as biomethane production. Given the current energy price environment we do not see these projects coming to fruition in the short term.

Outlook

Given the fall in oil prices we have reviewed our capital expenditure programme for the year and reduced it principally to maintenance capex, abandonment and capital for projects already in execution. We will continue to review our priorities to ensure we weather any prolonged depressed oil price scenario. There remains, however, material uncertainty of the potential impact of COVID-19 on the Group's operational activities, future commodity prices and the outcome of the May 2020 redetermination of the RBL.

The greater than 250% 2P reserves replacement demonstrates the significant upside in our conventional portfolio and we continue to identify and progress projects with short-term growth potential and good returns even in this oil price environment.

The UK currently imports in excess of 50% of its energy requirements. As we transition to becoming independent from the EU and focus on our climate change ambitions, there is a growing need to develop domestic energy sources, including oil and gas, which have both economic and environmental advantages, compared to imports.

Whilst there is a clear need for oil and gas in a 2050 net zero environment, we have also begun to look at ways of maximising returns from our sites and high grading for potential opportunities for electricity generation, storage and biomethane production, as we seek to ensure IGas positions itself as a flexible deliverer of a variety of energy sources to the UK.

I am proud of our response, as a business, to the COVID-19 pandemic and want to thank all our colleagues for their professionalism and 'can do' attitude in such difficult times. We continue to monitor and respond to the situation as it develops and believe that we will come out of this a stronger and more cohesive Company than ever before.

Stephen Bowler
Chief Executive Officer



Investing with the focus of delivering returns.



Julian Tedder
Chief Financial Officer

“We were extremely pleased to sign a \$40 million RBL with BMO in October 2019. The facility will reduce our overall cost of debt and provides the financial flexibility for continued investment into our conventional portfolio to grow our production over the coming years.”

Results for the year

During 2019, the average monthly price of Brent crude ranged between \$59/bbl and \$71/bbl. The lower average price of \$64/bbl for the year versus \$71/bbl for 2018 had a negative impact on our revenues. The average GBP/USD exchange rate for the year was £1: \$1.28 (2018: £1: \$1.34) which positively impacted revenue for the year.

For the year ended 31 December 2019 adjusted EBITDA was £13.8 million (2018: £10.8 million) whilst a loss was recognised from continuing activities after tax of £49.8 million (2018: loss £21.4 million). The main factors driving the movements between the years were as follows:

- Revenues decreased to £40.9 million (2018: £42.9 million) principally due to lower oil prices and a 3% decrease in oil sales volumes. The decrease was partially offset by a weaker average Sterling to US Dollar exchange rate and increased gas sales from our Albury field which commenced production in November 2018;

- Other costs of sales decreased to £20.5 million (2018: £21.9 million). Operating costs were £1.4 million lower than the prior year due to the capitalisation of operating lease costs of £1.7 million on adoption of IFRS 16 and a refund for rent and rates. The decrease was partially offset by an increase in regulatory, production and workover costs;
- Administrative expenses decreased by £1.0 million to £4.5 million (2018: £5.5 million). A continued focus on costs resulted in lower staff, external consultants and premises costs;
- The £53.9 million exploration expense relates primarily to our shale assets in the North West. In November 2019, the UK Government announced an effective moratorium on the process of hydraulic fracturing in England. We will now work with industry partners and Government and should the moratorium be lifted we would focus on our core area of the Gainsborough Trough in the short to medium term (2018: £29.1 million related to PEDL 145 Doe Green, an Albury well and various relinquished licences);



+ Focus on

New debt facility signed

IGas signed a \$40 million senior secured RBL with BMO in October 2019.

In addition to the committed \$40 million RBL, a further \$20 million accordion facility is available on an uncommitted basis, subject to new bank commitments. The RBL has a five-year term, an interest rate of LIBOR plus 4.0% and matures in September 2024. The RBL is subject to a semi-annual redetermination in May and November when the loan availability will be recalculated taking into account forecast commodity prices, remaining field reserves (assessed by an independent reserves auditor annually) and the latest forecast of operating and capital costs. The Company also exercised its call option and issued a redemption notice with respect to all outstanding bonds (Secured Bonds) pursuant to the 10%. IGas Energy PLC Senior Secured Callable Bond Issue 2013/2018 – ISIN NO 001 0673791. The Secured Bonds were redeemed at par value (100%) plus accrued interest on the redeemed amount up until, but not including, the settlement date of the call option on 19 November 2019. The proceeds from the new RBL were used to repay the Secured Bonds and will be used to fund development opportunities in the conventional portfolio and for general corporate purposes.

- Goodwill of £4.8 million relating to the acquisition of Dart shale assets has been written-off due to the moratorium announced by the Government in November 2019; and
- A tax credit of £9.3 million was recognised mainly due to the recognition of a deferred tax asset relating to ring-fence tax losses (2018: a tax credit of £3.7 million mainly due to the recognition of a deferred tax asset relating to ring-fence tax losses).

Income statement

The Group recognised revenues of £40.9 million for the year (2018: £42.9 million). Group production for the year averaged 2,325 boepd (2018: 2,258 boepd). Revenues included £2.4 million (2018: £2.4 million) relating to the sale of third party oil, the bulk of which is processed through our gathering centre at Holybourne in the Weald Basin.

The average pre-hedge realised price for the year was \$61.7/bbl (2018: \$67.0/bbl) and post-hedge \$60.1/bbl (2018: \$57.4/bbl). A loss of £1 million was realised on hedges during the year primarily relating to the premium cost of puts (2018: realised loss of £5.5 million). The average GBP/USD exchange rate for the year was £1: \$1.28 (2018: £1: \$1.34) which positively impacted revenue for the year.

Cost of sales for the year were £29.6 million (2018: £28.8 million) including depreciation, depletion and amortisation (DD&A) of £9.1 million (2018: £6.8 million), and operating costs of £20.5 million (2018: £21.9 million). Operating costs were £1.4 million lower than the prior year due to a decrease relating to the re-classification of operating leases under IFRS 16 of £1.7 million and a refund for rent and rates, partially offset by an increase in regulatory, production and workover costs. Operating costs include a cost of £2.2 million (2018: £2.3 million) relating to third party oil. The contribution received from processing this third party oil was £0.2 million (2018: £0.2 million).

Operating costs per barrel of oil equivalent (boe) were £23.6 (\$30.1), excluding third party costs (2018: £23.6 (\$31.9) per boe).

The reduction was due to lower absolute operating costs and higher production volumes.

Adjusted EBITDA in the year was £13.8 million (2018: £10.8 million). Gross profit for the year was £11.3 million (2018: £14.2 million). Administrative costs decreased by £1.0 million to £4.5 million (2018: £5.5 million) principally due to a reduction in staff, external consultants and premises costs.

Exploration costs written-off of £53.9 million relates to our shale assets in the North West as we plan to focus on our core area of the Gainsborough Trough in the short to medium term (2018: £29.1 million).

Net finance costs were £3.4 million (2018: £3.9 million) primarily related to interest on borrowings of £1.9 million (2018: £1.9 million) and the unwinding of discount on provisions of £1.3 million (2018: £1.1 million), finance charges relating to right-of-use assets of £0.7 million (2018: £nil), offset by a net foreign exchange gain of £0.3 million, principally on US dollar denominated debt and bank balances (2018: loss of £0.9 million). A loss of £0.7 million was incurred relating to the refinancing of debt including the write-off of costs relating to the bond which had previously been capitalised.

The Group made a loss on oil price derivatives of £3.3 million for the year due to the premiums on options placed in 2019 and an increase in underlying prices impacting hedges placed in 2018 (2018: loss £0.7 million) and a gain on foreign exchange hedges of £0.3 million (2018: loss £0.2 million).

A tax credit of £9.3 million was recognised mainly due to the recognition of a deferred tax asset relating to an increase in the recoverability of ring-fence tax losses (2018: a tax credit of £3.7 million mainly due to the recognition of a deferred tax asset relating to ring-fence tax losses).

Cash flow

Net cash generated from operating activities for the year was £12.0 million (2018: £12.9 million). The decrease was primarily due to lower revenue and an increase in working capital, offset by a decrease in administrative expenses and lower payments to counterparties in respect of realised hedges.

The Group invested £6.4 million across its asset base during the year (2018: £10.6 million). £3.7 million was invested in our conventional assets including the Scampton North Waterflood project, the Welton water injection project and the installation of gas pump compressors in additional sites, resulting in additional production during the year.

We continued to invest in new projects to increase production across our existing sites. We invested £2.7 million in unconventional assets in relation to our shale development programme including the Group's net share of the cost of drilling a vertical well at Tinker Lane and costs to progress the Ellesmere Port planning appeal.

The Group also continued its abandonment programme and spent £1.8 million on abandoning five wells during the year.

Following a successful refinancing, IGas repaid £21.4 million (\$27.6 million) of principal on its Norwegian bond borrowings to bondholders during the year (2018: repaid £1.7 million (\$2.3 million)).

The Group made a net drawdown of £14.7 million (\$19.0 million) on its new RBL. IGas paid £2.0 million (\$2.6 million) in interest (2018: £1.8 million (\$2.3 million)).

To protect against the volatile oil price the Group places commodity hedges for a period of up to 12 months. As at 31 December 2019, the Group had hedged a total of 420,000 bbls for 2020, using a combination of puts (292,500 bbls at an average downside protected price of \$51.4/bbl) and fixed price swaps (127,500 bbls at an average fixed price of \$58.7/bbl).

Cash and cash equivalents were £8.2 million at the end of the year (2018: £15.1 million).

Balance sheet

Net assets decreased by £48.6 million to £113.1 million at 31 December 2019 (2018: £161.7 million), mainly related to an impairment of intangible exploration and evaluation assets and goodwill of £58.7 million, offset by an income tax credit of £9.3 million.

Changes to the estimate of decommissioning costs following an internal review increased both assets and liabilities by £7.7 million.

The Group adopted IFRS 16 Leases (effective 1 January 2019) resulting in the capitalisation of leasing costs of £7.7 million and the recognition of a lease liability of £7.2 million as at 31 December 2019 (see note 13).

At 31 December 2019, the Group has a combined carried gross work programme of up to \$214 million (£161 million) (2018: \$220 million (£170 million)) from its partner, INEOS Upstream Limited. In 2019, £7.3 million (2018: £9.2 million) gross costs were carried, principally in relation to activities at Springs Road, which have not been included in the additions to intangible exploration and evaluation assets during the year.

At 31 December 2019, the Group's oil derivative instruments had a net negative fair value of £0.2 million (2018: net positive fair value of £2.2 million).

Borrowings decreased from £21.0 million to £13.1 million following the refinancing carried out during the year as, under the new financing arrangements, there is no requirement to maintain a minimum cash balance and repayments can be made in the short-term using excess cash.

Net debt at the year-end, being the nominal value of borrowings less cash and cash equivalents, was £6.2 million (2018: £6.4 million).

Disposal of non-core fields

As announced in July 2019, we were unable to agree a transaction with Onshore Petroleum Limited and consequently all non-core assets will now remain with IGas.

Going concern

The Group continues to closely monitor and manage its liquidity risks. Cash forecasts for the Group are regularly produced based on, inter alia, management's best estimate of:

- The Group's production and expenditure forecasts;
- Future oil prices;
- The level of available facilities under the Group's RBL; and
- Foreign exchange rates.

Sensitivities are run to reflect different scenarios including, but not limited to, possible further reductions in commodity prices, strengthening of sterling and reductions in forecast oil and gas production rates.

In the first quarter of 2020, the oil price has been affected by the global spread of COVID-19 and the resultant reduction in oil demand.

This situation has since been compounded by the failure of OPEC to reach an agreement on constraining supply and the decision of several countries to increase output. At the date of this report, there remains significant uncertainty over the impact of COVID-19 on future global demand for oil and therefore the price of oil.

The ability of the Group to operate as a going concern is dependent upon future oil prices and foreign exchange rates as they impact the continued generation of future cash flows and the loan facility available under its RBL (which is redetermined semi-annually based on various parameters including oil price and level of reserves) and is also dependent on the Group not breaching its RBL covenants. To mitigate these risks, the Group benefits from its hedging policy with 420,000 bbls hedged at an average minimum price of \$53.6/bbl for 2020. The Group also has \$12 million of foreign exchange hedges in place at rates between \$1.17-\$1.20:£1 for the period to 30 June 2021.

Furthermore, the Group's net reserves position has increased by 1.5 mmeob during 2019 which will partially offset any impact of lower prices in its RBL at the next redetermination in May 2020.

Management has considered the impact of the COVID-19 global crisis on the Group's operations. We continue to monitor the situation closely and act within Government guidelines and have a number of contingency plans in place should our operations be significantly affected by COVID-19. Many of our sites are remotely manned and at this stage we are well equipped as a business to ensure we maintain business continuity. Our production comes from a large number of wells in a variety of locations (all of which are on land and in the UK) and we have flexibility in our off-take arrangements, as we transport oil via road. In this regard, we continue to liaise and co-operate with all the relevant regulators.

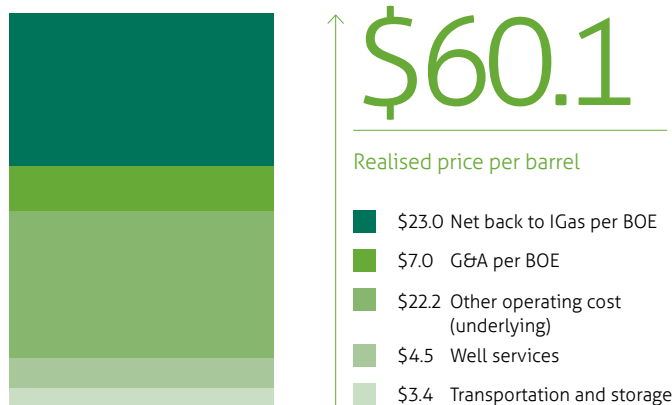
The Group's base case going concern model was run with average oil prices of \$32/bbl for April to December 2020 rising to \$45/bbl from January 2021 and a foreign exchange rate of \$1.20:£1 during the period. Our forecasts show that the Group will have sufficient financial headroom to meet its financial covenants based on the existing RBL, as well as an estimate, based on management's knowledge and past experience, of the outcome of the next half-yearly redetermination due in May 2020, and the following redetermination date in December 2020, albeit the level of the facility available to us is dependent on the facility provider, BMO, and is beyond our control.

Given the uncertainties described above, the level of Group revenues and availability of facilities under the RBL are inherently uncertain. As such management has also prepared a downside forecast with the following assumptions:

- Oil prices at \$20/bbl in the second quarter of 2020 rising to \$30/bbl in the fourth quarter of 2020 and \$43-\$45/bbl in 2021. As this assumption is lower than external current forward curves, management considers this is a reasonable downside scenario that reflects further potential reductions in price caused by the failure of OPEC to reach an agreement on constraining supply and lower demand from reduced industrial activity caused by COVID-19. This downside is partially mitigated by the commodity hedges the Group has in place. However, oil price is outside the Company's control and this could be lower should there be further market disruption either from COVID-19, or OPEC disagreements;
- No change to the level of available RBL loan facility during the forecast period as this reflects longer-term oil price assumptions that have been considered in conjunction with recent discussions with the RBL provider;

Key financial statistics	2019 £m	2018 £m
Revenues	40.9	42.9
Adjusted EBITDA ¹	13.8	10.8
Underlying operating profit ¹	4.6	4.0
Loss after tax	(49.8)	(21.4)
Net cash from operating activities	12.0	12.9
Net debt ²	6.2	6.4
Cash and cash equivalents	8.2	15.1
Net assets	113.1	161.7

Realised price per barrel



- 1 Adjusted EBITDA and Underlying Operating Profit are considered by the Company to be a useful additional measure to help understand underlying performance.
- 2 Net debt is borrowings less cash and cash equivalents excluding capitalised fees.

	31 December 2019 £m	31 December 2018 £m
Net debt at year-end		
Debt (nominal value excluding capitalised expenses)	(14.4)	(21.5)
Cash and cash equivalents	8.2	15.1
Net Debt	(6.2)	(6.4)

	2019 £m	2018 £m
Adjusted EBITDA		
Loss before tax	(59.1)	(25.1)
Net finance costs	3.4	3.8
Loss on refinancing	0.7	-
Depletion, depreciation and amortisation	9.4	6.9
Impairments/write-offs	58.7	29.1
EBITDA	12.9	14.7
Lease rentals capitalised under IFRS 16	(2.0)	-
Share-based payment charges	0.8	0.8
Unrealised loss/(gain) on hedges	2.1	(4.7)
Adjusted EBITDA	13.8	10.8

	2019 £m	2018 £m
Underlying operating profit		
Operating loss	(55.0)	(21.2)
Operating lease rentals capitalised under IFRS 16	(2.0)	-
Share-based payment charge	0.8	0.8
Impairments/write-offs	58.7	29.1
Unrealised loss/(gain) on hedges	2.1	(4.7)
Underlying operating profit	4.6	4.0

- A reduction in production of 10% to reflect a disruption risk to operational and production related activities from the COVID-19 crisis. As the Group is providing a government designated essential service and due to the large number of operational wells, the impact of COVID-19 on production has to date been very limited and has been assumed to remain so as management does not currently foresee wells needing to be shut down due to the impact of COVID-19. Management therefore considers this assumption represents a reasonable downside in this uncertain time based on management's experience of previous unplanned shut downs;
- Exchange rates of \$1.20:£1 for 2020 and \$1.25:£1 for 2021 to reflect a downside caused by the weakening of the dollar later in the period. This downside is partially mitigated by the currency hedges the Group has in place; and

- Includes the impact of action management could take to reduce cash outflow, including delaying capital expenditure and additional reductions in costs in order to remain within the Company's debt liquidity covenants based on the Group's expected RBL redeterminations in May 2020 and December 2020. All such mitigating actions are within management's control and could be actioned within the required time frame.

In this downside scenario, our forecast shows that the Group will have sufficient liquidity and financial headroom to meet its financial covenants for the 12 months from the date of approval of the financial statements. However, should oil price or demand (and therefore revenue) fall further, the Company may not have sufficient funds available for 12 months from the date of approval of these financial statements. As a result, at the date of approval of the financial statements, there is material uncertainty over future commodity prices, the outcome of the May 2020 redetermination of the RBL and the potential impact of COVID-19 on the Group's operational activities.

These material uncertainties may cast significant doubt upon the Group's ability to continue as a going concern. Notwithstanding these material uncertainties, the Directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future and have concluded it is appropriate to adopt the going concern basis of accounting in the preparation of the financial statements. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Julian Tedder

Julian Tedder
Chief Financial Officer

Measuring OUR progress.

IGas tracks both financial and non-financial metrics to help the Group manage its long term performance and measure progress against its strategy.

Non-financial

Lost Time Injuries (LTI) (number)

Nil

2019 ¹	Nil
2018 ¹	One
2017 ¹	Two
2016 ¹	Nil
2015 ²	Nil

Reasons for choice

Health and safety is of paramount importance to us in providing the highest level of protection to all our stakeholders.

Progress on Shale Development plan

2019 ¹	Drilled a vertical well at Springs Road and announced a world-class shale discovery in June.
2018 ¹	Completed site construction at both Tinker Lane and Springs Road; drilled a vertical well at Tinker Lane and plugged and abandoned the well following completion of drilling; and appealed the decision for flow tests at Ellesmere Port following rejection of the application by Chester West and Chester council.
2017 ¹	Granted planning permission for a vertical well in PEDL 200 (Tinker Lane); planning conditions discharged and site construction commenced for both Springs Road and Tinker Lane; submitted planning application for flow tests at existing Ellesmere Port well; and submitted a scoping request for drilling and hydraulically fracturing a well at Ince Marshes in the NW.
2016 ¹	Granted planning consent for two wells (horizontal and vertical) in PEDL 139/140 (Springs Road); submitted planning application for drilling in PEDL 200 (Tinker Lane); received five new shale licences in the 14 th Round; and completed interpretation of 3-D seismic in the NW.
2015 ²	Acquired 3-D seismic in the NW; submitted planning application for drilling in PEDL 139/140 (Springs Road); 14 th Round licence applications; and secured INEOS farm-in.

The Shale Development plan is key to delivering shareholder value and delivering against our strategy.

How we measure

We tracked nine leading and nine lagging indicators during the year and these are reported to the Board on a monthly basis. We aim to have zero LTIs but when we do have an LTI this is fully investigated with clear remedial action as required and communication of learnings to the organisation.

Progress against budgeted work programmes is tracked on a monthly basis and reported to the Board. Where progress is slower than expectations actions are taken to understand the reasons and actions taken to address the issues.

Target and results for 2019

The target was to have zero LTIs and this was achieved in the year. We have again maintained our ISO 9001 and 14001 accreditations with no major non-conformances identified.

The target for the year was to drill one well in the East Midlands and to submit a planning application for hydraulic fracturing if the well was successful. The well was drilled successfully under budget and discovered a world-class shale resource in the Gainsborough Trough. A planning application for hydraulic fracturing was not submitted as the UK Government announced an effective moratorium on the process of hydraulic fracturing in England based on a report by the OGA in November 2019. We will work closely with the relevant regulators to demonstrate that we can operate safely and environmentally responsibly.

Remuneration & strategy link

This measure is used to determine the level of annual cash bonus.

This measure is used to determine the level of annual cash bonus.



A reminder of our strategy



Reserves and production growth



Developing shale portfolio



Local and national engagement

Financial

Production (boepd)

2,325 boepd



Operating costs (\$/boe)

\$30.1/boe



Operating cash flow before working capital movements (£'000)

£14.3m



1. Year ended 31 December.

2. Nine months ended 31 December 2015.

3. 2015 operating costs included a one-off rates rebate equivalent to \$5.5/boe, so underlying operating costs for 2015 were £30.1/boe.

Reasons for choice

The Group aims to maintain production levels to provide operating cash flow for funding of the Group. To ensure this target is met an appropriate level of capital investment is planned to mitigate against the underlying decline in our mature fields.

Operating costs per boe is a key focus for the Group as keeping costs low will improve the cash that we generate from our producing assets.

Operating cash flow is key to providing funding for investing in the business as we pursue our growth strategy.

How we measure

Daily and weekly production is monitored for all producing assets and reported weekly to senior management and monthly to the Board. Monthly production forecasts are prepared during the year to measure progress against the production target.

Operating costs are monitored closely to ensure that budget targets are being met. Operating costs are reported on a monthly basis to the Board and actions are taken, as required, to control costs in line with the budget.

Operating cash flow is reported to the Board on a monthly basis. Regular forecasts are undertaken to ensure operating cash flow is in line with budget, as well as longer-term forecasts to ensure that the strategy of the business can be adequately funded.

Target and results for 2019

Production for 2019 was 2,325 boepd which was towards the upper end of the production target range of 2,200 - 2,400 boepd and exceeded our base KPI target of 2,300 boepd. Production performance was positively impacted in our East Midlands assets by the success of waterflood and optimisation activities conducted in 2018, alongside 2019 projects being brought online ahead of schedule and wells performing in the upper range of expectation.

Operating costs for 2019 were \$30.1/boe which achieved the stretch target set for the year. Absolute operating costs were below budget for the year and when combined with the higher production rate and the continuing weak Sterling against the US Dollar, the stretch target per barrel rate was achieved.

Operating cash flow before working capital movements for 2019 was £14.3 million which achieved the stretch target set for the year. An increase in production for the year, an increase in realised oil price and a reduction in operating costs contributed to the positive performance for the year.

Remuneration & strategy link

This measure is used to determine the level of annual cash bonus.



This measure is used to determine the level of annual cash bonus.



This measure is used to determine the level of annual cash bonus.



Understanding the risks associated with our operations.

Key risk areas
The risks around our existing business are set out in more detail on pages 28 to 29 but the key risk areas can be identified as being associated with the following:

Strategic
Making sure we apply the appropriate strategies in certain situations and ensuring we deliver on strategic objectives.

Operational
Successfully developing oil and gas through our production and development assets.

Financial
Prudent financial management seeks to mitigate the impact of market fluctuations.

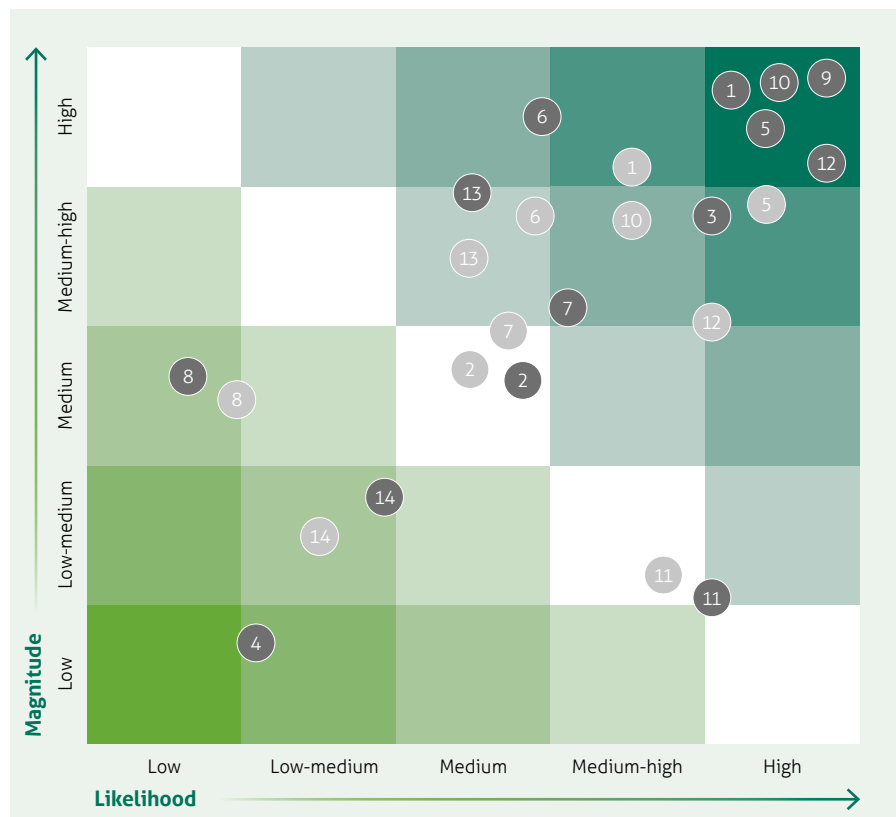
The Group constantly monitors the Group's risk exposures and reports to the Audit Committee and the Board on a regular basis.

The Audit Committee receives and reviews these reports and focuses on ensuring that the effective systems of internal financial and non-financial controls including the management of risk are maintained. The results of this work are reported to the Board which in turn performs its own review and assessment on an annual basis.

Risks

1. Exposure to political risk
2. Strategy performance
3. Climate change
4. Cyber security
5. Planning, environmental, licensing and other permitting risks
6. Oil or gas production
7. Shale gas resources
8. Loss of key staff
9. Pandemic
10. Oil market price risk
11. Gas and electricity market price risk
12. Exchange rate risk
13. Liquidity risk
14. Capital risk

Risk scale





- Current risk
- 2018 risk

Risk matrix



Key

-  2018 risk spread
-  2019 risk spread

Risk management process

The risk management process utilises risk registers held within the production and development business and these are consolidated at a corporate level. Key risks in these registers have assigned owners and are renewed as part of the quarterly business performance reviews. The risk owners believe that the risks are monitored, mitigated and appropriate controls are implemented. The Audit Committee has delegated authority to the Excom to manage the risks.

Risk management framework



Board

The Board is responsible for setting the Group's risk appetite and acceptable risk tolerance and putting in place a framework for risk management.

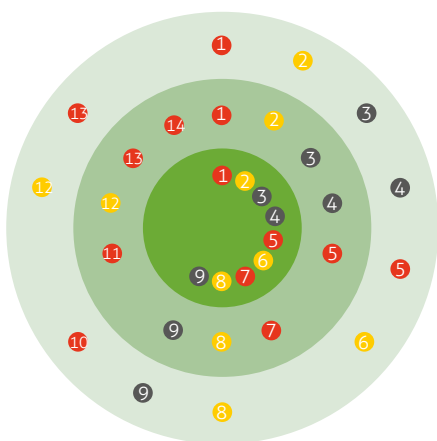
Audit Committee

The Audit Committee oversees the framework for risk management and ensures it is operating effectively.

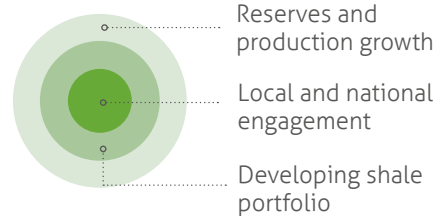
IGas teams & risk owners

The risks are separated into strategic, operational and financial categories. Senior management are assigned responsibility for the identified risks within the three categories (see risk management process below).





Mapping risks against strategy






Key






Change in risk


-  Increased risk
-  Stable risk / No change
-  Decreased risk
-  New risk



















Direction of change

-  Increase
-  No change
-  Decrease

A reminder of our strategy

-  Reserves and production growth
-  Developing shale portfolio
-  Local and national engagement

Risk	Executive ownership	Mitigation	Change	Strategic link
Strategic				
<p>1. Exposure to political risk This can include changes in Government or the effect of a local or national referendum. These political risks can result in changes in the regulatory or fiscal environment (including taxation) which could affect the Group's ability to deliver its strategy.</p>	CEO – Stephen Bowler	Through UKOOG and other industry associations the Group engages with Government and other appropriate organisations to ensure the Group is kept abreast of expected potential changes and takes an active role in making appropriate representations.		  
<p>2. Strategy performance Strategy fails to meet shareholder expectations.</p>	CEO – Stephen Bowler	Provide clear, transparent and consistent communication to all stakeholders. Ensure delivery against the five-year plan. Regular meetings with shareholders and potential shareholders.		  
<p>3. Climate change Changes in laws, regulations, policies, obligations and social attitudes relating to the transition to a lower carbon economy could have a cost impact or reduced demand for hydrocarbons for the Group and could impact our strategy.</p>	CEO – Stephen Bowler	The Group works closely with regulators to ensure that all required planning consents and permits for operations are in place. Continual dialogue with all stakeholders to understand emerging requirements. The Board actively reviews the Group's strategy to ensure it remains relevant and will provide long term returns to shareholders.	New	  
<p>4. Cyber security Exposure to a serious cyber-attack which could affect the confidentiality of data, the availability of critical business information and cause disruption to our operations.</p>	CFO – Julian Tedder	The Group outsources its provision of IT equipment and help desk services to a third party and ensures that staff are trained in security awareness. The Group has been accredited with Cyber Essential Plus which demonstrates commitment to cyber security.	New	  
Operational				
<p>5. Planning, environmental, licensing and other permitting risks Planning, environmental, licensing and other permitting risks associated with operations and, in particular, with drilling and production operations.</p>	CEO – Stephen Bowler	The Group considers that such risks are partially mitigated through compliance with regulations, proactive engagement with regulators, communities and the expertise and experience of its team. Continual dialogue with local authorities to understand requirements.		  
<p>6. Oil or gas production Oil or gas is not produced in the anticipated quantities from any or all of the Group's assets or that oil or gas cannot be delivered economically.</p>	Production Director – Chris Beard	The Group considers that such risks are mitigated given that its producing assets are located in established oil and gas producing areas, there is a portfolio of producing assets and its operating staff have extensive expertise and experience.		 

Risk	Executive ownership	Mitigation	Change	Strategic link
Operational continued				
7. Shale gas resources Successful development of shale gas resources is not achieved.	Development Director – Ross Glover	Following successful drilling at Springs Road and discovery of a world-class resource the Group will work with Joint Venture Partners and the Government to undertake a body of scientific work to allow the submission of a Hydraulic Fracture Plan.		 
8. Loss of key staff Loss of key staff.	CEO – Stephen Bowler	Provide and maintain a competitive remuneration package to attract the correct calibre of staff. Build a strong and unified team and ensure we have a clearly defined people strategy based on culture and talent. Development plans in place for all staff.		  
9. Pandemic Exposure to a global pandemic, such as COVID-19, that leads to disruption to the Group's operations and delays to the supply chain.	CEO – Stephen Bowler	The Board has put in place business continuity plans to manage any disruption to operations. Ensure staff are kept healthy and safe and the Group complies with all guidance issued by the Government at the time. Liaise with all regulators to ensure that the Group remains compliant with all permits and regulatory standards.	New	  
Financial				
10. Oil market price risk Exposure to market price risk through variations in the wholesale price of oil in the context of the production from oil fields it owns and operates.	CFO – Julian Tedder	The Group has hedged a total of 420,000 barrels over the year to 31 December 2020, at an average price of \$53.6/bbl through a mixture of swaps and puts. The Board seeks to underpin the Group's future cash flows by entering into a combination of put options and swaps for baseline production to cover 12 months forward. The Board will continue to monitor the benefits of such hedging.		
11. Gas and electricity market price risk Exposure to market price risk through variations in the wholesale price of gas and electricity in the context of its future unconventional production volumes.	CFO – Julian Tedder	The Board monitors the benefit of entering into contracts at the appropriate time to protect against gas and electricity price volatility.		
12. Exchange rate risk Exposure to exchange rate risk through both its major source of revenue and its major borrowings being priced in US dollars.	CFO – Julian Tedder	The Board monitors the cash flows of the Group to ensure currency exposure is understood. Exchange rate hedges are considered to ensure that cash inflows in US dollars are matched with Sterling cash outflows.		 
13. Liquidity risk Exposure, through its operations, to liquidity risk.	CFO – Julian Tedder	The Board regularly reviews the Group's cash forecasts and the adequacy of available facilities to meet the Group's cash requirements.		 
14. Capital risk The Group is exposed to capital risk resulting from its capital structure, including operating within the covenants of its RBL.	CFO – Julian Tedder	The capital structure is continually monitored to ensure it is in line with the business needs and ongoing asset development. Further details of the Group's capital management policy are disclosed in note 24 to the consolidated financial statements.		

Committed to responsible development.



Committed to responsible development

A sustainable and responsible company is one that is committed to protecting and enhancing the wider environment and working with communities to provide them with lasting socio-economic benefits. This is not only the right thing to do, it also supports our social licence to operate and the success of our business over the long term.

In support of its vision, purpose and strategy, IGas is aligning itself to a number of the United Nations' Sustainable Development Goals.

Environment

The protection of the environment is a core business objective for IGas. We are committed to working with regulators to ensure that any activity is undertaken safely and with as little impact to the environment as possible. Throughout our operations and the lifecycle of our wells, robust safety measures are in place to protect the environment.

IGas operates an ISO 14001 certified Environmental Management System and by doing so demonstrates, via external assurance, that the systems and processes which we apply to our business in the management and determination of environmental risk are robust.

We work with the EA and the MPA to ensure that we adhere to high standards through a series of formal and informal audits, review and general discussion with the MPAs and other key regulators.

UN SDG



Protected areas

Throughout the project lifecycle we continually identify, evaluate and mitigate risk and have publicly committed to stringent evaluation prior to determining whether to conduct operations in areas of natural or cultural sensitivity.

In England & Wales, onshore oil and gas exploratory activities require environmental permits issued under the Environmental Permitting Regulations (EPR 2010) and other permissions from the environmental regulator, depending on the methods used and the geology of the site.

Amongst other things, these activities shall not be carried out within:

- (a) 10 metres of any watercourse;
- (b) a groundwater source protection zone 1 or 2, or where a source protection zone has not been defined then within 250 metres of any well, spring or borehole used for the supply of water for human consumption or food production purposes. This must include private water supplies;
- (c) a specified Air Quality Management Area (AQMA);
- (d) 200 metres of a European Site or a Site of Special Scientific Interest;
- (e) 200 metres of the nearest sensitive receptor; and
- (f) a flood zone 3.

An Environmental Impact Assessment (EIA) may also be required. An EIA is an assessment of the possible positive and/or negative impacts that a proposed project may have on the environment.



Responsible exploration

All exploration is undertaken with care.

Responsible operations

Our operations are gold standard.

1

2

3

Our approach to sustainability aligns with the United Nation's Sustainable Development Goals.

Responsible production

We produce energy responsibly for all.

In association with the MPA we work to determine via screening whether an EIA is required, if it is we work collaboratively to ensure all possible impacts are surveyed correctly, any impact is appropriately mitigated and the resulting assessment is transparently communicated to all relevant stakeholders.

Planning applications and environmental permits go through public consultation.

Full details of the environmental permits and permissions required for onshore oil and gas exploration and extraction can be found here:

www.gov.uk/guidance/onshore-oil-and-gas-sector-guidance

MPAs (as part of local councils) grant planning permission for the location, at surface and their well-bore trajectory beneath the ground, of any wells and well pads, and impose conditions to ensure that the impact on the use of the land is acceptable.

1 Responsible exploration



2 Responsible operations



3 Responsible production



Environment continued

The planning system controls the development and use of land in the public interest. This includes ensuring that any new development is appropriate for its location and in accordance with national policy and local development plans. Development applications take into account the effects (including cumulative effects) of potential pollution on health, the natural environment or general amenity. In doing so, the focus of the planning system is on whether the application is an acceptable use of the land, and what the impacts of those uses are. Any control processes, health and safety issues or emissions are then subject to the approval of the appropriate associated regulator.

Full details of the planning guidelines for onshore oil and gas can be found at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/224238/Planning_practice_guidance_for_onshore_oil_and_gas.pdf

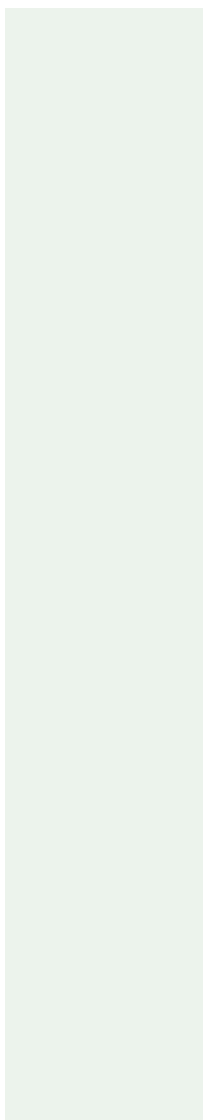
During the year we continued to submit re-permitting submissions for our existing sites, as part of a process initiated by the Environment Agency and ongoing since 2016, to review the permitting of all onshore oil and gas sites. As part of this exercise certain activities which have always taken place under existing EPR permits but were listed as DAAs now require specific permits. One of these activities is the reinjection of produced water which now requires a GA (Groundwater Activity) Permit and an RSR (Radioactive Substances Activity) Permit where the produced water separated out during the oil production process has a NORM (Naturally Occurring Radioactive Material) concentration above specified 'out of scope' values.

Water

IGas recognises that water is a critical natural resource, essential to life, health and sustainable social and economic development. Water is also a key component of our operations and as such we accept our role in the responsible and efficient use of this valuable resource.

IGas is committed to identifying, monitoring and mitigating the impact on water supplies associated with our operations.

At our Springs Road site, we installed silt fencing, ensuring that run off during construction did not impact local ditches and the wildlife within them. We installed monitors in local drains so as to ensure that we had not adversely affected groundwater levels and we continue to measure groundwater quality surrounding our site, demonstrating that we have had no effect on its quality.



Waste and recycling

The Company seeks to ensure all waste streams are recycled and not disposed of in order to minimise the impact on the environment. We regularly audit our waste streams and work closely with our contractors to ensure the appropriate recovery and recycle options are used.

During the year, the Tinker Lane site was rehabilitated and the land is already returned to growing crops. All of the stone removed from Tinker Lane went onto other construction projects, concrete blocks were re-tasked and now fortify local farms hindering access to vandals and steel gates, and the fencing has been used to bolster our existing infrastructure.

Biodiversity

IGas accepts its responsibility to comply with applicable biodiversity protection laws and regulations in areas where we operate. We therefore endeavour not to adversely impact biodiversity and natural habitats through our presence and operations.

During the year we completed a number of biodiversity projects as either part of our site remediation and restoration commitments, or as part of our responsible operator programme during operations.

In North Nottinghamshire, we plugged and abandoned our exploration well at Tinker Lane. The full restoration was completed by October 2019 and the field was back in crop before the start of 2020. During the development of the site, a planting scheme included the filling out of surrounding hedgerows, planting of large saplings in the local verges and development of meadow grasses within the site. Meadow development was so effective that ground nesting birds successfully fledged chicks within the site during 2019.

At our Springs Road site, a number of Hibernaculums were installed at multiple locations across the site providing a suitable habitat for both snakes and lizards. Areas of the site not used during the operation were developed into meadows for habitats to support rabbits, foxes, raptors and owls which were regularly spotted.

We undertook groundwater monitoring, air quality monitoring, noise monitoring and significant work on both noise and light mitigation, water level monitoring in local ditches and demonstrated we had no discernible impact on the air quality, groundwater levels or groundwater quality in the catchment area, including the nearby SSSI.

UN SDG



UN SDG



During the year we completed the restoration of an abandoned site at Wigginton near York. This involved removal of the drilling pad, replacement of soils, re-establishment of drainage channels and finally reseeded. We also successfully plugged and abandoned a well at Keele, located within the University complex.

In December 2019, we completed an ongoing project to relocate a badger sett which we had identified at one of our existing sites so that we could continue to undertake routine maintenance on the site without disturbing the badger colony. We commissioned a report and sought a licence from Natural England. The works were carried out by a specialist ecological consultant and the badgers successfully moved and appropriate badger proof fencing installed. We will continue to monitor the site.

Climate change and GHG emissions

IGas recognises the risk that climate change poses to society and to its business.

We support the UK’s transition to a low carbon economy, through the responsible development and production of domestic onshore oil and gas in alignment with the Committee on Climate Change recommendations.

We recognise the need to reduce greenhouse gas (GHG) emissions. Over the last three years we have seen a decrease in our direct emissions and we continue to strive to reduce our GHG emissions through new initiatives.

Our approach to managing our GHG emissions involves:

- The efficient operation of our existing equipment and infrastructure, including minimising flaring and venting; and
- The installation of best available technology into all new projects to minimise their carbon intensity.

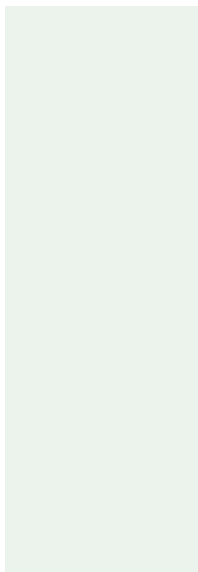
Development of environmental KPIs

At a Group level we measure and report on Lost Time Injuries [see KPIs on page 24](#). IGas already complies with a number of strict requirements across its sites that are set by the regulators. In addition, part of the team’s remit for 2020 is to develop a set of Group-wide environmental KPIs.

Social

Staying safe, keeping others safe, and being responsible are core to who we are as a Company.

As a responsible operator we are focused on achieving safe and sustainable operations, minimising any adverse social impacts and achieving the highest standards of health and safety throughout the business.



UN SDG

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	13 CLIMATE ACTION
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UN SDG

6 CLEAN WATER AND SANITATION	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION	15 LIFE ON LAND



“The design of the policy framework to reduce UK industry emissions must ensure it does not drive industry overseas, which would not help to reduce global emissions, and be damaging to the UK economy.”

Committee on Climate Change

16% Nil

Over the last three years we have seen a decrease in our direct emissions of 16% LTIs in 2019

Health and Safety

We operate to established company and industry standards and processes which ensure provision of safe and responsible working practices across all our operational activities. These company standards encompass all aspects of our Health, Safety and Environmental management obligations, and are designed to meet and exceed the expectations of our employees, external contractors, Government regulators, joint venture partners and the communities with whom we interface.

Our internal health and safety policies are aimed at:

- Ensuring healthy working conditions within an environment of complete security for employees and contractors; and
- Implementing operating standards that are legally and ethically compatible.

The Company has achieved all of its HSEQ Leading Indicator KPIs and its incident rate is substantially below published (HSE Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 RIDDOR) industry statistic rates, based on number of employees and hours worked. Our goal is to work to eliminate work place injuries and we are pleased to say there were zero LTIs during the year. Our Hazard Reporting continues to improve and has increased by 50% this year compared to 2018, helping to reduce incidents before they occur.

We are committed to ensuring our colleagues and host communities are kept safe and well, and to raising awareness of potential dangers related to our operations and locations where we operate. We ensure colleagues have access to affordable healthcare and aim to achieve top quartile industry performance on our occupational safety measures. This is demonstrated through IGas achieving the ROSPA Presidents Award again, representing 13 years of commitment to Occupational Health and Safety.

The business continues to drive improvements through awareness campaigns and engagements through its Committee of Representatives for Safety.

COMAH (Control of Major Accident Hazards Regulations) sites remain an ongoing programme of continual improvement with two more sites being notified under the regulations.



As part of the EA re-permitting programme all IGas sites but one have now been issued with a Consolidated Permit. The permit includes a significant number of improvement conditions set out by the EA for the industry which the Company is on target to complete as per its agreed schedule.

ISO 9001/14001 certification continues to be an important part of the business; during 2019 the business successfully completed transition from ISO 9001/14001:2008 to ISO 9001/14001:2015 standards without any major non-compliance.

Crisis and emergency management

A programme of training and regular exercises and testing are in place to ensure response plans are properly understood and will work in the event of an emergency. Emergency response plans, equipment and resources are reviewed annually. As part of the management of change process any change to the nature of operational activity or change in regulatory or Company requirements will result in the evaluation of response plans. Key lessons identified during training exercises or responses to real events will be incorporated into future response plans as required.

For more information on employee and communities see Our Stakeholders section on pages 10 to 11 in this report

Governance

The Board is fully committed to ensuring that high standards of governance, values and behaviours are consistently applied throughout the Group, helping to ensure the integrity of our business, the successful delivery of our strategy and the long term success of the Group as a whole.

Further details of our approach to corporate governance can be found on page 35 of this report and full details are available on our website www.igasplc.com/investors/corporate-governance

ROSPA



Developing our governance model to support our business.



“The Board continues to believe that the QCA Code provides the Group with the right governance framework in view of its size, strategy, resources and stage of development, as it offers a flexible but rigorous outcome-oriented framework in which we can continue to develop our governance model to support our business.”

Dear Shareholder,

As Interim Chair of the Company, I have overall responsibility for ensuring that good corporate governance is embraced by IGas and the Group as a whole. In doing so, I work with, and consider, the views of all Board members, the Executive Committee (Excom) and the Company's advisers. The Board is fully committed to ensuring that high standards of governance, values and behaviours are consistently applied throughout the Group, helping to ensure the integrity of our business, the successful delivery of our strategy and the long term success of the Group as a whole.

As an AIM listed company, IGas must comply with the AIM Rules. In March 2018, the AIM Rules were changed such that all AIM listed companies were obliged, from 28 September 2018, to apply a recognised corporate governance code, providing details of that code on its website along with details of how the Company complies with or departs from that code. On 10 September 2018, the Board resolved to adopt the Quoted Companies Alliance Corporate Governance Code, 2018 edition (the QCA Code). The Board continues to believe that the QCA Code provides the Group with the right governance framework in view of its size, strategy, resources and stage of development, as it offers a flexible but rigorous outcome-oriented framework in which we can continue to develop our governance model to support our business.

Our primary means of communicating the Group's corporate governance structure is through the Annual Report and various disclosures made on our website. Nevertheless, where specific questions are raised by private individual shareholders and institutional investors, we engage directly with those shareholders, principally through the Chief Executive Officer and Chief Financial Officer or, where appropriate, certain other members of our Excom, namely the Technical Director and Director of Corporate Affairs.

Finally, a word about our corporate culture. We seek to communicate our corporate culture through staff presentations and inductions. We rely on our management structure, and our internal reporting structures to assess whether these core values have been respected, and our Director of Human Resources is tasked with monitoring internal compliance on an ongoing basis. We seek to promote our core values of: (i) respect for our people, environment, partners and the safety of others; (ii) performing to the highest standards internally and externally to deliver against our targets; (iii) collaboration through mutual trust, knowledge sharing and teamwork; (iv) commitment to the preservation of the environment whilst providing safe and healthy working conditions; and (v) transparency by being honest about what we do, how we do it, and the challenges we face.

Fundamentally, IGas is committed to diversity, including gender diversity and we have a number of women in senior management roles. However, we fully recognise that the Board could be more gender diverse in its composition and will seek to further address gender diversity when recruiting for Board vacancies. I also note that since the resignation of Mr McTighe as Chair in October 2019, the Board includes one independent Non-executive Director. Whilst this does not follow the best practice recommended by the QCA Code, which envisages that the Board has at least two independent Non-executive Directors, it is noted that the composition of the Board is a matter for review by the Nomination Committee in 2020 and that the culture of good corporate governance of the Company subsists under the current composition of the Board.

Cuth McDowell
Interim Non-executive Chairman

Key Board statements

Requirement	Compliance Statement	Where to find further information
1. Directors' responsibilities in respect of financial statements	The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulation. The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.	Page 54
2. Compliance with the Quoted Companies Alliance Corporate Governance Code	As an AIM listed company, IGas must comply with the AIM Rules. In March 2018, the AIM Rules were changed such that all AIM listed companies were obliged, from 28 September 2018, to apply a recognised corporate governance code, providing details of that code on its website along with details of how the Company complies with or departs from that code. On 10 September 2018 the Board resolved to adopt the QCA Code and further information on the Company's compliance with that code is set out in this Annual Report.	Page 37
3. Going concern	The Group continues to closely monitor and manage its liquidity risks including the continued use of both oil and foreign exchange derivatives. Cash forecasts for the Group are regularly produced based on, inter alia, the Group's production and expenditure forecasts, management's best estimate of future oil prices, management's best estimate of foreign exchange rates and the Group's borrowings.	Page 22
4. Robust assessment of the principal risks facing the Group	The Directors' Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.	Page 52
5. Annual review of the systems of risk management and internal control	The Audit Committee focuses on ensuring that the effective systems of internal financial and non-financial controls including the management of risk are maintained. The results of this work are reported to the Board which in turn performs its own review and assessment on an annual basis.	Page 26
6. Remuneration Report	The 2019 Directors' Remuneration Report notes a detailed review with the 'Reward and Employment' team at PwC in 2017. The Board agreed a number of changes to the annual cash bonus scheme, which better aligned the bonuses of the CEO and senior executives to the Company's Key Performance Indicators (KPIs) and which, in the event of superior performance in any bonus period, introduced an element of staff retention through the use of stock awards with the Board agreeing that 50% of any bonus in excess of £30,000 be paid in the form of restricted stock and subject to a minimum holding period. The Board believes that their structure is still appropriate and aligns the remuneration of the CEO and senior executives with shareholders' interests.	Page 47

Corporate governance principles applicable to IGas

The ten QCA Code corporate governance principles, which apply to IGas, are:

1. Establish a strategy and business model which promote long term value for shareholders;
2. Seek to understand and meet shareholder needs and expectations;
3. Take into account wider stakeholder and social responsibilities and their implications for long term success;
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation;
5. Maintain the Board as a well-functioning, balanced team led by the chair;
6. Ensure that, between them, the Directors have the necessary up-to-date experience, skills and capabilities;
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement;
8. Promote a corporate culture that is based on ethical values and behaviours;
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board; and
10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

Application of the QCA Code and required disclosures

The QCA Code requires us to apply the principles set out above and to publish certain related disclosures in our Annual Report, on our website, or a combination of the two. We have followed the QCA Code's recommendations and have therefore provided disclosure relating to Principles 2, 3, and 9, as well as those aspects of Principles 8 and 10 recommended to be disclosed on our website, in a corporate governance statement on our website and will cover the remaining principles in this Annual Report. We depart from the strict recommendation of the QCA Code in respect of Principle 7 as we cover all aspects recommended to be disclosed by the QCA Code in respect of that principle, including those aspects which the QCA Code recommends be covered on our website, in this Annual Report. An index setting out where each required disclosure can be found is at the end of the corporate governance statement on our website.

Strategy and business model – QCA Principle One

The Group's strategy and business model is described in our Strategic Report on pages 8 and 9.

Effective risk management – QCA Principle Four

The Group embeds risk management throughout the organisation and this is described on pages 26 to 29.

Board balance – QCA Principle Five

See page 43 for information on those Directors who are considered to be independent, the time commitment required for Directors to conduct their role and the number of meetings of the Board, its committees and the relevant Directors' attendance record.

Board skills – QCA Principle Six

Information on each of the Directors is provided on page 40.

The Board, led by the Chair, has the necessary skills and knowledge to discharge their duties and responsibilities effectively, setting clear expectations and ensuring stringent measures for corporate governance standards are met, particularly in relation to executive remuneration, accountability and audit.

The Executive and Non-executive Directors' skill sets are complementary, and together provide a blend of broad commercial, operational, legal, and financial expertise. The skill set is suitably broad and sufficiently high calibre such that all decision making at Board level is robust and mindful of the fiduciary responsibilities that need to be discharged to all shareholders. In addition, the Directors are aware of the importance of keeping abreast of the industry's current activities and attend oil and gas conferences and events globally throughout the year to keep their skills, contacts and knowledge current and simultaneously engage with governments, global operators and service providers in the oil and gas industry.

During 2019 the Company used a number of external professional advisers in relation to the RBL placed with BMO and subsequent repayment of the Secured Bonds, including external legal advisers and the Company's Nomad in relation to the refinancing. Details of the Company's advisers can be found on the Company's website at <http://igasplc.com/investors/shareholder-information/registrars-and-advisors>

See the corporate governance statement on our website for further details of the internal advisory responsibilities performed by certain individuals in advising and supporting the Board.

Board effectiveness – QCA Principle Seven

In 2019 the Board formalised its procedures for self-evaluation and undertook a self-evaluation in respect of its effectiveness. The aim of the Board evaluation was to review the effectiveness of the Board's performance and assess its strengths as well as areas for development with an agreed set of actions and agreed deadlines. The self-evaluation was carried out on behalf of the Board by the Chief Financial Officer using a self-evaluation questionnaire completed by each member of the Board (excluding Hans Årstad who was appointed to the Board at a later date), against which the Board was assessed under the following categories: Board composition, roles and responsibilities, meetings and administration, Board committees, Board discussions, Board relationships and stewardships, monitoring and evaluation, strategy and internal control.

The Chief Financial Officer, the then Chief Operating Officer and the General Counsel, as those members of the Excom invited to attend Board meetings on the most regular basis, also completed the self-evaluation questionnaire.

The overall result was that the Board concluded that it was operating effectively. The Board considered its strengths to be the effectiveness of the Board Committees, the open and honest discussions of the Board and the effectiveness of decision making by the Board.

The Board concluded that areas for development were: (1) the composition of the Board in relation to oil and gas technical ability and diversity through the continued review of expansion of the Board as part of continued succession planning; (2) engagement with the wider IGas workforce including ensuring that all staff were invited to join regular Town Hall meetings and the dissemination of Group messages to all staff; and (3) the timeliness of circulation of Board papers. In respect of each identified area for development: (1) the Board has continued to review its composition in relation to oil and gas technical ability and diversity and continues to be mindful of the recommendations of the 2019 self-evaluation in respect of any future appointment; (2) the Board has agreed that two Board meetings will be held at operating sites during the year in support of its engagement with the wider workforce, all staff now have access to the means to receive Group messages and are invited to regular and structured Town Hall meetings which provide updates to staff on the progress of the Group's business, as well as an open forum for staff questions to be addressed; and (3) the third recommendation was fully addressed in 2019. The effectiveness of the Board will be assessed in 2020 through a further self-evaluation of performance.

The Board is committed to ensuring effective succession planning. The Nomination Committee is responsible for reviewing Board and senior management succession planning to ensure that the Company has the appropriate level of skills and diversity. Where appropriate the Nomination Committee uses external advisers to assist with candidate identification and benchmarking. The Nomination Committee continues to ensure that there is a robust succession plan for senior management positions. The Board (in conjunction with the Nomination Committee) reviewed succession planning for the Excom and senior manager positions in 2019 and concluded that plans were in place for all key positions; this will be reviewed again in 2020.

The Excom and, at a more junior level, senior departmental managers address progression of employees through annual appraisals and competency reviews. Following the successful launch of a structured Management Training Programme in 2018, offering key managers training and learning opportunities, this was supplemented through a series of workshops aimed at all employees with a supervising role, in order to further train those individuals in the process for giving effective appraisals.

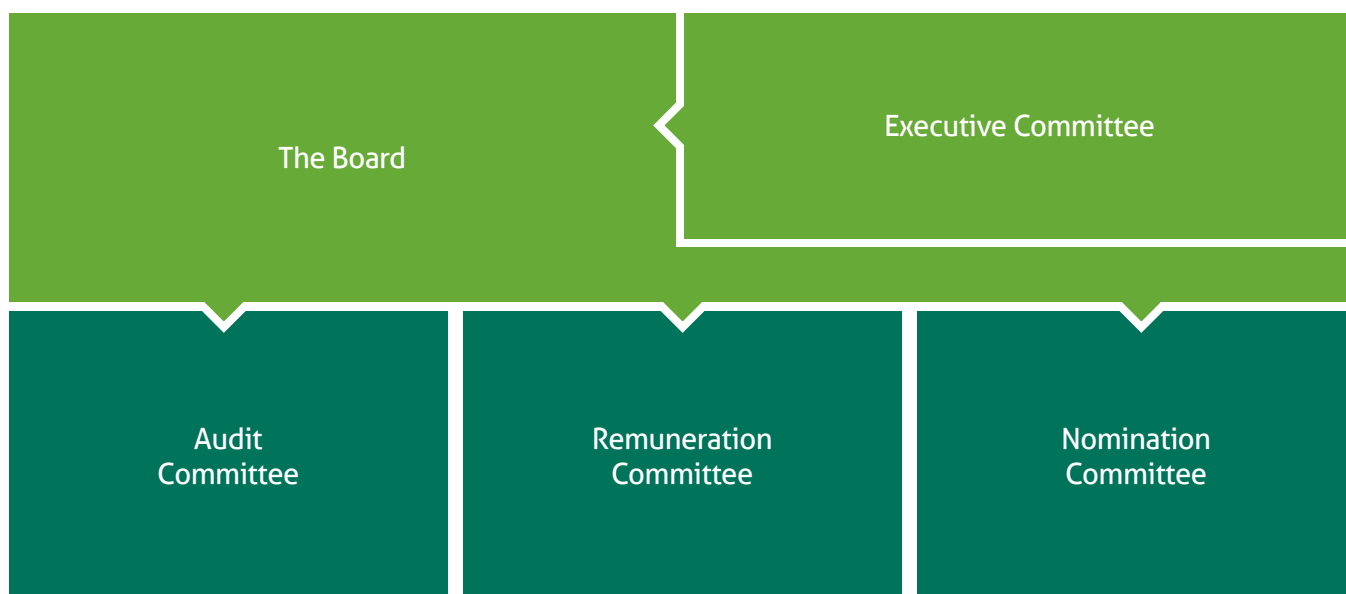
Governance and shareholder dialogue – QCA Principle Ten

See below for an overview of the work of the committees of the Board undertaken in 2019.

See pages 47 to 51 of this Annual Report for the Remuneration Committee Report.

This Annual Report does not include a separate Audit Committee report. However, pages 43 to 44 of this Annual Report outlines the key areas of focus of the Audit Committee in the year ended 31 December 2019. The Group will further assess internally as to whether it is necessary and appropriate to make further disclosures under the QCA Code, either through a report of the Audit Committee or more likely in sections of the next Annual Report.

How we manage our Company



The Board

The Board is responsible for the overall governance of the Group. Its responsibilities include reviewing and approving the Group's strategy, budgets, major items of capital expenditure and senior personnel appointments.

[+](#) To read more see page 43

Executive Committee (Excom)

The Excom is responsible for the day-to-day running of the operational business with a focus on performance management and ensuring that the Group KPIs are being met.

[+](#) To read more see pages 41 to 42

Audit Committee

The Audit Committee is responsible for monitoring and reviewing the integrity of the financial reporting processes and ensuring the financial statements give a true and fair view. Whilst the Board is ultimately responsible for risk management and internal controls in the Company, the Audit Committee is responsible for ensuring that executive management takes responsibility for internal controls being appropriately designed and are both efficient and effective in practice. In 2020, the work of the Audit Committee will, in addition to its natural focus on the preparation of the Company's Annual Report and Accounts, strengthen its role in monitoring the integrity of the Company's broader corporate reporting, risk management systems (including the identification of future opportunities) and internal control environment, as well as its continued role in determining the Company's approach to risk and the extent to which the Company is willing to take risks.

[+](#) To read more see page 43

Remuneration Committee

The Remuneration Committee is responsible for determining and agreeing the remuneration policy for the Executive Director and senior managers.

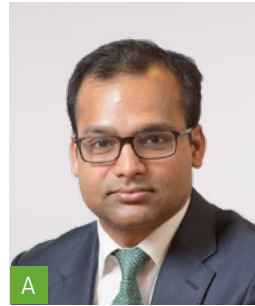
[+](#) To read more see page 44

Nomination Committee

The Nomination Committee is responsible for reviewing the size, structure and composition of the Board and ensuring the balance and expertise of the Board remains appropriate to meet the needs of the Company.

[+](#) To read more see page 45

Leading the Company the right way.



Name Stephen Bowler
Role Chief Executive Officer
Appointed 2015
Skills and experience
Steve became Chief Executive Officer in May 2015 having joined IGas as Chief Financial Officer in 2011 following the acquisition of Star Energy's producing assets, which transformed IGas into one of the leading UK onshore oil and gas companies.
He qualified as a chartered accountant with Touche Ross, now Deloitte. In 1999, Steve joined ABN Amro Hoare Govett, now part of Jefferies, where he acted as adviser and broker to a wide range of UK listed companies in the oil and gas sector.
Steve led the Company through its refinancing in 2017, as well as the significant farm-out to INEOS in 2015.

Name Cuth McDowell
Role Interim Non-executive Chairman
Appointed 2012
Skills and experience
Cuth has 36 years of international experience in the oil and gas sector, having held a range of leadership positions in exploration and production companies.
He began his career with BP, where he held various commercial and management roles over eight years. Cuth then joined Clyde Petroleum plc, initially as Senior Economist, subsequently becoming Group Commercial Manager before Clyde was bought by Gulf Canada.
In 1997, Cuth joined Paladin Resources plc, where he served primarily as Finance Director. The company raised approximately £120 million in four separate primary offerings before it was sold to Talisman Energy Inc. for approximately £1.2 billion in 2006. Cuth is currently chairman at Quotall Ltd., an unlisted software development company.

Name Philip Jackson
Role Non-executive Director
Appointed 2017
Skills and experience
Philip serves on Kerogen's Investment Committee. He has over 30 years' experience in investments and corporate finance in energy and infrastructure projects. He was the founder and former chief executive of J.P. Morgan Asset Management's \$860 million Asian Infrastructure and Related Resources Opportunity Fund.
Philip was with J.P. Morgan (and Heritage Jardine Fleming) for over 20 years, leading their power and infrastructure advisory businesses, advising on restructuring, M&A and privatisation. He started his career with the energy team at Ashurst LLP before moving to its client Trafalgar House plc, one of the UK's leading independent oil and gas companies.
Philip has recently been elected a Fellow of the Energy Institute. He graduated with an MA in law from the University of Cambridge and is a solicitor of the Supreme Court in England.

Name Tushar Kumar
Role Non-executive Director
Appointed 2017
Skills and experience
Tushar is a member of the Investment and Portfolio Management Team at Kerogen Capital. He has over 17 years' experience in investing, investment banking and equities, working with a range of oil and gas companies including upstream, downstream, majors and NOCs across Europe, the Middle East and Asia.
Prior to joining Kerogen, he was an executive director at Morgan Stanley's natural resources group in London, having previously worked with members of the Kerogen team at J.P. Morgan's energy and natural resources group in Hong Kong.
Tushar holds an MBA from the Indian Institute of Management Ahmedabad (IIMA) and a BTech in computer science and engineering from the Indian Institute of Technology (IIT). He is also a CFA charter holder.

Name Hans Årstad
Role Non-executive Director
Appointed 2019
Skills and experience
Hans is a Director in KKR's European Private Equity Team where he has been involved in a number of investments in a broad range of industries. Hans joined KKR in 2014. Prior to joining KKR, he was an Engagement Manager at McKinsey & Company focusing on upstream oil and gas. Hans holds a M.Sc. in Finance and a BSc. in Business Administration from the Norwegian School of Economics.

Committee member key

- A Audit Committee
- R Remuneration Committee
- N Nomination Committee
- Chair
- Member

EXECUTIVE COMMITTEE



Name Stephen Bowler

Role Chief Executive Officer

Skills and experience

Steve became Chief Executive Officer in May 2015 having joined IGas as Chief Financial Officer in 2011 following the acquisition of Star Energy's producing assets, which transformed IGas into one of the leading UK onshore oil and gas companies.

He qualified as a chartered accountant with Touche Ross, now Deloitte. In 1999, Steve joined ABN Amro Hoare Govett, now part of Jefferies, where he acted as adviser and broker to a wide range of UK listed companies in the oil and gas sector.

Steve led the Company through its refinancing in 2017, as well as the significant farm-out to INEOS in 2015.



Name Julian Tedder

Role Chief Financial Officer

Skills and experience

A chartered accountant, Julian has over 15 years' senior management experience both at operational and group level within the international oil and gas sector, including Centrica plc and Tullow Oil plc.

Most recently, Julian was General Manager, Finance for Tullow Oil, having worked at the company for over ten years, where he was ultimately responsible for 190 staff across the finance function.



Name Ross Pearson

Role Technical Director

Skills and experience

Ross Pearson, a Petroleum Engineer by trade, has extensive onshore, oil and gas experience gained over the past 19 years working in various technical roles across the E&P value chain. Ross's career started in the Western Canadian Sedimentary Basin working for Schlumberger before taking a role with Devon Energy where he held various Petroleum Engineering positions both in the Production and Development Teams.

In 2010 he moved to Australia where he initially worked for Origin Energy as a Sr. Petroleum Engineer prior to joining Senex Energy as the Development Manager where he managed the Subsurface Team focused on the Appraisal and Development of their conventional and unconventional oil and gas assets.

Ross has a Bachelor of Applied Science Degree in Mining Engineering from Queen's University in Canada and is a member of the Society of Petroleum Engineers and a Fellow of the Energy Institute.



Name Chris Beard

Role Production Director

Skills and experience

Chris (MEng BSc (Hons) CEng MIET) has 31 years' experience working in the oil and gas industry in both the upstream and downstream business.

Chris started his career working in a Maintenance and Integrity role for BP at the Llandarcy Oil Refinery in South Wales. Over the next 25 years Chris worked in a number of roles and locations for BP the last of which was at BP Wytch Farm Oilfield in Dorset, where he held a variety of technical, operational and managerial roles before finishing in the role of Onshore Site Manager.

Chris joined Providence Resources Plc as Managing Director of the UK operations before its acquisition by IGas in 2011. Chris currently has responsibility for the delivery of the Production Division Corporate strategy, goals and targets for production, operating costs in accordance with the IGas Management Systems.



Name Ross Glover
Role Development Director
Skills and experience
 Ross has over 20 years of experience in project development and mining exploration and operations. Ross started his career in Southern Africa managing capital projects in the mining sector. He then undertook a variety of operational roles culminating in running two diamond mines and an exploration programme. Prior to joining IGas in 2017, he ran a UK based renewable energy project development company with a focus on UK onshore wind.

Ross holds a BSc in Mechanical Engineering from the University of Cape Town and an MBA from Warwick Business School.



Name Peter Foscoe
Role Director of Human Resources
Skills and experience
 A Chartered Fellow of the Chartered Institute of Personnel and Development, Peter has over 25 years' experience managing human resource functions in the financial services, telecoms and oil and gas sectors. In addition to ten years at Merrill Lynch/Bank of America and four years as Head of Human Resources at an AIM listed Hedge Fund, Peter has specialised in compensation and benefits at a number of organisations, including six years as Head of Reward for the Hess Corporation global E&P business.



Name Thamala Perera Schuetze
Role General Counsel and Company Secretary
Skills and experience
 General Counsel with 19 years' experience, over 12 years of which gained in the oil and gas industry. Prior to the reverse takeover of Star Energy Group Limited (then a wholly-owned subsidiary of PETRONAS) by IGas in 2011, Thamala was a member of the Management Team and the General Counsel of Star Energy responsible for the European Infrastructure Group of PETRONAS with a primary focus on gas storage.

Thamala was called to the Bar of England and Wales in 2000 and during her career has held (among others) positions at the regulator, Ofgem, where she advised on electricity, gas and LNG projects and at Freshfields Bruckhaus Deringer LLP in the telecoms sector.

Thamala holds a Master of Laws (LLM) in European Law from King's College London.



Name Ann-marie Wilkinson
Role Director of Corporate Affairs
Skills and experience
 Appointed in 2013, Ann-marie is a media and communications professional with over two decades of experience having worked extensively as a consultant for a number of financial and corporate public relations/investor relations agencies.

Ann-marie has extensive experience in providing advice on both external and internal communications strategies and has worked with a number of oil and gas sector companies over the years.

CORPORATE GOVERNANCE

The Directors are committed to meeting high standards of corporate governance. As an AIM listed company, IGas has a requirement to apply a recognised corporate governance code and to further demonstrate the application of its principles which underpin best practice in corporate governance. The Company has chosen to apply the Quoted Companies Alliance (QCA) Code as its governance framework and the Directors intend to comply with the underlying principles of the QCA Code, to the extent they consider it appropriate and having regard to the size, current stage of development and resources of the Company.

Details of how IGas addresses the key governance principles of the QCA Code and our continued work in developing their application in respect to our business, and of the disclosures required by the Code's principles are contained in this section and on our Company website.

The Board and its committees

During 2019, the Board welcomed Hans Årstad as a Non-executive Director in May 2019 and noted the resignation of Mike McTighe in October 2019. Following these Board changes, the Board of the Company consists of one Executive Director and four Non-executive Directors. Following Cuth McDowell's appointment as Interim Chair of the Board, Mr McDowell is no longer fulfilling the role of Senior Independent Director, but is still considered to be an independent Non-executive Director. Biographies of all the Directors are included within the Annual Report on page 40.

The Board retains full and effective control over the Group. The Board meets regularly to consider reports on the operational and financial performance of the Group and to decide on matters reserved unto itself, which include reviewing and approving the Group's strategy, budgets, major items of capital expenditure and senior personnel appointments.

Board membership

Board member	Meetings attended (out of a total possible)
Mike McTighe (Chairman) (resigned 10 October 2019)	8/9
Cuth McDowell (Interim Chairman)	12/13
Stephen Bowler	13/13
Philip Jackson	13/13
Tushar Kumar	13/13
Hans Årstad (appointed 20 May 2019)	8/9

In addition to the Directors, the Chief Financial Officer and General Counsel have been invited to attend each meeting of the Board; the General Counsel has participated in all of the meetings and the Chief Financial Officer has participated in all but one meeting during the year. The Board invites other members of the Excom to attend its meetings as necessary and appropriate to the agenda to be discussed at the relevant Board meeting. The Board intends to meet at least ten times during 2020.

The Board has the following committees each chaired by a Non-executive Director as follows:

Audit Committee

The committee comprises only Non-executive Directors; being chaired by Cuth McDowell and having as its other member, Tushar Kumar. Meetings are aligned with the Group's financial reporting calendar and in the year ended 31 December 2019 the committee met on three occasions. The Chief Financial Officer and Group Financial Controller are invited to attend each meeting of the committee and participated in all of the meetings during the year. The external auditors are also invited to attend meetings of the committee as appropriate and also meet the committee without the presence of management at least annually. The committee intends to meet at least three times during 2020.

Audit Committee membership

Committee member	Meetings attended (out of a total possible)
Cuth McDowell (Chairman)	3/3
Mike McTighe (resigned 10 October 2019)	2/2
Tushar Kumar	3/3

Summary of the committee's responsibilities

The committee's responsibilities include the following:

- The committee reviews reports from management and the Group's auditors relating to the Group's Annual Report and Accounts and the interim results announcements. The committee advises the Board on whether the Annual Report and interim announcements are fair, balanced and understandable and provide the information necessary for IGas' stakeholders to assess performance against the Group's strategy;
- The committee reviews compliance with legal requirements, accounting standards and the AIM Rules and on ensuring that effective systems of internal financial and non-financial controls (including for the management of risk and whistle-blowing) are maintained. However, the ultimate responsibility for reviewing and approving the Annual Report and Accounts remains with the Board of Directors; and
- The committee keeps under review the external auditors' independence and considers the nature, scope, and results of the auditors' work and develops policy on and reviews (reserving the right to approve) any non-audit services that are provided by the external auditors. The committee is responsible for making recommendations to the Board of Directors on their appointment and remuneration.

Key areas of focus in the year ended 31 December 2019

The committee's particular areas of focus during the year were as follows:

- Review of the 2018 Annual Report and of the significant risks identified which included the going concern assessment, including covenant compliance; impairment of oil and gas properties; recoverability of goodwill, the decommissioning provision and reserves and resources disclosures;
- Review of the six months ended 30 June 2019 interim results announcement and of the significant risks which included the going concern assessment, including covenant compliance, recoverability of goodwill, accounting for lease agreements and impairment of oil and gas properties; and
- Review of the planning for the 2019 Annual Report and approving the approach being taken by the Group's auditors.

Remuneration Committee

The committee comprises only Non-executive Directors, being chaired by Philip Jackson and having as its other member Cuth McDowell. The committee met on three occasions in the year ended 31 December 2019. The Chief Executive Officer and Human Resources Director are invited to attend meetings. In accordance with the committee's terms of reference, no Director may participate in discussions relating to their own terms and conditions of service or remuneration.

Remuneration Committee membership

Committee member	Meetings attended (out of a total possible)
Philip Jackson (Chairman)	3/3
Mike McTighe (resigned 10 October 2019)	2/2
Cuth McDowell	3/3

Summary of the committee's responsibilities

The committee's responsibilities include the following:

- Making recommendations to the Board of Directors on the Company's policy on the remuneration of the Chairman, Executive Directors and other senior executives (as are delegated to the committee to consider);
- Determining, within agreed terms of reference, the remainder of the remuneration packages for each of them, including pension rights, any compensation payments and the implementation of executive incentive schemes;
- Monitoring the level and structure of remuneration for senior management;
- Reviewing the design of share incentive plans for approval by the Board and determining the policy on annual awards to Executive Directors and senior executives; and
- Reviewing progress made against performance targets and agreeing incentive awards.

Key areas of focus in the year ended 31 December 2019

The committee's particular areas of focus during the year were as follows:

- Review of bonus structure for the Executive Director and senior employees and agreement of the level of deferral of the bonus payment into Company shares;
- Review of long-term incentive plans and approving the issue of awards under the Executive Incentive Plan; and
- Review of performance against the Group's key performance indicators in the year ended 31 December 2018 and recommending to the Board that a pay-out factor of 32.5% be applied to all employees of the Group. Staff bonuses were paid to staff in February 2019.

Nomination Committee

The Nomination Committee is chaired by the Interim Chairman, Cuth McDowell, and its other member is Non-executive Director, Philip Jackson. The Chief Executive Officer of the Company is invited to attend meetings of the committee when the committee is discussing matters related to executive management and such other matters as the committee chairman deems appropriate. The committee meets as required during the year.

Nomination Committee membership

Committee member	Meetings attended (out of a total possible)
Cuth McDowell (Chairman from 10 October 2019)	3/3
Mike McTighe (resigned 10 October 2019)	1/1
Philip Jackson	3/3

Summary of the committee's responsibilities

The committee's responsibilities include the following:

- Considering the size, structure and composition of the Board of Directors, retirements and appointments of additional and replacement Directors and making appropriate recommendations to the Board of Directors;
- Making recommendations to the Board regarding membership of the Audit and Remuneration Committees; and
- Ensuring that plans are in place for orderly succession to the Board of Directors and senior management positions, so as to maintain an appropriate balance of skills and experience within the Group and the Board of Directors.

Key areas of focus in the year ended 31 December 2019

The principal activities of the committee during the year were as follows:

- Following the resignation of Mike McTighe in October 2019, the committee considered the make-up of the Board and as a result Cuth McDowell was appointed as Interim Chairman. The Board will monitor the composition of the Board and place it under review during 2020; and
- Continuing to ensure that appropriate succession plans are in place for Excom and senior management.

Internal control

The Board acknowledges that it is responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. The procedures that include, inter alia, financial, operational, health & safety, compliance matters and risk management (as detailed in the Strategic Report) are reviewed on an ongoing basis.

The Group's internal control procedures include the following:

- Board approval for all significant projects, including corporate transactions and major capital projects;
- The Board receives and reviews regular reports covering both the technical progress of projects and the Group's financial affairs to facilitate its control;
- There is a comprehensive budgeting and planning system for all items of expenditure with an annual budget approved by the Board. Risk assessment and evaluation is an integral part of the annual planning cycle;
- The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the Group's process for preparing consolidated accounts. These systems include policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of consolidated financial statements in accordance with IFRS; and
- The Audit Committee reviews draft annual and interim reports before recommending their publication to the Board. The Audit Committee discusses with the Chief Financial Officer, Group Financial Controller and external auditors the significant accounting policies, estimates and judgements applied in preparing these reports.

The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has considered the need for a separate internal audit function but, bearing in mind the present size and composition of the Group, does not consider it necessary at the current time.

Anti-bribery and corruption/ethical conduct

IGas has reviewed the appropriate policies and procedures to ensure compliance with the UK Bribery Act, Modern Slavery Act and Criminal Finances Act. The Company continues actively to promote good practice throughout the Group and has continued its roll-out of a programme of anti-bribery and corruption and anti-facilitation of tax evasion, as well as anti-slavery and human trafficking training for all relevant employees.

The Group's Modern Slavery Statement can be accessed here: <http://igasplc.com/media/40884/modern-slavery-statement.pdf>

Relations with shareholders

Communications with shareholders are considered important by the Directors. The primary contact with shareholders, investors and analysts is the Chief Executive Officer. Other senior management, however, regularly speak to investors and analysts during the year. Company circulars and press releases have also been issued throughout the year for the purpose of keeping investors informed about the Group's progress and in accordance with AIM regulations.

The Company also maintains a website (www.igasplc.com) that is regularly updated and contains a wide range of information about the Group.

See also the Company's disclosure in relation to Principle 10 in the corporate governance statement on the Company website.

Engaging with stakeholders

The ways in which IGas solicits information from our stakeholder groups include, inter alia, public relations activities, regular formal contact via written communications, meetings, and conference calls. Informal contact is promoted through the use of social media where appropriate.

The Board seeks to understand the Company's stakeholders' needs, interests and expectations by ensuring open channels of communication at all times and permitting all parties to openly discuss any issues or concerns they may have with the Company.

The Company considers and acts on the information and feedback received by way of bilateral discussions or investor conference calls or RNS announcements when required.

DIRECTORS' REMUNERATION REPORT

This report explains our remuneration policy for Directors and sets out how decisions regarding Directors' pay for the period under review have been taken.

Annual Statement

A detailed review with the 'Reward and Employment' team at PwC was undertaken in 2017, after which the Remuneration Committee proposed a number of changes to the annual cash bonus scheme, which it believes better aligned the bonuses of the CEO and senior executives to the Company's Key Performance Indicators (KPIs) and which, in the event of superior performance in any bonus period, introduce an element of staff retention through the use of stock awards with the Board agreeing that 50% of any bonus in excess of £30,000 be paid in the form of restricted stock and subject to a minimum holding period. Consequently, the Executive Director received his 2017, 2018 and 2019 bonus in cash and restricted stock.

Subsequent to the 2017 review with the 'Reward and Employment' team at PwC, the Board again agreed the Remuneration Committee Proposal that awards of restricted stock under the Executive Incentive Plan (EIP), the mechanics of which were detailed in the 2016 Annual Report, would again require an absolute share price appreciation as a condition of vesting (either in part or in full). In approving the Remuneration Committee's recommendations, the Board again stipulated that no part of the 2018 or 2019 EIP awards (whether to the Executive Director or any other senior executive) will vest unless a share price hurdle of £1.13 is met or exceeded.

The Remuneration Committee believes that the current rules regarding bonus and EIP awards, based on the 2017 review, still remain appropriate.

Directors' remuneration policy

Remuneration policy

The Company's policy is to maintain levels of remuneration sufficient to attract, motivate and retain senior executives of the highest calibre who can deliver growth in shareholder value. Executive Director remuneration currently consists of basic salary, pensions, benefits, annual bonus (based on annually set targets), and long-term incentives (to reward long-term performance). The Company seeks to strike an appropriate balance between fixed and performance-related reward so that the total remuneration package is structured to align a significant proportion to the achievement of performance targets, reinforcing a clear link between pay and performance. The performance targets for staff, senior executives and the Executive Director are each aligned to the key drivers of the business strategy, thereby creating a strong alignment of interest between staff, senior executives, the Executive Director and shareholders.

The Committee will continue to review the Company's remuneration policy and make amendments, as and when necessary, to ensure it remains fit for purpose and continues to drive high levels of executive performance and remains both affordable and competitive in the market.

The elements of the reward package are detailed below:

Element of reward	Operation and performance conditions	Maximum opportunity
<p>Base salary</p> <p>The purpose of the base salary is to:</p> <ul style="list-style-type: none"> • help recruit and retain key individuals; • reflect the individual's skills, knowledge and abilities; and • ensure fair reward for 'doing the job'. 	<p>The Committee reviews base salaries annually to ensure that Executive Director pay remains competitively aligned with external market practices.</p> <p>In determining whether to increase levels the Committee will take the following into consideration:</p> <ul style="list-style-type: none"> • the performance of the individual Director; • the individual Director's experience and responsibilities; • impact on fixed costs of any increase; and • pay and conditions throughout the Company. 	<p>The Committee will retain the discretion to increase an individual's salary where there is a significant difference between current levels and a market competitive rate for similar positions in similar organisations (based on size, complexity and industry sector).</p>
<p>Other benefits including pension</p>	<p>The Company provides Executive Directors with a pension contribution up to 15% of base salary, as well as other benefits in kind including medical insurances and income protection/lump sum payments in the event of extended sickness absence/disability and/or death in service.</p>	
<p>Annual cash bonus</p>	<p>Executive Directors and staff are eligible to participate in a discretionary bonus plan.</p> <p>The Committee will determine on an annual basis the level of deferral, if any, of the bonus payment into Company shares (currently 50% of any award in excess of £30,000). Maximum bonus levels and the proportion payable for target performance are considered in the light of market bonus levels for similar roles among the industry sector.</p> <p>Bonuses paid in cash (and where applicable, shares) are not pensionable.</p> <p>In terms of bonus targets a balanced scorecard approach is operated which focuses on a mixture of strategic, operational, financial and non-financial metrics.</p>	<p>The percentage of maximum bonus entitlement received is based on the achievement of individually challenging targets supporting corporate objectives.</p> <p>The maximum potential bonus entitlement for Executive Directors under the plan is to up to 100% of base salary.</p>
<p>Long Term Incentive Plan (LTIP)</p>	<p>Under the Long Term Incentive Plan, adopted by the Board in 2011 participants can each be granted two types of award: an Initial Award and an Annual Award. Both types of award are in the form of a nil cost option. If the relevant conditions attaching to the awards are met at the end of a three-year vesting period, then the participant has a further seven years in which to exercise the award.</p> <p>The primary purpose of the Initial Awards is to aid the recruitment of key executives. These awards vest at the end of a three-year performance period provided the Company's share price performance exceeds the Company's weighted average cost of capital of 10%.</p> <p>The LTIP also provides for Annual Awards to be granted which will vest at the end of a three-year period provided certain challenging corporate performance conditions have been met. The purpose of the Annual Award is to provide a competitive annual total remuneration package which retains and motivates the Executive Directors and other selected executives.</p>	<p>The maximum individual limit for an Initial Award is 300% of salary.</p> <p>The maximum individual limit for an Annual Award in any financial year is 200% of salary (this limit was increased from 150% during the 2014/15 financial year).</p> <p>No awards have been made under this Plan since November 2015.</p>

Element of reward	Operation and performance conditions	Maximum opportunity																						
Executive Incentive Plan (EIP)	<p>Under the EIP adopted by the Board in March 2016, participants were granted a share award in the form of a nil-cost option, released at the end of a three-year holding period provided that the Executive remains in employment and that the Remuneration Committee are satisfied that corporate performance has been satisfactory (with reference to share price). A multiplier will also apply to this share award to ensure that management are focused on the execution of the business strategy and the creation of long-term value for shareholders. For the first share award (March 2016) the multiplier was set as follows:</p> <table border="1"> <thead> <tr> <th>Share price target</th> <th>Multiplier</th> </tr> </thead> <tbody> <tr> <td>£10.00</td> <td>1.50 x shares awarded</td> </tr> <tr> <td>£15.00</td> <td>2.00 x shares awarded</td> </tr> </tbody> </table> <p>For the subsequent awards (October 2017, March 2018 and March 2019) the multiplier was set as follows:</p> <table border="1"> <thead> <tr> <th>Share price target</th> <th>Multiplier</th> </tr> </thead> <tbody> <tr> <td>< £1.13</td> <td>0.00 x shares awarded</td> </tr> <tr> <td>£1.13 - £1.25</td> <td>0.25 x shares awarded</td> </tr> <tr> <td>£1.26 - £1.39</td> <td>0.50 x shares awarded</td> </tr> <tr> <td>£1.40 - £1.54</td> <td>0.75 x shares awarded</td> </tr> <tr> <td>£1.55 - £1.74</td> <td>1.00 x shares awarded</td> </tr> <tr> <td>£1.75 - £1.96</td> <td>1.50 x shares awarded</td> </tr> <tr> <td>> £1.96</td> <td>2.00 x shares awarded</td> </tr> </tbody> </table> <p>Executive Directors are required to build a shareholding over a five-year period of at least 150% of salary to further support the alignment of their interests with those of shareholders.</p>	Share price target	Multiplier	£10.00	1.50 x shares awarded	£15.00	2.00 x shares awarded	Share price target	Multiplier	< £1.13	0.00 x shares awarded	£1.13 - £1.25	0.25 x shares awarded	£1.26 - £1.39	0.50 x shares awarded	£1.40 - £1.54	0.75 x shares awarded	£1.55 - £1.74	1.00 x shares awarded	£1.75 - £1.96	1.50 x shares awarded	> £1.96	2.00 x shares awarded	<p>Annual award to the current Executive Director of no more than 100% of salary subject to two times multiplier (i.e. the maximum number of shares which could vest is equal to 200% of salary).</p>
Share price target	Multiplier																							
£10.00	1.50 x shares awarded																							
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£1.55 - £1.74	1.00 x shares awarded																							
£1.75 - £1.96	1.50 x shares awarded																							
> £1.96	2.00 x shares awarded																							
Executive Director Retention Plan (EDRP)	<p>Under the EDRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors' continued employment and to a one-year holding period following the date of vesting.</p>	<p>The EDRP was adopted as an exceptional share arrangement and S Bowler was made an award of options over 175,000 ordinary shares in July 2015.</p> <p>No subsequent awards have been made under this Plan.</p>																						
Share Investment Plan (SIP)	<p>In 2013, the Company adopted an HMRC approved Share Investment Plan for all employees of the Group. The scheme is a tax efficient incentive plan pursuant to which all employees are eligible to subscribe for up to £150 (or 10% of salary, if less) worth of IGas ordinary shares per month.</p> <p>Shares are acquired on a quarterly basis and the Company automatically matches the employee contribution, acquiring matching 'Partnership' shares on a 1-to-1 basis. Subject to the Company achieving pre-defined quarterly production targets, the Company increases the Partnership share matching element for that quarter to 2-to-1. In order to receive their allocation of Company Partnership shares, employees must ordinarily remain employed by the Company for a period of three years from the date of grant of the matching award.</p>	<p>Employees are eligible to acquire up to £150 (or 10% of salary, if less) worth of IGas ordinary shares per month from gross salary.</p> <p>The Company will match the shares purchased on a 1-to-1 basis and, subject to the Company having met pre-defined quarterly production targets, will increase the matching element for that quarter to 2-to-1.</p>																						

Annual Report on Remuneration

Remit of the Remuneration Committee

The remit of the Remuneration Committee (the Committee) is provided in the Corporate Governance section.

The Committee has engaged the services of PricewaterhouseCoopers LLP (PwC) to provide wholly independent advice on executive compensation and to assist the Committee in the implementation and evaluation of its long-term incentive arrangements.

Share price movements during the year

The Group's share price as at 31 December 2019 was 48.5p per share. The highest price during the year was 90.2p per share and the lowest share price during the year was 21.5p per share.

Current arrangements in financial year (Audited)

Executive Director

Executive Directors are employed under rolling contracts with notice periods of 12 months from the Company or executive.

Directors' emoluments for the year were as follows:

	Year ended 31 December 2019						Year ended 31 December 2018					
	Salary £'000	Payment in lieu of pension £'000	Bonus (Cash) £'000	Bonus (Shares) £'000	Pensions £'000	Total £'000	Salary £'000	Payment in lieu of pension £'000	Bonus (Cash) £'000	Bonus (Shares) £'000	Pensions £'000	Total £'000
Executive Director												
S Bowler – CEO	364	38	106	76	10	594	357	37	73	43	10	520
Total – Executive Directors	364	38	106	76	10	594	357	37	73	43	10	520

On 28 March 2019 S Bowler was made a Base Award under the 2016 EIP scheme over 469,435 ordinary shares in the Company.

As at 31 December 2019, the outstanding long-term incentives held by the Executive Director who served during the year are set out in the table below:

	Date of grant	At 1 January 2019	Share options granted	Share options exercised	Share options lapsed	As at 31 December 2019	Earliest vesting date	Lapse date
Executive Director Retention Plan								
S Bowler	13/07/2015	175,000	–	–	–	175,000	13/07/2016	13/07/2023
2016 Executive Incentive Plan								
S Bowler	30/03/2016	74,076	–	–	–	74,076	30/03/2019	30/03/2026
	16/10/2017	388,889	–	–	–	388,889	16/10/2020	16/10/2027
	21/03/2018	396,667	–	–	–	396,667	21/03/2021	21/03/2028
	28/03/2019	–	469,435	–	–	469,435	25/02/2022	25/02/2029
		859,632	469,435	–	–	1,329,067		
2016 Management Retention Plan (Bonus Scheme Shares)								
S Bowler	21/03/2018	33,431	–	–	–	33,431	17/01/2019	21/03/2026
	28/03/2019	–	56,036	–	–	56,036	25/02/2020	28/03/2027
		33,431	56,036	–	–	89,467		

Non-executive Directors

The Non-executive Directors are employed under rolling contracts with notice periods of three months, under which they are not entitled to any pension, benefits or bonuses.

	Year ended 31 December 2019				Year ended 31 December 2018			
	Emoluments £'000	Taxable benefits £'000	Pensions £'000	Total £'000	Emoluments £'000	Taxable benefits £'000	Pensions £'000	Total £'000
Non-executive Directors								
R McTighe (resigned 10 October 2019)	78	–	–	78	100	–	–	100
C McDowell ³	69	–	–	69	60	–	–	60
P Jackson ¹	55	–	–	55	55	–	–	55
T Kumar ¹	45	–	–	45	45	–	–	45
H Årstad ² (appointed 20 May 2019)	–	–	–	–	–	–	–	–
Total – Non-executive Directors	247	–	–	247	260	–	–	260

1 Under the terms of their appointments, IGas Energy PLC pays an annual fee (invoiced quarterly in advance) to Kerogen Capital for £55,000 in respect of P Jackson and £45,000 in respect of T Kumar.

2 Under the terms of his appointment no fee is paid to H Årstad.

3 Appointed Interim Chairman with effect from 11 October 2019.



Philip Jackson

Chairman Remuneration Committee

8 April 2020

DIRECTORS' REPORT

The Directors present their report together with the Group and Parent Company financial statements for the year ended 31 December 2019.

Business review and future developments

A review of the business and the future developments of the Group are presented in the Chairman's statement, the Chief Executive's statement, and the Chief Financial Officer's financial review which are all sections within the Strategic Report.

Dividends

The Directors do not recommend the payment of a dividend for the year (year ended 31 December 2018: £nil).

Principal activity

The Group's principal area of activity is exploring for, appraising, developing and producing oil and gas.

Share capital

Details of changes to share capital in the period are set out in note 24 to the consolidated financial statements.

Directors and their interests

The Directors who served during the year were as follows:

R McTighe (resigned 10 October 2019)	Non-executive Chairman
C McDowell (appointed Interim Chairman 10 October 2019)	Interim Non-executive Chairman
S Bowler	Chief Executive Officer
P Jackson	Non-executive
T Kumar	Non-executive
H Årstad (appointed 20 May 2019)	Non-executive

The beneficial interest of each of the Directors' and their immediate families in the ordinary share capital of the Company are shown below:

	31 December 2019		31 December 2018	
	Ordinary 0.002p Shares		Ordinary 0.002p Shares	
	Number	%	Number	%
R McTighe (resigned 10 October 2019)	n/a	n/a	583,056	0.47
C McDowell	219,170	0.18	219,170	0.18
S Bowler	74,772	0.06	66,845	0.06
P Jackson	–	–	–	–
T Kumar	–	–	–	–
H Årstad (appointed 20 May 2019)	–	–	–	–

In addition to the table above, in January 2020, S Bowler subscribed to his full entitlement under the Group's share scheme and accordingly was allotted 1,916 shares.

Annual General Meeting 2020

The Annual General Meeting (the AGM) of the Company will be held at the offices of Pinsent Masons LLP, 30 Crown Place, London EC2A 4ES on 5 June 2020, commencing at 10:30 a.m. The resolutions to be proposed at the AGM are set out and fully explained in the notice of AGM available on the Company's website at: <https://www.igasplc.com/investors/publications-and-reports>

Rotation and re-election of Directors

In accordance with the Company's Articles of Association, P Jackson and T Kumar retire by rotation and H Årstad, having been appointed after the date of the Company's 2019 Annual General Meeting, retires and they each offer themselves for re-election at the AGM on 5 June 2020.

Directors' insurance and indemnity provisions

Subject to the conditions set out in the Companies Act 2006, the Company has arranged appropriate Directors' and officers' insurance to indemnify the Directors and officers against liability in respect of proceedings brought by third parties. Such provision remains in force at the date of this report.

The Company indemnifies the Directors against actions they undertake or fail to undertake as Directors or officers of any Group company, to the extent permissible for such indemnities to meet the test of a qualifying third party indemnity provision as provided for by the Companies Act 2006. The nature and extent of the indemnities is as described in article 58 of the Company's Articles of Association as adopted on 8 August 2013. These provisions remained in force throughout the period and remain in place at the date of this report.

Substantial shareholders

As at 8 April 2020, the Company had been notified in accordance with the requirements of provision 5.1.2 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules of the following significant holdings in the Company's ordinary share capital:

	Number of Shares	%
Kerogen General Partner II Limited	33,964,100	28.0
KOG Investments S.A.R.L.	17,923,583	14.7
Royal London AM	10,155,760	8.3
Bank of America	8,770,663	7.1
J.O. Hambro	7,950,000	6.5

Financial instruments

The Group's principal financial instruments comprise cash balances, borrowings, derivative instruments and other debtors and creditors that arise through the normal course of business as set out in note 23 to the consolidated financial statements. The Group's financial risk management objectives are also set out in note 23 to the consolidated financial statements.

Employment policy

It is the policy of the Group to operate a fair employment policy. No employee or job applicant is less favourably treated than another on the grounds of their sex, sexual orientation, age, marital status, religion, race, nationality, ethnic or national origin, colour or disability and all appointments and promotions are determined solely on merit. The Directors encourage employees to be aware of all issues affecting the Group and place considerable emphasis on employees sharing in its success.

Political contributions

The Group made no political donations during the year (year ended 31 December 2018: £nil).

Status

The Company is not a close company as defined in the Income and Corporation Taxes Act 1988.

The Company is domiciled in the UK and incorporated and registered in England.

Board committees

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

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors will be proposed at the AGM on 5 June 2020 at a fee to be agreed in due course by the Audit Committee and the Board.

Directors' statement as to disclosure of information to the auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing its report, of which the auditors are unaware. Having made enquiries of fellow Directors, each Director has taken all the steps that a Director might reasonably be expected to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board



Thamala Perera Schuetze

Secretary
IGas Energy plc
Registered Office: 7 Down Street, London, W1J 7AJ,
Registered in the United Kingdom number: 04981279
8 April 2020

DIRECTORS' STATEMENT OF RESPONSIBILITIES IN RELATION TO THE GROUP ANNUAL REPORT AND ACCOUNTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Parent company and of the profit or loss of the Group and Parent company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Parent company's position and performance, business model and strategy.

By order of the Board,



Stephen Bowler
Chief Executive Officer
8 April 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IGAZ ENERGY PLC

Report on the audit of the Group financial statements

Opinion

In our opinion, IGaz Energy plc's Group financial statements (the financial statements)

- give a true and fair view of the state of the Group's affairs as at 31 December 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts (the Annual Report), which comprise: the Consolidated Balance Sheet as at 31 December 2019; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

In forming our opinion on the Group financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1b to the financial statements concerning the Group's ability to continue as a going concern. The ability of the Group to operate as a going concern is dependent upon the Group generating cash flows and the availability of the monies drawn under its RBL. The RBL is redetermined on a semi-annual basis and is based on the estimate of reserves and future oil prices, which have recently declined. The Group's operational activities and cash flows could also be impacted by the uncertainty over the impact of COVID-19. These conditions, along with the other matters explained in note 1b to the financial statements, indicate the existence of material uncertainties which may cast significant doubt upon the Group's ability to continue as a going concern. The Group financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

What audit procedures we performed

In concluding there is a material uncertainty, our audit procedures included:

- checking the mathematical accuracy of Management's cash flow forecast and confirming the opening cash position;
- challenging and evaluating management's underlying cash flow projections including comparing forecast sales volumes, operating costs, capital expenditure and abandonment expenditure to recent actuals and internal forecasts and comparing forecast future oil prices and foreign exchange rates to external data;
- assessing the reasonableness of management's downside case, including assessing management's ability to take mitigating actions, including delaying capital expenditure and reducing costs; and
- reviewing the completeness and appropriateness of management's going concern disclosures as disclosed in the financial statements.

Our audit approach

Overview

Materiality	<ul style="list-style-type: none"> • Overall Group materiality: £1.2 million (2018: £1.2 million), based on 0.59% of total assets.
Audit scope	<ul style="list-style-type: none"> • We scoped in all components for the purpose of the Group audit. • This enabled us to obtain coverage over 98% of Group consolidated revenue and 100% of Group consolidated total assets.
Key audit matters	<ul style="list-style-type: none"> • Consideration of the impact of COVID-19. • Carrying value of conventional oil & gas assets. • Carrying value of unconventional assets. • Completeness and valuation of the decommissioning provision.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Consideration of the impact of COVID-19 Refer to Strategic Report.</p> <p>The international outbreak of COVID-19 in early 2020 has affected business and economic activity around the world, including the United Kingdom where the Group operates. Given the spread of COVID-19, the range of the potential outcomes are difficult to predict, but include a prolonged global recession and long term decrease in commodity prices, including oil.</p> <p>The Group is monitoring the COVID-19 outbreak developments closely and is following the guidance of the World Health Organization and abiding by the requirements of the United Kingdom government, however the virus has the potential to cause disruption to the Group's operational activities and impact earnings, cash flows and financial conditions.</p> <p>The Group has made an assessment of the impact of COVID-19 on its operations and ability to continue as a going concern, for the details please refer to note 1 to the financial statements.</p>	<p>Management concluded that the COVID-19 outbreak and geopolitical factors which together have led to a decrease in oil price is a result of conditions that arose after the balance sheet date and as a result are non-adjusting post balance events.</p> <p>We concur with management that these factors are non-adjusting post balance events and as a result that the future assumptions used in the Group's impairment assessments performed as at 31 December 2019 are not to be adjusted for changes subsequent to that date.</p> <p>We have reviewed the disclosures included in the Annual Report in respect of this risk, including principal risk and uncertainties, going concern, impairment sensitivities and post balance sheet events and consider them reasonable.</p> <p>The impact of COVID-19 on the Group's ability to continue as a going concern is considered in the 'material uncertainty related to going concern' section above.</p>
<p>Carrying value of conventional oil & gas assets Refer to significant accounting judgements and estimates and note 11 Property, plant and equipment. Conventional oil and gas assets totalled £103 million. These represent 98% of the Group's total property, plant and equipment.</p> <p>We focused on this area due to the material nature of the balance, the judgement involved in assessing for impairment and the estimates required to calculate the value in the current economic climate.</p>	<p>We have evaluated the discounted cash flow model prepared by management which supports the carrying value of the CGU's (North, South and Scotland).</p> <p>We have verified that the exchange rate used is comparable with the actual exchange rates as at 31 December 2019.</p> <p>We agreed the forecast oil price to third party consensus forecasts. We concluded management's price forecast was reasonable.</p> <p>Management's production forecasts were reconciled to the independent reserves report prepared by DeGolyer and MacNaughton (D&M) in January 2020.</p> <p>Another key element of the forecast is the discount rate. We have involved valuations specialists to perform an independent calculation and consider it to be reasonable.</p> <p>Finally, we considered the adequacy of management's disclosure of the key judgements and sensitivities in relation to the impairment assessment in note 11. These were deemed to be in line with the requirements of IAS 36.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Carrying value of unconventional assets Refer to significant accounting judgements and estimates and note 10 Intangible exploration and evaluation assets. The carrying value of the Group's unconventional assets was £41.5 million after an impairment of £53.9 million in the year.</p> <p>We focused on this area due to the material nature of the balance, the judgement involved in assessing for impairment and the estimates required to calculate the value in the current economic climate.</p>	<p>As at 31 December 2019, in accordance with IFRS 6, management assessed the assets for impairment indicators.</p> <p>We have evaluated management's valuation which supports the carrying value of the unconventional assets and assigned goodwill. This included confirming that for each licence that there was an on-going exploration and evaluation work programme and that the carrying amount of the licence was likely to be recovered in full from successful development or by sale. We concur with management that assets licences with a carrying value of £53.9 million did not meet this criteria and in line with IFRS 6 were written off in the year; and that the remaining carrying value is supportable.</p>
<p>Completeness and valuation of the decommissioning provision Refer to significant accounting judgements and estimates and note 20 Provisions.</p> <p>A provision of £55.1 million has been made for the abandonment of fields and the gathering centres. The abandonment and decommissioning are expected to take place between 1 and 35 years from the year end.</p>	<p>We have reviewed the completeness of the number of wells included in management's estimate.</p> <p>We have assessed management's cost per well estimate and have reviewed the results of actual decommissioning's costs over the previous three years.</p> <p>We have reviewed the work performed by management's expert on estimating the cost estimate for decommissioning the gathering centres and challenged them on the estimates used.</p> <p>We have benchmarked the risk free rate used by management compared with industry practice.</p> <p>Based on the procedures performed we concur with management that their assessment of the decommissioning provision is reasonable.</p>

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IGAS ENERGY PLC continued

How we tailored the audit scope

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

The Group is structured along two segments being conventional and unconventional licenses. The Group financial statements are a consolidation of 24 separate reporting entities, comprising the Group's operating businesses and centralised functions within these segments. All of the Group's operating business and 100% of the total assets and 99% of the total liabilities are located in the UK. All the Group entities have central management and centralised processes and controls and therefore our audit work was all conducted solely in the UK.

We scoped in all reporting components for the purpose of the Group audit. This gave us coverage over 98% of consolidated revenue and 100% coverage over total assets and together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Materiality

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

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

Overall Group materiality	£1.2 million (2018: £1.2 million).
How we determined it	0.59% of total assets.
Rationale for benchmark applied	We believe that total assets are reflective of the Group's current operations and has more relevance than earnings to shareholders.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £60,000 (2018: £62,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

In preparing the financial statements, the Directors are responsible for assessing the Group's 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 to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting


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

- we have not received all the information and explanations we require for our audit; or
- certain disclosures of Directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the Parent Company financial statements of IGas Energy plc for the year ended 31 December 2019. That report includes a 'material uncertainty related to going concern' section.



Richard Spilsbury

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

9 April 2020

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Revenue	2	40,901	42,928
Cost of sales:			
Depletion, depreciation and amortisation		(9,058)	(6,824)
Other costs of sales		(20,542)	(21,932)
		(29,600)	(28,756)
Gross profit		11,301	14,172
Administrative expenses		(4,533)	(5,527)
Exploration and evaluation assets written-off	10	(53,928)	(29,067)
Goodwill impairment	9	(4,801)	–
Loss on oil price derivatives	4	(3,348)	(638)
Gain/(loss) on foreign exchange contracts	4	265	(180)
Operating loss		(55,044)	(21,240)
Finance income	6	460	69
Finance costs	6	(3,861)	(3,948)
Loss on extinguishment of debt re-financing	19	(692)	–
Loss from continuing activities before tax		(59,137)	(25,119)
Income tax credit	7	9,307	3,745
Loss after tax from continuing operations attributable to shareholders' equity		(49,830)	(21,374)
(Loss)/profit after taxation from discontinued operations	17	(396)	41
Net loss for the year attributable to shareholders' equity		(50,226)	(21,333)
<i>Loss attributable to equity shareholders from continuing operations:</i>			
Basic loss per share	8	(40.93p)	(17.59p)
Diluted loss per share	8	(40.93p)	(17.59p)
<i>Loss attributable to equity shareholders including discontinued operations:</i>			
Basic loss per share	8	(41.26p)	(17.56p)
Diluted loss per share	8	(41.26p)	(17.56p)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Loss for the year	(50,226)	(21,333)
Other comprehensive loss for the year:		
Currency translation adjustments recycled to the income statement	(63)	–
Currency translation adjustments	68	(235)
Total comprehensive loss for the year	(50,221)	(21,568)

The notes on pages 64 to 97 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

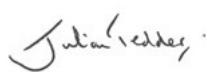
AS AT 31 DECEMBER 2019

	Note	31 December 2019 £000	31 December 2018 £000
ASSETS			
Non-current assets			
Goodwill	9	–	4,801
Intangible exploration and evaluation assets	10	41,455	89,282
Property, plant and equipment	11	104,532	91,403
Right-of-use assets	13	7,668	–
Restricted cash	16	410	410
Deferred tax asset	7	29,961	20,656
		184,026	206,552
Current assets			
Inventories	14	1,193	1,149
Trade and other receivables	15	5,986	9,589
Cash and cash equivalents	16	8,194	15,112
Restricted cash	16	–	193
Derivative financial instruments	23	127	2,158
Assets held for sale	17	–	10,100
		15,500	38,301
Total assets		199,526	244,853
LIABILITIES			
Current liabilities			
Trade and other payables	18	(9,288)	(11,878)
Borrowings	19	–	(2,389)
Derivative financial instruments	23	(266)	(180)
Lease liabilities	13	(988)	–
Liabilities held for sale	17	–	(10,272)
		(10,542)	(24,719)
Non-current liabilities			
Borrowings	19	(13,071)	(18,591)
Other creditors	18	(1,529)	(1,916)
Lease liabilities	13	(6,173)	–
Provisions	20	(55,101)	(37,946)
		(75,874)	(58,453)
Total liabilities		(86,416)	(83,172)
Net assets		113,110	161,681
EQUITY			
Capital and reserves			
Called up share capital	24	30,333	30,333
Share premium account	24	102,680	102,501
Foreign currency translation reserve		(7,289)	(7,294)
Other reserves	25	32,781	31,310
Accumulated (deficit)/surplus		(45,395)	4,831
Total equity		113,110	161,681

These financial statements were approved and authorised for issue by the Board on 8 April 2020 and are signed on its behalf by:



Stephen Bowler
Chief Executive Officer



Julian Tedder
Chief Financial Officer

The notes on pages 64 to 97 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital (note 24) £000	Share premium account (note 24) £000	Foreign currency translation reserve* £000	Other reserves** (note 25) £000	Accumulated (deficit)/ surplus £000	Total equity £000
At 1 January 2018	30,333	102,342	(7,059)	29,994	25,991	181,601
Loss for the year	–	–	–	–	(21,333)	(21,333)
Share options issued under the employee share plan (note 25)	–	–	–	1,489	–	1,489
Issue of shares (note 24)	–	159	–	–	–	159
Lapse of options under the employee share plan	–	–	–	(173)	173	–
Currency translation adjustments	–	–	(235)	–	–	(235)
At 31 December 2018	30,333	102,501	(7,294)	31,310	4,831	161,681
Loss for the year	–	–	–	–	(50,226)	(50,226)
Share options issued under the employee share plan (note 25)	–	–	–	1,599	–	1,599
Issue of shares (note 24)	–	179	–	–	–	179
Forfeiture of options under the employee share plan	–	–	–	(128)	–	(128)
Currency translation adjustments	–	–	5	–	–	53
At 31 December 2019	30,333	102,680	(7,289)	32,781	(45,395)	113,110

* The foreign currency translation reserve represents exchange gains and losses arising on translation of foreign currency subsidiaries' net assets and results, and on translation of those subsidiaries' intercompany balances which form part of the net investment of the Group.

** Other reserves include: 1) EIP/MRP/LTIP/VCP/EDRP (see note 25) reserves which represent the cost of share options issued under the long-term incentive plans; 2) share investment plan reserve which represents the cost of the partnership and matching shares; 3) treasury shares reserve which represents the cost of shares in IGas Energy plc purchased in the market and held by the IGas Employee Benefit Trust to satisfy awards held under the Group incentive plans; and 4) capital contribution reserve which arose following the acquisition of IGas Exploration UK Limited.

The notes on pages 64 to 97 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Cash flows from operating activities:			
Loss before tax for the year		(59,137)	(25,119)
Net loss on extinguishment of debt re-financing	19	692	–
Depletion, depreciation and amortisation*	11	9,449	6,923
Abandonment costs/other provisions utilised	20	(1,760)	(91)
Share-based payment charge	5	801	1,606
Exploration and evaluation assets written-off	10	53,928	29,067
Goodwill impairment	9	4,801	–
Unrealised loss/(gain) on oil price derivatives	4	2,380	(4,906)
Unrealised (gain)/loss on foreign exchange contracts	4	(265)	180
Finance income	6	(460)	(69)
Finance costs	6	3,861	3,948
Other non-cash adjustments		(14)	43
Operating cash flow before working capital movements		14,276	11,582
(Increase)/decrease in trade and other receivables and other financial assets		(602)	993
(Decrease)/increase in trade and other payables		(1,733)	536
(Increase)/decrease in inventories		(44)	173
Cash generated from continuing operating activities		11,897	13,284
Decrease/(increase) in discontinued operating activities		105	(335)
Taxation paid – continuing operating activities		–	(9)
Net cash from operating activities		12,002	12,940
Cash flows from investing activities:			
Purchase of intangible exploration and evaluation assets		(2,716)	(2,496)
Purchase of property, plant and equipment		(3,668)	(8,152)
Proceeds from disposal of assets		1	18
Other income received		14	38
Interest received		129	69
Cash used in continuing investing activities		(6,240)	(10,523)
Net cash used in investing activities		(6,240)	(10,523)
Cash flows from financing activities:			
Cash proceeds from issue of ordinary share capital	24	69	70
Drawdown on reserves-based loan facility	16	19,319	–
Repayment on reserves-based loan facility	16	(4,639)	–
Fees paid related to debt re-financing	16	(1,059)	–
Repayment of bonds	16	(21,355)	(1,722)
Repayment of principal portion of lease liability		(2,687)	–
Interest paid	16	(2,021)	(1,751)
Net cash used in financing activities		(12,373)	(3,403)
Net decrease in cash and cash equivalents in the year		(6,611)	(986)
Net foreign exchange difference		(307)	371
Cash and cash equivalents at the beginning of the year		15,112	15,727
Cash and cash equivalents at the end of the year	16	8,194	15,112

* Depletion, depreciation and amortisation includes £1.5 million relating to right-of-use assets (note 13).

The notes on pages 64 to 97 form an integral part of these financial statements.

1 Accounting policies

(a) Basis of preparation of financial statements

The Consolidated financial statements of IGas Energy plc (the Company) and subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards, adopted for use by the European Union (IFRSs) as they apply to the Group for the year ended 31 December 2019 and with the Companies Act 2006. The financial statements were approved by the Board and authorised for issue on 8 April 2020. IGas Energy plc is a public limited company incorporated and registered in England and Wales and listed on the Alternative Investment Market (AIM).

The Group financial statements are presented in UK pounds sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

Subsidiary undertakings exemption from audit

IGas Energy plc has guaranteed the liabilities of the subsidiaries listed below under section 479A of the Companies Act 2006 in respect of the year ended 31 December 2019.

Star Energy Group Limited – 05054503
Star Energy Limited – 03806814
Star Energy Weald Basin Limited – 06293763
IGas Energy Enterprise Limited – 05457589
Island Gas Limited – 04962079
Island Gas (Singleton) Limited – 01021095
Dart Energy (Europe) Limited – SC259898
Dart Energy (East England) Limited – 06760546
IGas Energy Production Limited – SC298739
Dart Energy (West England) Limited – 06760557
IGas Energy Development Limited – 07240286

New and amended standards and interpretations

During the year, the Group adopted the following new and amended IFRSs for the first time for their reporting period commencing 1 January 2019:

- IFRS 16 Leases;
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments; and
- Amendments to IAS 28 Long-term Interest in Associates and Joint Ventures.

The Group changed its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules under the modified retrospective approach but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in note 13. The other amendments and interpretations listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards have been published that are not mandatory for 31 December 2019 reporting periods. These standards are effective from 1 January 2020, are not expected to have a material impact on the entity in the current or future reporting periods and have not been early adopted by the Group:

- IAS 1 and IAS 8 Definition of Material;
- IFRS 3 Definition of a Business – Amendments to IFRS 3; and
- The Conceptual Framework for Financial Reporting.

(b) Going concern

The Group continues to closely monitor and manage its liquidity risks. Cash forecasts for the Group are regularly produced based on, inter alia, management's best estimate of:

- The Group's production and expenditure forecasts;
- Future oil prices;
- The level of available facilities under the Group's RBL; and
- Foreign exchange rates.

Sensitivities are run to reflect different scenarios including, but not limited to, possible further reductions in commodity prices, strengthening of sterling and reductions in forecast oil and gas production rates.

1 Accounting policies continued

(b) Going concern continued

In the first quarter of 2020, the oil price has been affected by the global spread of COVID-19 and the resultant reduction in oil demand.

This situation has since been compounded by the failure of OPEC to reach an agreement on constraining supply and the decision of several countries to increase output. At the date of this report, there remains significant uncertainty over the impact of COVID-19 on future global demand for oil and therefore the price of oil.

The ability of the Group to operate as a going concern is dependent upon future oil prices and foreign exchange rates as they impact the continued generation of future cash flows and the loan facility available under its RBL (which is redetermined semi-annually based on various parameters including oil price and level of reserves) and is also dependent on the Group not breaching its RBL covenants. To mitigate these risks, the Group benefits from its hedging policy with 420,000 bbls hedged at an average minimum price of \$53.6/bbl for 2020. The Group also has \$12 million of foreign exchange hedges in place at rates between \$1.17-\$1.20:£1 for the period to 30 June 2021. Furthermore, the Group's net reserves position has increased by 1.5 mmmboe during 2019 which will partially offset any impact of lower prices in its RBL at the next redetermination in May 2020.

Management has considered the impact of the COVID-19 global crisis on the Group's operations. We continue to monitor the situation closely and act within Government guidelines and have a number of contingency plans in place should our operations be significantly affected by COVID-19. Many of our sites are remotely manned and at this stage we are well equipped as a business to ensure we maintain business continuity. Our production comes from a large number of wells in a variety of locations (all of which are on land and in the UK) and we have flexibility in our off-take arrangements, as we transport oil via road. In this regard, we continue to liaise and co-operate with all the relevant regulators.

The Group's base case going concern model was run with average oil prices of \$32/bbl for April to December 2020 rising to \$45/bbl from January 2021 and a foreign exchange rate of \$1.20:£1 during the period. Our forecasts show that the Group will have sufficient financial headroom to meet its financial covenants based on the existing RBL facility, as well as an estimate, based on management's knowledge and past experience, of the outcome of the next half-yearly redetermination due in May 2020, and the following redetermination date in December 2020, albeit the level of the facility available to us is dependent on the facility provider, BMO, and is beyond our control.

Given the uncertainties described above, the level of Group revenues and availability of facilities under the RBL are inherently uncertain. As such management has also prepared a downside forecast with the following assumptions:

- Oil prices at \$20/bbl in the second quarter of 2020 rising to \$30/bbl in the fourth quarter of 2020 and \$43-\$45/bbl in 2021. As this assumption is lower than external current forward curves, management considers this is a reasonable downside scenario that reflects further potential reductions in price caused by the failure of OPEC to reach an agreement on constraining supply and lower demand from reduced industrial activity caused by COVID-19. This downside is partially mitigated by the commodity hedges the Group has in place. However, oil price is outside the Company's control and this could be lower should there be further market disruption either from COVID-19, or OPEC disagreements;
- No change to the level of available RBL loan facility during the forecast period as this reflects longer-term oil price assumptions that have been considered in conjunction with recent discussions with the RBL provider;
- A reduction in production of 10% to reflect a disruption risk to operational and production related activities from the COVID-19 crisis. As the Group is providing a government designated essential service and due to the large number of operational wells, the impact of COVID-19 on production has to date been very limited and has been assumed to remain so as management does not currently foresee wells needing to be shut down due to the impact of COVID-19. Management therefore considers this assumption represents a reasonable downside in this uncertain time based on management's experience of previous unplanned shut downs;
- Exchange rates of \$1.20:£1 for 2020 and \$1.25:£1 for 2021 to reflect a downside caused by the weakening of the dollar later in the period. This downside is partially mitigated by the currency hedges the Group has in place; and
- Includes the impact of action management could take to reduce cash outflow, including delaying capital expenditure and additional reductions in costs in order to remain within the Company's debt liquidity covenants based on the Group's expected RBL redeterminations in May 2020 and December 2020. All such mitigating actions are within management's control and could be actioned within the required time frame.

In this downside scenario, our forecast shows that the Group will have sufficient liquidity and financial headroom to meet its financial covenants for the 12 months from the date of approval of the financial statements. However, should oil price or demand (and therefore revenue) fall further, the Company may not have sufficient funds available for 12 months from the date of approval of these financial statements. As a result, at the date of approval of the financial statements, there is material uncertainty over future commodity prices, the outcome of the May 2020 redetermination of the RBL and the potential impact of COVID-19 on the Group's operational activities. These material uncertainties may cast significant doubt upon the Group's ability to continue as a going concern. Notwithstanding these material uncertainties, the Directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future and have concluded it is appropriate to adopt the going concern basis of accounting in the preparation of the financial statements. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

1 Accounting policies continued

(c) Basis of consolidation

The consolidated financial statements present the results of IGas Energy plc and its subsidiaries as if they formed a single entity. The financial statements of subsidiaries used in the preparation of consolidated financial statements are based on consistent accounting policies to the parent. All intercompany transactions and balances between Group companies, including unrealised profits arising from them, are eliminated in full. Where shares are issued to an Employee Benefit Trust, and the Company is the sponsoring entity, it is treated as an extension of the entity.

At 31 December 2019, the Group comprised the Company and entities controlled by IGas Energy plc (its subsidiaries). No new subsidiaries were acquired during the year but a number of subsidiaries were dissolved/struck off or liquidated, as disclosed in note 2 of the Parent Company financial statements.

(d) Business combinations

Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement. Acquisition costs are expensed and shown as a separate line in the income statement.

(e) Joint arrangements

Certain of the Group's licence interests are held jointly with others under arrangements whereby unincorporated and jointly controlled ventures are used to explore, evaluate and ultimately develop and produce from its oil and gas interests. Accordingly, the Group financial statements for its share of assets, liabilities, income and expenditure of these joint operations, classified in the appropriate balance sheet and income statement headings, except where its share of such amounts remain the responsibility of another party in accordance with the terms of carried interests as described at (i) below.

Where the Group enters into a farm-in agreement involving a licence in the exploration and evaluation phase, the Group records all costs that it incurs under the terms of the joint operating agreement as amended by the farm-in agreement as they are incurred.

Where the Group enters into a farm-out agreement involving a license in the exploration and evaluation phase, the Group does not record any expenditure made by the farmee on its account. It also does not immediately recognise any gain or loss on its exploration and evaluation farm-out arrangements, but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

When the Group, acting as an operator or manager of a joint arrangement, receives reimbursement of direct costs recharged to the joint arrangement, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint arrangement and therefore have no effect on profit or loss.

(f) Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements in conformity with IFRSs requires management to make judgements and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, the Group has identified the following areas where significant judgements and estimates are required, and where if actual results were to differ, this could materially affect the financial position or financial results reported in a future period. Further information on each of these and how they impact the various accounting policies are described in the relevant notes to the financial statements.

1 Accounting policies continued

(f) Significant accounting judgements and estimates continued

Estimates:

Recoverable value of intangible exploration and evaluation assets and goodwill

The Group has capitalised intangible exploration and evaluation assets in accordance with IFRS 6. Significant judgement is required in considering whether it is appropriate to continue to carry these costs on the balance sheet and whether the assets have been impaired. The key areas in which management has applied judgement and estimation include the Group's intention to proceed with a future work programme for a prospect or licence, the likelihood of licence renewal or plans for relinquishment, the assessment of results from wells or geological or geophysical studies, the likely impact of political factors including planning permissions and the assessment of whether the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale. Details of the Group's intangible exploration and evaluation assets are disclosed in note 10 to the financial statements.

The Group assesses goodwill each reporting period to determine whether there is any impairment. The assessment requires the use of estimates and assumptions such as long-term oil prices, discount rates, reserves, production profiles and capital expenditure. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable value of goodwill. Details of the Group's goodwill are disclosed in note 9 to the financial statements.

Recoverable value of property, plant and equipment

Management reviews the Group's property, plant and equipment at least annually for impairment indicators. The determination of recoverable amounts in any resulting impairment test requires judgement around key assumptions. Key assumptions in the impairment models include those related to GBP to US dollar foreign exchange rates and prices that are based on forward curves and long-term corporate assumptions thereafter, discount rates that are risked to reflect conditions specific to individual assets, future costs, both capital and operating that are based on management's estimates having regard to past experience and the known characteristics of the individual assets, reserves and future production, discussed further below. Details of the Group's property, plant, and equipment are disclosed in note 11 to the financial statements.

Proved and probable reserves and contingent resources

The volume of proved and probable oil and gas reserves is an estimate that affects the unit of production depreciation of producing oil and gas property, plant and equipment as well as being a significant estimate affecting decommissioning provisions, impairment calculations and the valuation of oil and gas properties in business combinations. Contingent resources affect the valuation of exploration and exploration assets acquired in business combinations and the estimation of the recoverable value of those assets in impairment tests. Proved and probable reserves and contingent resources are estimated using standard recognised evaluation techniques. Estimates are reviewed at least annually and are regularly estimated by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

Deferred tax asset recognition

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Estimates of future taxable profits are based on cash flows expected to be generated from internal estimates of projected production and costs. Details of the Group's deferred tax assets, including those not recognised due to uncertainty regarding the future utilisation, are disclosed in note 7 to the financial statements.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on forecast price levels and technology at the balance sheet date. Provision is made for the estimated cost at the balance sheet date, using a discounted cash flow methodology and a risk free rate of return. Details of the Group's decommissioning provisions are disclosed in note 20 to the financial statements.

Judgements:

Functional currency

The determination of functional currency often requires significant judgement where the primary economic environment in which a Company operates may not be clear. The parent entity reconsiders the functional currency of its entities if there is a change in the underlying transactions, events and conditions which determines the primary economic environment.

Interest rate implicit in the lease

Since the interest rate implicit in the lease cannot be readily determined, the lessee's incremental borrowing rate is used. The incremental borrowing rate (IBR) applicable for all of the leases for the Group is between 7.5% and 8.5%. While there is no definitive guidance in IFRS 16 on how to determine an IBR we are typically observing rates built up from three components as follows:

1 Accounting policies continued

(f) Significant accounting judgements and estimates continued

Interest rate implicit in the lease continued

Judgements continued:

- a) Risk free rate – a treasury bond rate or an interest swap rate in the local currency for the country of the lease, which reflects the duration of the lease;
- b) Credit spread specific to the lessee; and
- c) Asset/lease specific adjustments to reflect the nature of the collateral.

The determination of whether there is an interest rate implicit in the lease, the calculation of the Group's incremental borrowing rate, and whether any adjustments to this rate are required, involves some judgement and is subject to change over time. At the commencement date of leases management consider whether the lease term will be the full term of the lease or whether any option to break or extend the lease is likely to be exercised. Leases are regularly reviewed and will be revalued if the term is likely to change.

(g) Exceptional items

Exceptional items are material items of income or expenditure which, in the opinion of the Directors, due to their nature and infrequency require separate identification on the face of the income statement to allow a better understanding of the financial performance in the year.

(h) Revenue

Revenue comprises the invoiced value of goods and services supplied by the Group, net of value added tax and trade discounts. Revenue is recognised at a point in time when the control of the goods has passed onto the customers and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. In the case of oil, gas and electricity sales, these are recognised when goods are delivered and title has passed to the customer. This generally occurs when the product is physically delivered to the customer's premises or transferred into a vessel, pipe or other delivery mechanism.

Revenue from the production of oil from fields in which the Group has an interest with other producers, is recognised based on the Group's working interest and the terms of the relevant production sharing contracts. Where oil produced by third parties is processed and delivered to a refinery by the Group, the measurement of the revenue depends upon whether physical title to the oil passes to the Group or whether the Group simply acts an agent for the producer.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. In the case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the invoiced value of goods or services rendered exceed the payment, a contract asset will be recognised. If the payments exceed the invoiced value of goods or services rendered, a contract liability will be recognised.

(i) Non-current assets

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised over the fair value of the identifiable net assets acquired and liabilities assumed in a business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment at least annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash generating unit (CGU) or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill are not reversed in future periods.

Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

1 Accounting policies continued

(i) Non-current assets continued

Non-current assets (or disposal groups) held for sale and discontinued operations continued

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

Intangible exploration and evaluation assets

The Group accounts for exploration and evaluation costs in accordance with the requirements of IFRS 6 Exploration for and Evaluation of Mineral Resources as follows:

- Any costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement;
- Expenditures recognised as exploration and evaluation assets comprise those related to acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling (including coring and sampling), activities in relation to evaluating the technical feasibility and commercial viability of extracting hydrocarbons (including appraisal drilling and production tests) and any land rights acquired for the sole purpose of effecting these activities. These costs include employee costs, directly attributable overheads, materials and consumables, equipment costs and payments made to contractors;
- Tangible assets acquired for use in exploration and evaluation activities are classified as property, plant and equipment. However, to the extent that such tangible assets are consumed in developing an intangible exploration and evaluation asset, the amount reflecting that consumption is recorded as part of the exploration and evaluation asset;
- Expenditures recognised as exploration and evaluation assets are initially accumulated and capitalised by reference to appropriate geographic areas. Expenditure recognised as exploration and evaluation assets are transferred to property, plant and equipment and classified as oil and gas assets when technical feasibility and commercial viability of extracting hydrocarbons is demonstrable; and
- Exploration and evaluation assets are assessed for impairment (on the basis described below), and any impairment loss recognised, before reclassification.

Impairment testing of exploration and evaluation assets

Expenditures recognised as exploration and evaluation assets are tested for impairment whenever facts and circumstances suggest that they may be impaired, which includes when a licence is approaching the end of its term and is not expected to be renewed, when there are no substantive plans for continued exploration or evaluation of an area, when the Group decides to abandon an area, or where development is likely to proceed in an area but there are indications that the exploration and evaluation asset costs are unlikely to be recovered in full either by development or through sale.

Property, plant and equipment – oil and gas properties

- Oil and gas properties and other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses;
- The cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and, for qualifying assets where relevant, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The cost of oil and gas assets also includes an amount equal to the decommissioning cost estimate. The capitalised value of any associated finance leases is also included within property, plant and equipment;
- Oil and gas properties are depleted either on a unit of production basis, commencing at the start of commercial production, or depreciated on a straight-line basis over the relevant asset's estimated useful life. Where expenditure is depreciated on a unit of production basis, the depletion charge is calculated according to the proportion that production bears to the recoverable reserves for each property; and
- Net proceeds from any disposal of development/producing assets are compared to the previously capitalised costs for the relevant asset or group of assets. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset or group of assets.

1 Accounting policies continued

(i) Non-current assets continued

Impairment of oil and gas properties

The Group's interests in oil and gas properties are assessed for indications of impairment including events or changes in circumstances which indicate that the carrying value of an asset may not be recoverable. Any impairment in value is charged to the Income Statement.

Impairment tests are carried out on the following basis:

- By comparing the sum of any amounts carried in the books as compared to the recoverable amount;
- The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The Group generally assesses the fair value less costs to sell using the estimated future cash flows which are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU; and
- Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the recoverable amount is higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value and the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

Decommissioning

Where a liability for the removal of production facilities or site restoration exists, a provision for decommissioning is recognised. The amount recognised is discounted to its present value and is reflected in the Group's non-current liabilities. A corresponding asset is included in the appropriate category of the Group's non-current assets (intangible exploration and evaluation assets and property, plant and equipment), depending on the accounting treatment adopted for the underlying operations/asset leading to the decommissioning provision. The asset is assessed for impairment and depleted in accordance with the Group's policies as set out above.

Carried interests

Where the Group has entered into carried interest agreements in exploration and evaluation projects and the Group's interest is being carried by a third party, no amounts are recorded in the financial statements where expenditure incurred under such agreements is not refundable. Where expenditure is refundable, out of what would but for the carry agreements have been the Group's share of production, the Group records amounts as non-current assets, with a corresponding offset in current liabilities or non-current liabilities, as appropriate, but only once it is apparent that it is more likely than not that future production will be adequate to result in a refund under the terms of any carry agreement; the Group records refunds only to the extent that they are expected to be repayable.

Other property, plant and equipment

Other property, plant and equipment is stated at cost to the Group less accumulated depreciation. Depreciation is provided on such assets, with the exception of freehold land, at rates calculated to write off the cost of fixed assets, less their estimated residual values, over their estimated useful lives at the following rates, with any impairment being accounted for as additional depreciation:

Equipment used for exploration and evaluation	– between six and twelve years on a straight-line basis
Freehold land	– indefinite useful life
Buildings/leasehold property improvements	– over five to ten years on a straight-line basis/over the period of the lease
Fixtures, fittings and equipment	– between three and twenty years on a straight-line basis
Motor vehicles	– over four years on a straight-line basis

The Group does not capitalise amounts considered to be immaterial.

1 Accounting policies continued

(j) 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.

Other financial assets – restricted cash

Restricted cash relates to bond guarantees issued to governments for the performance under the terms of work programmes. Funds are only classified as cash and cash equivalents when monies are transferred to and under the control of the Group.

Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are initially recognised at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value. Details about the Group's impairment policy and the calculation of loss allowance is provided in the Impairment accounting policy below.

Trade and other payables

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

Derivative financial instruments and hedge accounting

The Group enters into derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates and variability in the price realised on a proportion of its crude oil production. All derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each period end. Apart from those derivatives designated as qualifying cash flow hedging instruments, all changes in fair value are recorded as financial income or expense in the year in which they arise, otherwise they are recognised in other comprehensive income.

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. It is determined by reference to quoted market prices adjusted for estimated transaction costs that would be incurred in an actual transaction, or by the use of established estimation techniques such as option pricing models and estimated discounted values of cash flows. The fair value of derivative financial instruments has been calculated on a discounted cash flow basis by reference to forward market prices and risk free returns adjusted in the case of derivative financial liabilities by an appropriate credit spread.

Impairment of financial assets

At the end of each reporting period, a provision is made if there is objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment loss is incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Assets carried at amortised cost

For loans and receivables, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of loss is recognised in the income statement.

If in the subsequent period, the amount of loss decreased and the decrease is related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Expected credit loss

The Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of receivables.

1 Accounting policies continued

(k) Borrowings

Borrowings are measured initially at fair value. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process. When management estimates of the amounts or timings of cash flows are revised, borrowings are re-measured using the revised cash flow estimates under the original effective interest rate with any consequent adjustment being recognised in the income statement.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the income statement in the periods in which they are incurred.

Derecognition

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(l) Leases

As explained in note 1 (a) above, the Group has changed its accounting policy for leases where the Group is the lessee. Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. The impact of the change is described note 13 and the new policy is as follows:

Amounts recognised in cash flow statement

Lease payments are now split between financing cash flows and operating cash flows in the cash flow statement. Financing cash flows represent repayment of principal and interest. In prior periods operating lease payments were all presented as operating cash flows under IAS 17.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, adjusted for any lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis. Right-of-use assets are subject to and reviewed regularly for impairment. Depreciation on right-of-use assets is included in depletion, depreciation and amortisation within cost of sales or in administrative expense in the consolidated income statement based on the nature of the asset.

Lease liabilities

The Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term. Lease payments include fixed payments less any lease incentives receivable and variable lease payments that depend on an index. The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Extension renewal and termination options

Extension, renewal and termination options are included in a number of property, land, cars and other equipment leases across the Group. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an option to extend or renew, or not exercise a termination option. Extension and renewal options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

1 Accounting policies continued

(m) Inventories

Inventories, consisting of crude oil, and drilling and maintenance materials, are stated at the lower of cost and net realisable value. Costs comprise costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Weighted average cost is used to determine the cost of ordinarily inter-changeable items.

(n) Taxation

The tax charge/credit includes current and deferred tax.

Current income tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities. Taxable profit/(loss) differs from the profit/(loss) before taxation as reported in the Income Statement as it excludes items of income or expense that are taxable or deductible in different periods and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Temporary differences arise from differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered and the carrying amount is reviewed at each reporting date. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates and laws that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss are recognised in correlation to the underlying transaction, either in other comprehensive income or directly in equity.

(o) Share-based payments

Where share options are awarded to employees including Directors, the fair value of the options at the date of the grant is recorded in equity over the vesting period. Non-market vesting conditions, but only those related to service and performance, are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. All other vesting conditions, including market vesting conditions, are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, the amount recorded is computed irrespective of whether the market vesting conditions are satisfied. The cumulative amount recognised is not adjusted for the failure to achieve a market vesting condition; although equity no longer required for options may be transferred to another equity reserve.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured by the change from immediately before to after the modification, is also recorded in equity over the remaining vesting period.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised on the award is recognised immediately.

Where an equity-settled award is identified as a replacement it will be treated as a modification to the original plan where the incremental fair value of the replacement award is expensed over the vesting period of the replacement award. The fair value of the original award on its grant date continues to be recognised over its original vesting period.

Where equity instruments are granted to persons other than employees, the amount recognised in equity is the fair value of goods and services received.

Charges corresponding to the amounts recognised in equity are accounted for as a cost against profit and loss unless the services rendered qualify for capitalisation as a non-current asset. Costs may be capitalised within non-current assets in the event of services being rendered in connection with an acquisition of intangible exploration and evaluation assets or property, plant and equipment.

Where shares are issued to an Employee Benefit Trust, and the Company is the sponsoring entity, the value of such shares at issue will be recorded in share capital and share premium account in the ordinary way, but will not affect shareholders' funds since this same value will be shown as a deduction from shareholders' funds by way of a separate component of equity (Treasury shares).

1 Accounting policies continued

(p) Post-retirement benefits

A subsidiary within the Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the Income Statement represents the contributions paid/payable to the scheme in respect of the accounting period.

(q) 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.

(r) Foreign currency

The consolidated financial statements are presented in UK pound sterling, the functional currency of the Group. Transactions denominated in currencies other than functional currency UK pound sterling are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement.

For the purposes of consolidation, the income statement items of those entities for which the UK pound sterling is not the functional currency are translated into UK pound sterling at the average rates of exchange during the period. The related balance sheets are translated at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of such operations, are reported in other comprehensive income and accumulated in equity.

The exchange differences arising on intercompany balances that form part of an entity's net investment in a foreign operation, are recognised in other comprehensive income and accumulated in foreign currency translation reserve until the disposal of the foreign operation.

On disposal of entities with a different functional currency to the Company's functional currency, the deferred cumulative exchange differences recognised in equity relating to that particular operation would be recognised in the income statement.

(s) Discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to dispose are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale being expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

2 Revenue

The Group derives revenue solely within the United Kingdom from the transfer of goods and services to external customers which is recognised at a point in time. The Group's major product lines are:

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Oil sales	39,248	41,978
Electricity sales	966	888
Gas sales	687	62
	40,901	42,928

Revenues of approximately £18.8 million and £20.5 million were derived from the Group's two largest customers (2018: £21.6 million and £20.4 million) and are attributed to the oil sales.

As at 31 December 2019, there are no contract assets or contract liabilities outstanding.

3 Operating loss

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Operating loss is stated after charging:		
Staff costs	(12,727)	(12,960)
Depletion, depreciation and amortisation*	(9,399)	(6,923)
Auditors' remuneration:		
Audit of the financial statements	(225)	(225)
Audit of the Company's subsidiaries	(40)	(72)
Taxation advisory services	–	(33)
Other non-audit services	(40)	(53)
Operating lease charges (note 22):		
Land and buildings	–	(1,794)
Other	–	(271)

* Reconciliation of depletion, depreciation and amortisation is as follows:

	Property, plant and equipment (note 11)	Right-of- use assets (note 13)	Total depreciation
Cost of sales	(7,848)	(1,210)	(9,058)
Administrative expenses	(48)	(293)	(341)
Total in operating loss	(7,896)	(1,503)	(9,399)
Capitalised equipment used for exploration and evaluation	(41)	–	(41)
Other	(9)	–	(9)
Total depreciation	(7,946)	(1,503)	(9,449)

4 Derivative financial instruments

Loss on oil price derivatives

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Realised loss on oil price derivatives	(968)	(5,544)
Unrealised (loss)/ gain on oil price derivatives	(2,380)	4,906
	(3,348)	(638)

Gain/(loss) on foreign exchange contracts

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Unrealised gain/(loss)	265	(180)

5 Employee information

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Staff costs comprised:		
Wages and salaries	9,544	9,488
Social security costs	1,110	1,139
Other pension costs	745	727
Employee share-based payment cost	1,328	1,606
	12,727	12,960
	No.	No.
Average monthly number of employees including Directors in the year		
Operations, including services	115	116
Administrative	37	37
	152	153

Details of Directors' remuneration, Directors' transactions and Directors' interests are set out in the audited section of the Directors' Remuneration Report which forms part of these financial statements.

A proportion of the Group's staff costs shown above is capitalised as additions to intangible exploration and evaluation assets and property, plant and equipment in accordance with the Group's accounting policies. In addition, a proportion is recharged to joint venture partners as part of our time writing rate.

6 Finance income/(costs)

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Finance income:		
Interest on short-term deposits	127	63
Foreign exchange gains	333	–
Other interest and finance charges	–	6
Finance income	460	69
Finance expense:		
Interest on borrowings	(1,874)	(1,948)
Foreign exchange loss	–	(895)
Unwinding of discount on provisions (note 20)	(1,310)	(1,105)
Finance charge on lease liability for assets in use	(677)	–
Finance expense	(3,861)	(3,948)

7 Income tax credit

(i) Tax credit on loss from continuing ordinary activities

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Current tax:		
Charge on loss for the year	–	–
Charge in relation to prior years	–	9
Total current tax charge	–	9
Deferred tax:		
Credit relating to the origination or reversal of temporary differences	(3,461)	(782)
Charge due to tax rate changes	–	84
Credit in relation to prior years	(5,846)	(3,056)
Total deferred tax credit	(9,307)	(3,754)
Tax credit on loss on ordinary activities	(9,307)	(3,745)

7 Income tax credit continued

(ii) Factors affecting the tax charge

The majority of the Group's profits are generated by 'ring-fence' businesses which attract UK corporation tax and supplementary charge at a combined average rate of 40%.

A reconciliation of the UK statutory corporation tax rate applied to the Group's loss before tax to the Group's total tax credit is as follows:

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Loss from continuing ordinary activities before tax	(59,137)	(25,119)
Expected tax credit based on loss from continuing ordinary activities multiplied by an average combined rate of corporation tax and supplementary charge in the UK of 40% (2018: 40%)	(23,655)	(10,047)
Deferred tax credit in respect of the prior year	(5,846)	(3,056)
Current tax charge related to prior year	–	9
Tax effect of expenses not allowable for tax purposes	9,850	1,190
Tax effect of differences in amounts not allowable for supplementary charge purposes*	(121)	999
Impact of profits or losses taxed or relieved at different rates	292	603
Use of losses under the loss restriction rules	–	(827)
Net increase in unrecognised losses carried forward	10,197	7,138
Intra-group transfer of assets	–	11
Tax rate change	–	84
Other	(24)	151
Tax credit on loss on ordinary activities	(9,307)	(3,745)

* Amounts not allowable for supplementary charge purposes relate to net financing costs disallowed for supplementary charge offset by investment allowance which is deductible against profits subject to supplementary charge.

(iii) Deferred tax

The movement on the deferred tax asset in the year is shown below:

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Asset at 1 January	20,656	16,900
Tax credit relating to prior year	5,846	3,056
Tax credit during the year	3,461	782
Tax charge arising due to the changes in tax rates	–	(84)
Other	(2)	2
Asset at 31 December	29,961	20,656

The following is an analysis of the deferred tax asset by category of temporary difference:

	31 December 2019 £000	31 December 2018 £000
Accelerated capital allowances	(13,993)	(26,409)
Tax losses carried forward	29,735	35,721
Investment allowance unutilised	1,297	840
Decommissioning provision	9,628	8,095
Unrealised gains or losses on derivative contracts	1,799	924
Share-based payments	1,675	1,483
Right-of-use asset and liability	(180)	–
Other	–	2
Deferred tax asset	29,961	20,656

7 Income tax credit continued

(iv) Tax losses

Deferred tax assets have been recognised in respect of tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered. Such tax losses include £94.4 million (2018: £114.3 million) of ring-fence corporation tax losses.

The Group has further tax losses and other similar attributes carried forward of approximately £234.8 million (2018: £203.0 million) for which no deferred tax asset is recognised due to insufficient certainty regarding the availability of appropriate future taxable profits. The unrecognised losses may affect future tax charges should certain subsidiaries in the Group generate taxable trading profits in future periods.

8 Earnings per share (EPS)

Continuing

Basic EPS amounts are based on the loss for the year after taxation attributable to ordinary equity holders of the parent of £49.8 million (2018: a loss of £21.4 million) and the weighted average number of ordinary shares outstanding during the year of 121.7 million (2018: 121.5 million).

Diluted EPS amounts are based on the loss for the year after taxation attributable to the ordinary equity holders of the parent and the weighted average number of shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the potentially dilutive ordinary shares into ordinary shares, except where these are anti-dilutive.

As at 31 December 2019, there are 6.3 million potentially dilutive employee share options (31 December 2018: 4.6 million potentially dilutive share options) which are not included in the calculation of diluted earnings per share as their conversion to ordinary shares would have decreased the loss per share.

The following reflects the income and share data used in the basic and diluted earnings per share from continuing operations:

	Year ended 31 December 2019	Year ended 31 December 2018
Basic loss per share – ordinary shares of 0.002 pence each	(40.93p)	(17.59p)
Diluted loss per share – ordinary shares of 0.002 pence each	(40.93p)	(17.59p)
Loss for the year attributable to equity holders of the parent from continuing operations – £000	(49,830)	(21,374)
Weighted average number of ordinary shares in the year – basic EPS	121,729,407	121,483,931
Weighted average number of ordinary shares in the year – diluted EPS	128,047,666	126,104,420

Discontinued

The following reflects the income and share data used in the basic and diluted earnings per share including discontinued operations:

	Year ended 31 December 2019	Year ended 31 December 2018
Basic loss per share – ordinary shares of 0.002 pence each	(41.26p)	(17.56p)
Diluted loss per share – ordinary shares of 0.002 pence each	(41.26p)	(17.56p)
Loss for the year attributable to equity holders of the parent from continuing operations – £000	(50,226)	(21,333)
Weighted average number of ordinary shares in the year – basic EPS	121,729,407	121,483,931
Weighted average number of ordinary shares in the year – diluted EPS	128,047,666	126,104,420

9 Goodwill

	2019 £000	2018 £000
At 1 January	4,801	4,801
Impairment	(4,801)	–
At 31 December	–	4,801

The carrying value of goodwill related to unconventional assets acquired as part of the Dart acquisition in 2014. The Group tests goodwill for impairment annually or more frequently if there are indications that goodwill might be impaired. The Group reviewed the valuation of goodwill as at 31 December 2019 and assessed it for impairment. Following a moratorium on fracking announced by the UK Government in late 2019, management assessed that the carrying value of goodwill was not recoverable and impaired the brought forward balance of £4.8 million in full for the year (2018: £nil).

10 Intangible exploration and evaluation assets

	2019 £000	2018 £000
At 1 January	89,282	115,130
Additions	3,984	3,561
Transfers from/(to) held for sale	342	(342)
Changes in decommissioning*	1,775	–
Amounts written-off	(53,928)	(29,067)
At 31 December	41,455	89,282

* The decommissioning asset increased in line with the decommissioning liability following a review of the estimate at 31 December 2019 (note 20).

In November 2019, the UK Government announced an effective moratorium on fracking in Britain, based on analysis of one well in the North West by the OGA, until new scientific evidence is provided in respect of the impacts of seismicity during the process of hydraulic fracturing. Management have been working and will continue to work closely with the relevant regulators to demonstrate that the Group can operate safely and environmentally responsibly. However, following an impairment review, the Group impaired in full those assets outside our core area where the Group does not have plans in the near-term to continue exploration or development activities. Exploration costs written off were £53.9 million (31 December 2018: £29.1 million), of which £51.8 million related to licences in the North West, primarily PEDL 145 (Doe Green), PEDL 193, PEDL 147 and PEDL 189 where the previously capitalised assets have been written off in full; and £0.8 million related to PEDL 146, EXL 288 and 56-1 in the East Midlands where relinquishment of the licences are planned in 2020. The balance relates to exploration costs on a number of other licences outside our core area. (2018 impairment comprised: £20.7 million related to the Doe Green production facility in the North West (PEDL 145) where a long-term test determined that there was no potential for a commercial development; £3.2 million related to a well not being used in the Albury development and £5.2 million related to relinquished licences). As part of our ongoing active portfolio management, we are continually reviewing our acreage positions and will continue to seek to relinquish non-core licences or impair licences where the carrying value cannot be supported.

An analysis by location of the remaining exploration and evaluation assets is as follows:

North West: The Group has £5.9 million (2018: £48.7 million) of capitalised exploration expenditure relating to Ellesmere Port where IGas has lodged an appeal against the decision made by Cheshire West and Chester Council's Planning and Licensing Committee to refuse planning consent for routine tests on a rock formation encountered in the Ellesmere Port-1 well. The appeal has been recovered by the Secretary of State and the decision is expected in mid-2020. As the outcome is still undetermined it is appropriate to keep the carrying value of the asset capitalised.

East Midlands: The Group has £31.6 million (2018: £36.9 million) of capitalised exploration expenditure relating to our core area in the Gainsborough Trough which includes PEDLs 12, 139, 140, 169, 200 and 210. The Gainsborough Trough is an area with significant shale potential and we have a work programme in place. Following the moratorium on fracking, we will work with the UK Government to demonstrate that we can develop shale in this area in a safe manner.

Weald: The Group has £4.0 million (2018: £3.5 million) of capitalised exploration expenditure which includes PEDL 235.

At 31 December 2019, the Group has a combined carried gross work programme of up to \$214 million (£161 million) (2018: \$220 million (£170 million)) from its partner, INEOS Upstream Limited. In 2019, £7.3m (2018: £9.2 million) gross costs were carried, principally in relation to activities at Springs Road, which have not been included in the additions to intangible exploration and evaluation assets during the year.

11 Property, plant and equipment

	31 December 2019			31 December 2018		
	Oil and gas assets £'000	Other property, plant and equipment £'000	Total £'000	Oil and gas assets £'000	Other property, plant and equipment £'000	Total £'000
Cost						
At 1 January	154,649	2,871	157,520	171,888	3,603	175,491
Additions	5,491	10	5,501	10,135	104	10,239
Disposals	(118)	–	(118)	(25)	(57)	(82)
Changes in decommissioning**	5,908	–	5,908	4,596	–	4,596
Transfers from/(to) assets held for sale (note 17)	31,945	779	32,724	(31,945)	(779)	(32,724)
At 31 December	197,875	3,660	201,535	154,649	2,871	157,520
Depreciation and impairment						
At 1 January	65,002	1,115	66,117	80,756	1,577	82,333
Charge for the year*	7,688	258	7,946	6,638	285	6,923
Disposals	(117)	–	(117)	(25)	(57)	(82)
Transfers from/(to) assets held for sale (note 17)	22,367	690	23,057	(22,367)	(690)	(23,057)
At 31 December	94,940	2,063	97,003	65,002	1,115	66,117
NBV at 31 December	102,935	1,597	104,532	89,647	1,756	91,403

* Charge for the year includes £48 thousand categorised as administration expenses in the profit and loss (2018: £99 thousand).

** The decommissioning asset increased in line with the decommissioning liability following a review of the estimate at 31 December 2019 (note 20).

Impairment of oil and gas properties

Due to the continuing volatility in oil and gas prices and foreign exchange rates, the Group's oil and gas properties were reviewed for impairment as at 31 December 2019. CGUs for impairment purposes are the group of fields whereby technical, economic and/or contractual features create underlying interdependence in cash flows. The Group has identified the three main producing CGUs as: North, South, and Scotland. The impairment assessment for the North, South and Scotland was prepared on a fair value less costs of disposal basis using discounted future cash flows based on 2P reserve profiles. The future cash flows were estimated using price assumption for Brent of \$60/bbl for the years 2020-2024 and \$70/bbl (2018: \$75/bbl) thereafter, and a USD/GBP foreign exchange rate of \$1.35:£1.00 (2018: \$1.30/£1.00). Cash flows were discounted using a pre-tax discount rate of 8.5% (2018: 11%). No impairment was required in the year (2018: £nil).

Sensitivity of changes in assumptions

As discussed above, the principal assumptions are recoverable future production and resources, estimated Brent prices and the USD/GBP foreign exchange rate. Impairments which would result from changes to the key assumptions are shown below:

CGU	Discount rate	Prices	USD/GBP foreign exchange rate	Combined sensitivity
				(discount rate, price, foreign exchange)
	9.5%	\$35/bbl in 2020, rising by \$5 each year to 2024 and \$60/bbl thereafter	\$1.20:£1.00 to 2024 and \$1.35:£1.00 thereafter	
	£'million	£'million	£'million	£'million
North	1.2	31.4	£	279
South	N/A	2.4	N/A	16.4
Scotland	0.2	0.7	N/A	0.6

The sensitivity analysis above does not take into account any mitigating actions available to management should these changes occur.

In addition, management considered the impact of climate change on the value of the Group's conventional assets. Assessing the impact is difficult and very subjective. However, management have assumed that this might result in lower oil prices or increased costs in the medium term and have therefore calculated a sensitivity based on a reduced price of £50/bbl from 2030 onwards and a cessation of production after 2050. This would result in an impairment of £7.9 million for the North CGU, £1.3 million for the South CGU and £0.1 million for the Scotland CGU.

12 Interest in joint arrangements

As at 31 December 2019, the Group has a combined carried gross work programme of up to \$214 million (£161 million) from its farm-in partners – INEOS Upstream Limited (INEOS), (see note 10). The Group's material joint operations as at 31 December 2019 are set out below:

Licenses	Partner	IGas' interest	Operator
East Midlands			
PEDL 169	Egdon	80%	IGas
EXL 288	INEOS	75%	IGas
PEDL 146	INEOS	75%	IGas
PEDL 210	INEOS	75%	IGas
PEDL 012	INEOS	55%	IGas
PEDL 200	INEOS	55%	IGas
PEDL 278	Egdon	50%	IGas
PEDL 273	INEOS, Total, Egdon	35%	IGas
PEDL 305	INEOS, Total, Egdon	35%	IGas
PEDL 316	INEOS, Total, Egdon	35%	IGas
PEDL 139	INEOS, Egdon, eCorp	32%	IGas
PEDL 140	INEOS, Egdon, eCorp	32%	IGas
North West			
PEDL 190	INEOS	50%	IGas
PEDL 145	INEOS	40%	INEOS
PEDL 147	INEOS	25%	IGas
PEDL 184	INEOS	50%	IGas
PEDL 189	INEOS	25%	IGas
PEDL 190	INEOS	50%	IGas
PEDL 193	INEOS	40%	INEOS
PEDL 293	INEOS	30%	INEOS
PEDL 295	INEOS	30%	INEOS
EXL 273	INEOS	15%	INEOS
Weald			
PL211	UKOOG	90%	IGas
PEDL070	UKOOG, Egdon, Aurora, Corfe	54%	IGas

13 Right-of-use assets and lease liabilities

The Group adopted IFRS 16 Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases, for periods commencing after 1 January 2019. On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which were previously classified as operating leases under the provisions of IAS 17 Leases.

The Group's leasing activities and how these are accounted for

The Group leases property, land, cars and other equipment. Rental contracts are typically made for fixed periods of between 3 and 30 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Leased assets may not be used as security for borrowing purposes.

Until 31 December 2018, leases of property, land, cars and other equipment were classified as operating leases. See note 1 (l) for details. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

13 Right-of-use assets and lease liabilities continued

The Group's leasing activities and how these are accounted for continued

(a) Adjustments recognised on adoption of IFRS 16

In accordance with the transition provisions in IFRS 16, the modified retrospective approach has been adopted with the cumulative effect of initially applying the new standard recognised on 1 January 2019. Comparatives for the 2018 financial year have not been restated. The financial impact of transition to IFRS 16 for the year ended 31 December 2019 has been summarised within this note. In applying IFRS 16 for the first time, the Group has used the practical expedient permitted by the standard, relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019. The Group has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option, and lease contracts for which the underlying asset is of low value ('low-value assets'). The Group recognises lease expenses for these contracts on a straight-line basis as permitted by IFRS 16. Lease liabilities related to operated Joint Ventures are disclosed gross.

	1 January 2019 £000
Operating lease commitments disclosed as at 31 December 2018	9,605
Operating leases relating to assets transferred from 'held for sale' assets	958
Impact of discounting using the incremental borrowing rate (IBR) on transition	(4,237)
Less: low-value leases recognised on a straight-line basis as expense	(17)
Add: adjustments as a result of a different treatment of extension and termination options	1,421
Lease liability recognised as at 1 January 2019	7,730

	31 December 2019 £000	1 January 2019 £000
Lease liabilities		
Current	988	1,533
Non-current	6,173	6,197
	7,161	7,730

(b) Amounts recognised in the balance sheet

The Group has identified lease portfolios for property, land, cars and other equipment as follows:

	31 December 2019 £000	1 January 2019 £000
Right-of-use assets		
Land	7,182	6,548
Motor vehicles and other equipment	156	350
Property	330	832
	7,668	7,730

Additions to the right-of-use assets during the 2019 financial year were £1.4 million and depreciation £1.5 million.

Sensitivity

Management performed sensitivity analysis to assess the impact of changes to the incremental borrowing rate on the Group's lease liability and right-of-use asset balances. A 3% increase in the IBR would result in an increase in right-of-use asset of £1.1 million and lease liability of £1.1 million.

13 Right-of-use assets and lease liabilities continued

The Group's leasing activities and how these are accounted for continued

(c) Amounts recognised in the income statement

The income statement includes the following amounts relating to leases:

	31 December 2019 £000	31 December 2018 £000
Depreciation charge of right-of-use assets		
Land	1,025	–
Property	268	–
Motor vehicles and other equipment	210	–
	1,503	–
Interest expense (included in finance cost)	677	–
Expense relating to leases of low-value and short-term leases (included in cost of sales administrative expense)	77	–

During the year ended 31 December 2019, the Group had a total cash outflow of £2.7 million on qualifying leases.

The financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of £1.4 million.

14 Inventories

	31 December 2019 £000	31 December 2018 £000
Oil stock	536	502
Drilling and maintenance materials	657	647
	1,193	1,149

15 Trade and other receivables

	31 December 2019 £000	31 December 2018 £000
Trade debtors	3,184	2,837
Prepayments	1,383	1,711
Other debtors	800	4,888
VAT recoverable	619	153
	5,986	9,589

Trade debtors are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally non-interest bearing and due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows, and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 23.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

16 Cash and cash equivalents

	31 December 2019 £000	31 December 2018 £000
Cash at bank and in hand	8,194	15,112

The cash and cash equivalents does not include restricted cash.

Restricted cash

	31 December 2019 £000	31 December 2018 £000
Current	–	193
Non-current	410	410

The restricted cash represents restoration deposits paid to Nottinghamshire County Council which serve as collateral for the restoration of drilling sites at the end of their life. The restoration deposits are subject to regulatory and other restrictions and are therefore not available for general use by the other entities within the Group.

Net debt reconciliation

	31 December 2019 £000	31 December 2018 £000
Cash and cash equivalents	8,194	15,112
Borrowings – including capitalised fees	(13,071)	(20,980)
Net debt	(4,877)	(5,868)
Capitalised fees	(1,272)	(518)
Net debt excluding capitalised fees	(6,149)	(6,386)

	31 December 2019			31 December 2018		
	Cash and cash equivalents £000	Borrowings £000	Total £000	Cash and cash equivalents £000	Borrowings £000	Total £000
At 1 January	15,112	(20,980)	(5,868)	15,727	(21,240)	(5,513)
Repayment of bond	(21,355)	21,355	–	(1,722)	1,722	–
Interest paid on borrowings	(2,021)	–	(2,021)	(1,751)	–	(1,751)
Drawdown of RBL (note 19)	19,319	(19,319)	–	–	–	–
Capitalised fees	(1,059)	1,308	249	–	–	–
Repayment of RBL (note 19)	(4,639)	4,639	–	–	–	–
Foreign exchange adjustments	(307)	645	338	371	(1,238)	(867)
Other cash flows	3,144	–	3,144	2,487	–	2,487
Other non-cash movements	–	(719)	(719)	–	(224)	(224)
At 31 December	8,194	(13,071)	(4,877)	15,112	(20,980)	(5,868)

17 Disposal group classified as held for sale and discontinued operations

Discontinued operations

The divestment of assets acquired as part of the Dart acquisition, namely the Rest of the World segment, was completed in 2016. The Group still has a presence in a number of Australian and Singaporean registered operations and continues its plans to exit all legal jurisdictions in the near future. During the year ended 31 December 2019, 14 of the subsidiaries have been dissolved/struck off and a further six are in the process of being liquidated or struck off. The total loss after tax in respect of discontinued operations was £0.4 million primarily relating to administration costs (year ended 31 December 2018: profit after tax of £0.04 million, primarily relating to administration costs and over-accruals in prior year). Tax on discontinued operations during the year was £nil (2018: a credit of £0.3 million).

Disposal group classified as held for sale

In May 2018, the Group announced the potential sale of certain non-core assets to Onshore Petroleum Limited (OPL) subject to OGA consent. The OGA did not give their consent to the proposed transaction and the Group has not agreed an alternative transaction with OPL. Assets and liabilities which were recognised as held for sale in the prior year have therefore been re-classified back to their respective balance sheet categories during the current year, as follows:

	31 December 2019 £000
Intangible exploration and evaluation assets	342
Property, plant and equipment	9,667
Oil stock	91
Total assets	10,100
Trade and other payables	(350)
Provisions	(9,922)
Total liabilities	(10,272)
Net liabilities	(172)

18 Trade and other payables

	31 December 2019 £000	31 December 2018 £000
Current		
Trade creditors	(2,154)	(4,573)
Employment taxes	(292)	(316)
Other creditors and accruals	(6,842)	(6,989)
	(9,288)	(11,878)
Non-current		
Amounts due to a related party	(371)	(371)
Other creditors and accruals	(1,158)	(1,545)
	(1,529)	(1,916)

Trade creditors are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of each of the Group's financial liabilities included within trade and other payables are considered to be a reasonable approximation of their fair value.

19 Borrowings

	31 December 2019			31 December 2018		
	Current £000	Non-current £000	Total £000	Current £000	Non-current £000	Total £000
Bonds – secured	–	–	–	(2,389)	(18,591)	(20,980)
Reserve Based Lending facility – secured	–	(13,071)	(13,071)	–	–	–

In 2013, the Company and Norsk Tillitsmann (Bond Trustee) entered into a Bond Agreement for the Company to issue up to \$165.0 million secured bonds and up to \$30.0 million unsecured bonds (issued at 96% of par). These bonds were subsequently listed on Oslo Bors and the Alternative bond market in Oslo. Both secured and unsecured bonds carried a coupon of 10% per annum (where interest was payable semi-annually in arrears). The secured bonds were amortised semi-annually at 2.5% of the initial loan amount. Final maturity on the secured notes was on 22 March 2018 and on the unsecured notes was 11 December 2018.

In April 2017, the Company restructured its debt resulting in the equitisation of the unsecured bonds and a repayment/equitisation of a portion of the secured bonds. The restructuring reduced the total aggregate face value of the secured bonds to \$30.4 million. The interest rate was reduced to 8%, the repayment term was extended to 30 June 2021, and the amortisation rate was increased to 5% of the initial loan amount from 23 March 2018.

On 19 November 2019, the Group repaid its secured bonds at par value (100%) plus accrued interest through the drawdown of \$25 million from the RBL with BMO.

Reserve Based Lending facility (RBL)

On 3 October 2019, the Company announced that it had signed a \$40.0 million RBL with BMO. In addition to the committed \$40.0 million RBL, a further \$20.0 million is available on an uncommitted basis, and can be used for any future acquisitions or new conventional developments. The RBL has a five-year term, an interest rate of LIBOR plus 4.0%, matures in September 2024 and is secured on the Company's assets. The RBL is subject to a semi-annual redetermination in May and November when the loan availability will be recalculated taking into account forecast commodity prices, remaining field reserves (assessed by an independent reserves auditor annually) and the latest forecast of operating and capital costs.

Under the terms of the RBL, the Group is subject to a financial covenant whereby, as at 30 June and 31 December each year, the ratio of Net Debt at the period end to EBITDAX for the previous 12 months shall be less than or equal to 3.5:1.

A loss of £0.7 million arising from debt re-financing was recognised for the year ended 31 December 2019.

Collateral against borrowing

A Security Agreement was executed between BMO and IGas Energy plc and some of its subsidiaries, namely; Island Gas Limited, Island Gas Operations Limited, Star Energy Weald Basin Limited, Star Energy Group Limited, Star Energy Limited, Island Gas (Singleton) Limited, Dart Energy (East England) Limited, Dart Energy (West England) Limited, IGas Energy Development Limited, IGas Energy Enterprise Limited, Dart Energy (Europe) Limited and IGas Energy Production Limited.

Under the terms of this Agreement, BMO have a floating charge over all of the assets of these legal entities, other than property, assets, rights and revenue detailed in a fixed charge. The fixed charge encompasses the Real Property (freehold and/or leasehold property), the specific petroleum licences, all pipelines, plant, machinery, vehicles, fixtures, fittings, computers, office and other equipment, all related property rights, all bank accounts, shares and assigned agreements and rights including related property rights (hedging agreements, all assigned intergroup receivables and each required insurance and the insurance proceeds).

20 Provisions

	31 December 2019 £000	31 December 2018 £000
Decommissioning provision		
At 1 January	(37,946)	(42,117)
Utilisation of provision	1,760	91
Unwinding of discount (note 6)	(1,310)	(1,105)
Reassessment of decommissioning provision (note 10 and note 11)	(7,683)	(4,737)
Transfer (from)/to liabilities held for sale (note 17)	(9,922)	9,922
At 31 December	(55,101)	(37,946)

The Group spent £1.8 million on decommissioning during the year.

Provision has been made for the discounted future cost of abandoning wells and restoring sites to a condition acceptable to the relevant authorities. This is expected to take place between 1 to 35 years from year-end (2018: 1 to 26 years). The provisions are based on the Groups' internal estimate as at 31 December 2019. Assumptions are based on the current experience from decommissioning wells which management believes is a reasonable basis upon which to estimate the future liability. The estimates are reviewed regularly to take account of any material changes to the assumptions. Actual decommissioning costs will ultimately depend upon future costs for decommissioning which will reflect market conditions and regulations at that time. Furthermore, the timing of decommissioning is uncertain and is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend on factors such as future oil and gas prices, which are inherently uncertain.

A risk free rate range of 1.27% to 3.03% is used in the calculation of the provision as at 31 December 2019 (2018: Risk free rate range of 0.98% to 3.04%).

21 Pension scheme

The Group operates a defined contribution pension scheme. Contributions payable by the Group for the year ended 31 December 2019 were £0.75 million (2018: £0.73 million). Contributions amounting to £nil were accrued at 31 December 2019 (2018: £0.07 million) and are included in trade and other payables.

22 Commitments

(a) Capital commitments

The Group's capital commitments relate to expenditure committed but not spent on conventional and unconventional licenses as follow:

	31 December 2019 £000	31 December 2018 £000
Conventional capex	(702)	(137)
Unconventional capex	(163)	(2,573)
Total capital commitments	(865)	(2,710)

(b) Non-cancellable operating leases

The Group leases property, land, cars and other equipment under non-cancellable operating leases. From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases. See note 13 for further information.

	31 December 2019 £000	31 December 2018 £000
Operating lease commitments		
Minimum lease payments under operating leases recognised in operating loss for the year	–	(2,065)
The Group had future minimum lease payments under non-cancellable operating leases as follows:		
– within 1 year	–	(1,656)
– after 1 year but not more than 5 years	–	(4,125)
– after 5 years	–	(3,824)
Total	–	(9,605)

23 Financial instruments and risk management

Fair values

The fair value of financial assets and liabilities and their carrying amounts, other than those with carrying amounts that are a reasonable approximation of their fair values, are as follows.

	Carrying amount		Fair value	
	31 December 2019 £000	31 December 2018 £000	31 December 2019 £000	31 December 2018 £000
Amortised cost				
Bonds – secured ¹	–	(20,980)	–	(20,875)
Reserve Based Lending facility – secured	(13,071)	–	(13,071)	–

1 The fair value of borrowings (hierarchy level 1) has been calculated by reference to quoted market prices for these liabilities.

Fair value hierarchy

Assets and liabilities, for which fair value is measured or disclosed in the financial statements, are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There are no non-recurring fair value measurements nor have there been any transfers of financial instruments between levels of the fair value hierarchy.

Financial assets and liabilities measured at fair value

	31 December 2019 £000	31 December 2018 £000
Financial assets: Level 2		
Derivative financial instruments – oil hedges	43	2,158
Derivative financial instruments – foreign exchange contracts	84	–
	127	2,158
Financial liabilities: Level 2		
Derivative financial instruments – oil hedges	(266)	–
Derivative financial instruments – foreign exchange contracts	–	(180)
	(266)	(180)

23 Financial instruments and risk management continued

Fair value of derivative financial instruments

Commodity price options

The fair values of the commodity price options were provided by counterparties with whom the trades have been entered into. These consist of Asian style put and call options and swaps to sell/buy oil. The options are valued using a Black-Scholes methodology; however, certain adjustments are made to the spot-price volatility of oil prices due to the nature of the options. These adjustments are made either through Monte Carlo simulations or through statistical formulae. The inputs to these valuations include the price of oil, its volatility, and risk free interest rates.

Foreign exchange contracts

The fair value of foreign exchange contracts was provided by counterparties with whom the trades have been entered into.

In the current year the Group has entered into certain put/call options and swaps in order to manage its exposure to commodity price risk associated with sales of oil in US dollars.

The outstanding oil hedge contracts as at 31 December 2019 were as follows:

Type	Strike Price/ Fixed and Floating Price	2020 Q1	2020 Q2	2020 Q3	2020 Q4	Total	Fair value at 31 December 2019
		Contract Amount bbls oil	Contract Amount bbls oil	Contract Amount bbls oil	Contract Amount bbls oil	Contract Amount bbls oil	£000
US dollar Asian Put	52.25	–	37,500	–	–	37,500	21
US dollar Asian Put	49.05	–	–	60,000	–	60,000	42
US dollar Asian Put	52.94	120,000	–	–	–	120,000	9
US dollar Asian Put	50.37	–	75,000	–	–	75,000	33
US dollar fixed and floating price Swap	59.45	–	37,500	–	–	37,500	(112)
US dollar fixed and floating price Swap	58.60	–	–	60,000	–	60,000	(153)
US dollar fixed and floating price Swap	58.00	–	–	–	30,000	30,000	(63)
		120,000	150,000	120,000	30,000	420,000	(223)
						Derivative Asset	43
						Derivative Liability	(266)

The above derivatives mature over the period from 1 January 2020 until 31 December 2020. A loss of £1.0 million was realised on hedges during the year to 31 December 2019 (see note 4).

The outstanding oil hedge contracts as at 31 December 2018 were as follows:

The above derivatives mature over the period from 1 January 2019 until 30 September 2019. A loss of £5.5 million was realised on hedges during the year to 31 December 2018 (see note 4).

Type	Contract price – Buy Put	Contract price – Sell Call	Contract Price – Buy Call	2019 Q1	2019 Q2	2019 Q3	2019 Q4	Total	Fair Value at 31 December 2018
				Contract Amount bbls oil	Contract Amount bbls oil	Contract Amount bbls oil	Contract Amount bbls oil	Contract Amount bbls oil	£000
US dollar Asian 3-way collar	55.00	70.00	85.00	105,000	–	–	–	105,000	354
US dollar Asian Put	55.00	–	–	45,000	–	–	–	45,000	155
US dollar Asian 3-way collar	55.00	78.55	93.55	–	37,500	–	–	37,500	168
US dollar Asian Put	56.70	–	–	–	37,500	–	–	37,500	202
US dollar Asian Put	64.00	–	–	–	75,000	–	–	75,000	707
US dollar Asian Put	60.25	–	–	–	–	75,000	–	75,000	572
				150,000	150,000	75,000	–	375,000	2,158

23 Financial instruments and risk management continued

Fair value of financial assets and financial liabilities

The carrying values of the financial assets and financial liabilities, other than bonds, are considered to be materially equivalent to their fair values.

Financial risk management

The Group's principal financial liabilities comprise borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations, including the Group's capital expenditure programme. The Group has trade and other receivables, cash and cash equivalents and restricted cash that are derived directly from its operations and restricted cash. The Group also enters into derivative transactions to manage its commodity price exposure.

The Group manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the Group's financial targets while protecting future financial security. The Group is exposed to the following risks:

- Market risk, including commodity price and foreign currency risks;
- Credit risk; and
- Liquidity risk.

The Group is not exposed to interest rate risk as all the Group's borrowings are at a fixed rate.

Management reviews and agrees policies for managing each of these risks which are summarised below. The Group's policy is that all transactions involving derivatives must be directly related to the underlying business of the Group and does not use derivative financial instruments for speculative purposes.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market factors, such as commodity prices and foreign currency exchange rates.

The sensitivity analyses below have been prepared on the basis that the amount of net debt and the proportion of financial instruments in foreign currencies are all constant and that financial derivatives are held to maturity. The sensitivity analysis is intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable.

The following assumptions have been made in preparing the sensitivity analyses:

- The sensitivity of the relevant loss before tax item is the effect of the assumed changes in market risks. This is based on the financial assets and financial liabilities held at 31 December 2019 and 31 December 2018; and
- The impact on equity is the same as the impact on loss before tax and ignores the effects of deferred tax, if any.

23 Financial instruments and risk management continued

Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices (primarily crude oil) on the oil and gas it produces. The Group's policy is to manage these risks through the use of derivative financial instruments.

The following table summarises the impact on loss before tax for changes in commodity prices on the fair value of derivative financial instruments. The impact on equity is the same as the impact on profit before tax as these derivative financial instruments have not been designated as hedges and are classified as held-for-trading.

The analysis is based on derivative contracts existing at the balance sheet date, the assumption that crude oil price moves 10% over all future periods, with all other variables held constant. Management believe that 10% is a reasonable sensitivity based on forward forecasts of estimated oil price volatility.

	Increase/(decrease) in profit before tax and equity	
	31 December 2019 £000	31 December 2018 £000
10% increase in the price of oil	1,803	2,759
10% decrease in the price of oil	(1,803)	(2,759)

Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from sales, purchases or financing in currencies other than the UK pound sterling, the functional currency of all Group companies. The Group's sales are denominated in US dollars, and approximately 5% of costs are denominated in currencies other than the functional currency of the Group, primarily US dollars. The Group borrowings are also denominated in US dollars. The Group's exposure to other currencies is not considered to be material.

The following table summarises the impact on loss before tax for changes in the US dollar/pound sterling exchange rate on the financial assets and liabilities in the balance sheet at year end, principally relating to the Group's borrowings which are denominated in US dollars. The impact on equity is the same as the impact on loss before tax.

The analysis is based on the assumption that the pound moves 10%, with all other variables held constant.

	Increase/(decrease) in profit before tax for the year ended and to equity as at	
	31 December 2019 £000	31 December 2018 £000
10% strengthening of the pound against the US dollar	841	1,141
10% weakening of the pound against the US dollar	(841)	(1,141)

Credit risk

The Group has a credit policy to assess and manage the credit risk of counterparties before entering contracts, including credit checks through external credit agencies, the establishment of credit limits, a requirement for security, payment terms and specific transaction approvals. The primary credit exposures of the Group are its receivables from crude oil, electricity and gas sales, amounts due from Joint Venture partners and exposure with respect to derivative contracts. These exposures are managed at the corporate level. The Group has two main customers and only trades with established counterparties who have been approved in accordance with the Group's credit policy.

At 31 December 2019, two customers (2018: two) accounted for approximately 96% (2018: 99%) of total trade receivables outstanding of £3.2 million (2018: £2.7 million).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash, cash equivalents and derivative contracts, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A or equivalent other than if the UK government is a majority shareholder. At 31 December 2019, the maximum exposure was £8.3 million (2018: £17.3 million).

23 Financial instruments and risk management continued

Liquidity risk

The Group manages liquidity risk by maintaining adequate banking and borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities and future capital and operating commitments.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	On demand £000	< 1 year £000	1–2 years £000	2–3 years £000	>3 years £000	Total £000
At 31 December 2019						
Borrowings	–	–	–	–	(13,071)	(13,071)
Lease liabilities	–	(1,662)	(1,349)	(1,241)	(8,661)	(12,913)
Trade creditors	–	(2,154)	–	–	–	(2,154)
	–	(3,816)	(1,349)	(1,241)	(21,732)	(28,138)
At 31 December 2018						
Borrowings	–	(4,070)	(3,878)	(17,698)	–	(25,646)
Lease liabilities	–	–	–	–	–	–
Trade creditors	–	(4,573)	–	–	–	(4,573)
	–	(8,643)	(3,878)	(17,698)	–	(30,219)

Management considers that the Group has adequate current assets and forecast cash from operations to manage liquidity risks arising from current and non-current liabilities.

Capital management

The Group manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value. The Group's funding requirements are met through a combination of debt and equity and adjustments are made in light of changes in economic conditions. The Group's strategy is to maintain ratios in line with covenants associated with its new secured RBL (see note 19).

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group includes interest bearing loans less cash, cash equivalents and restricted cash in net debt. Capital includes share capital, share premium, other reserves and accumulated profits/losses.

The Group signed a new \$40.0 million RBL with BMO on 3 October 2019. In addition to the committed \$40.0 million RBL, a further \$20.0 million is available on an uncommitted basis, and can be used for any future acquisitions or new conventional developments (see note 19). Management believe that the new financing structure will be sustainable in the current oil price environment and, together with a carried work programme of up to \$214 million, means that the Group is well positioned to pursue its strategy.

24 Share capital and share premium

On 3 April 2017, the shareholders approved the subdivision of each of the 303,305,534 ordinary shares of 10p each of the Company into one new ordinary share of 0.0001p each and one deferred share of 9.9999p each. At the Annual General Meeting of the Company on 14 June 2017, the shareholders approved a consolidation and subdivision of the Company's share capital in order to reduce the number of shares in issue to that more appropriate for the size of the Company. Following the consolidation, every 200 ordinary shares of 0.0001p each were consolidated into one new ordinary share of 0.02p each and immediately sub-divided into 10 ordinary shares of 0.002p. The consolidation and subdivision reduced the number of shares in issue from 2.4 billion to 121 million.

	Ordinary shares*		Deferred shares**		Share capital	Share premium
	No.	Nominal value £000	No.	Nominal value £000	Nominal value £000	Value £000
Issued and fully paid						
At 1 January 2018	121,881,119	2	303,305,534	30,331	30,333	102,342
2018 SIP share issue – partnership	83,996	–	–	–	–	70
2018 SIP share issue – matching	112,154	–	–	–	–	89
At 31 December 2018	122,077,269	2	303,305,534	30,331	30,333	102,501
2019 SIP share issue – partnership	107,135	–	–	–	–	69
2019 SIP share issue – matching	175,771	–	–	–	–	110
At 31 December 2019	122,360,175	2	303,305,534	30,331	30,333	102,680

* The number of ordinary shares as at 31 December 2019 includes 190,651 Treasury shares (2018: 201,451).

** Deferred shares were created on capital restructuring which completed in April 2017.

Accordingly, the Group share capital account comprised:

	£000
Share capital account	
At 1 January 2018	30,333
Shares issued during the year	–
At 31 December 2018	30,333
Shares issued during the year	–
At 31 December 2019	30,333

Share premium

The share premium account arises from the Company issuing shares for consideration in excess of their nominal value less the cost of such issues. During the year, the Company issued 282,906 ordinary shares at a nominal value of 0.002p each (2018: 196,150 ordinary shares of 0.002p each), resulting in an increase in share premium of £0.2 million (2018: £0.2 million). No issuing costs were incurred during the year (2018: none).

25 Other reserves

Other reserves are as follows:

	Share plan reserves £000	Treasury shares £000	Capital contributions £000	Merger reserve £000	Total £000
Balance at 1 January 2018	9,098	(1,373)	47	22,222	29,994
Share options issued under the employee share plan	1,430	–	–	–	1,430
Shares issued under the SIP	–	59	–	–	59
Transfers	–	–	–	–	–
Lapse of options under the employee share plan	(173)	–	–	–	(173)
Transfers	99	(99)	–	–	–
Balance at 31 December 2018	10,454	(1,413)	47	22,222	31,310
Share options issued under the employee share plan	1,607	–	–	–	1,607
Shares issued under the SIP	–	(8)	–	–	(8)
Forfeiture of options under the employee share plan	(128)	–	–	–	(128)
Balance at 31 December 2019	11,933	(1,421)	47	22,222	32,781

25 Other reserves continued

Employee share plans – Equity settled

Details of the share options under employee share plans outstanding are as follows:

	EIP Number of units	MRP Number of units	EDRP Number of units
Outstanding at 1 January 2018	2,086,704	267,252	325,000
Exercisable at 1 January 2018	2,086,704	267,252	325,000
Awarded during the year	1,911,057	76,310	–
Exercised during the year	–	(52,371)	–
Forfeited during the year	–	–	–
Outstanding at 31 December 2018	3,997,761	291,191	325,000
Exercisable at 31 December 2018	3,997,761	291,191	325,000
Awarded during the year	2,033,093	157,624	–
Exercised during the year	(33,808)	(8,883)	–
Forfeited during the year	(450,256)	–	–
Outstanding at 31 December 2019	5,546,790	439,932	325,000
Exercisable at 31 December 2019	5,546,790	439,932	325,000

Note – all options are nil cost and therefore the weighted average exercise price is nil. In addition to the share plans above, included in other reserves are also historic costs relating to Long Term Incentive Plan 2011 (2011 LTIP) and Value Creation Plan (2014 VCP).

Executive Incentive Plan (EIP)

In March 2016, the Group issued 7,548,701 options under a long-term incentive plan to the Executive Directors of the Company and certain other key employees of the Group which will vest, subject to meeting certain criteria, three years from grant. The options granted under the Plan take the form of a base award. The number of ordinary shares over which the options vest may be increased by a multiple of up to two times the number of ordinary shares subject to the base award, if a specified ordinary share price is met at the vesting date.

The fair value of the awards is based on the Monte Carlo valuation model. The key inputs into the model were: share price as of date of grant of £0.145, a risk free interest rate of 0.52% and an implied share price volatility of 68.8% (based on historical volatility). It was also assumed that no options would be forfeited and no dividends would be paid during the life of the options. This resulted in a fair value of EIP awards of £1.4 million.

On 14 June 2017 these awards were subdivided in line with the subdivision and consideration of the Group's share capital (see note 24).

In October 2017, the Group awarded 1,756,923 Ordinary shares under a long-term incentive plan to the Executive Director of the Company and other key employees of the Group. The fair value of the awards is based on the Monte Carlo valuation model. The key inputs into the model were: share price as of date of grant of £0.68, a risk free interest rate of 0.54% and an implied share price volatility 63.95%. It was also assumed that no options would be forfeited and no dividends would be paid during the life of the options. This resulted in a fair value of EIP awards of £0.978 million.

In March 2018, the Group awarded 1,911,057 Ordinary shares under a long-term incentive plan to the Executive Director of the Company and other key employees of the Group. The fair value of the awards is based on the Monte Carlo valuation model. The key inputs into the model were: share price as of date of grant of £0.76, a risk free interest rate of 0.98% and an implied share price volatility 58.3%. It was also assumed that no options would be forfeited and no dividends would be paid during the life of the options. This resulted in a fair value of EIP awards of £1.3 million.

In March 2019, the Group awarded 2,033,093 Ordinary shares under a long-term incentive plan to the Executive Director of the Company and other key employees of the Group. The fair value of the awards is based on the Monte Carlo valuation model. The key inputs into the model were: share price as of date of grant of £0.78, a risk free interest rate of 0.74% and an implied share price volatility 80.9%. It was also assumed that no options would be forfeited and no dividends would be paid during the life of the options. This resulted in a fair value of EIP awards of £1.8 million.

The EIPs outstanding at 31 December 2019 had both a weighted average remaining contractual life and maximum term remaining of 7.9 years (2018: 8.4 years).

The total charge for the year was £1.28 million (2018: £1.07 million). Of this amount, £0.30 million (2018: £0.24 million) was capitalised and £0.97 million (2018: £0.83 million) was charged to the Income Statement.

25 Other reserves continued

Management Retention Plan (MRP)

In December 2015, the Group adopted a new share-based payment scheme, the MRP. Under the MRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors' continued employment and to a one-year holding period following the date of vesting.

Employees were granted 7,143,610 options in the MRP in lieu of waived options granted under the 2011 Long Term Incentive Plan (LTIP) and 2016 cash bonuses. The options designated by the Group as replacement awards were accounted for as a modification of the original scheme and were valued at grant date and the options awarded in lieu of cash bonuses were measured with reference to the fair value of the services received.

The fair value of the cancelled awards was re-measured at the replacement date based on the Monte Carlo valuation model. The key inputs into the model were: replacement date share price of between £0.14 and £0.24, threshold price of between £1.351 and £1.664, a risk free interest rate of between 0.37% and 0.42% and an implied share price volatility of between 73% and 86%. It was also assumed that no dividends would be paid during the life of the options. This resulted in an incremental fair value of £0.17 million.

In March 2018, the Group awarded 76,310 Ordinary shares to the Executive Director and other key employees of the Group. The fair value of the awards is based on the fair value of the services rendered. There were also a number of share exercises during the year relating to other employees of the Company.

In March 2019, the Group awarded 157,624 Ordinary shares to the Executive Director and other key employees of the Group. The fair value of the awards is based on the fair value of the services rendered. There were also a number of share exercises during the year relating to other employees of the Company.

The MRPs outstanding at 31 December 2019 had both a weighted average remaining contractual life and maximum term remaining of 4.5 years (2018: 5.5 years).

The total charge for the year was £0.14 million (2018: £0.07 million). Of this amount, £0.05 million (2018: £0.03 million) was capitalised or recharged to joint venture partners and £0.09 million (2018: £0.04 million) was charged to the Income Statement.

Executive Director Retention Plan (EDRP)

In July 2015, the Group adopted a new share-based payment scheme, the EDRP. Under the EDRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors' continued employment and to a one-year holding period following the date of vesting.

Executives were granted 6,500,000 options in the EDRP in lieu of waived options granted under the 2011 Long Term Incentive Plan (LTIP) and the Value Creation Plan (VCP). The options have been designated by the Group as replacement awards at grant date and were accounted for as a modification of the original scheme.

The fair value of the cancelled awards was re-measured at the replacement date based on the Monte Carlo valuation model. The fair value of replacement awards was based on the Monte Carlo valuation model. The key inputs into the model were: replacement date share price of £0.23, threshold price of between £0.945 and £1.664, a risk free interest rate of between 0.49% and 0.60% and an implied share price volatility of between 70% and 78%. It was also assumed that no dividends would be paid during the life of the options. This resulted in an incremental fair value of £1.5 million.

The EDRPs outstanding at 31 December 2019 had both a weighted average remaining contractual life and maximum term remaining of 3.5 years (2018: 4.5 years).

The total charge for the year was £nil (2018: £nil). Of this amount, £nil (2018: £nil) was capitalised and £nil (2018: £nil) was charged to the Income Statement.

Other share-based payments

Share Incentive Plan (SIP)

In 2013, the Group adopted an Inland Revenue approved SIP for all employees of the Group. The scheme is a tax efficient incentive plan pursuant to which all employees are eligible to acquire up to £150 (or 10% of salary, if less) worth of IGas ordinary shares per month or £1,800 per annum. Under the SIP employees are invited to make contributions to buy partnership shares. If an employee agrees to buy partnership shares the Company currently matches the number of partnership shares bought with an award of shares (matching shares), on a one-for-one or two-for-one basis subject to the pre-defined quarterly production targets being met.

25 Other reserves continued

Other share-based payments continued

Share Incentive Plan (SIP) continued

The total charge for the year was £0.10 million (2018: £0.15 million). Of this amount, £nil (2018: £nil) was capitalised and £0.10 million (2018: £0.15 million) was charged to the income statement.

Treasury shares

The Treasury shares of the Group have arisen in connection with the shares issued to the IGas Energy Employee Benefit Trust (the Trust), of which the Company is the sponsoring entity. The value of such shares is recorded in the share capital and share premium accounts in the ordinary way and is also shown as a deduction from equity in this separate reserve account. There is therefore no net effect on shareholders' funds.

During the year ended to 31 December 2019 and year ended 31 December 2018, no shares were issued to the Trust. In addition, 10,800 ordinary shares of £0.00002 each (2018: 52,373 ordinary shares of £0.00002 each) were released from the Trust on exercise of share options by current and former employees.

Capital contribution

The capital contribution relates to cash received following the acquisition of IGas Exploration UK Limited.

Merger reserve

The merger reserve arose as a result of a reverse acquisition on 31 December 2007 whereby Island Gas Limited (IGL) became a wholly owned subsidiary of the Company but with IGL's shareholders acquiring 94% of the ordinary share capital of the Company. The reserve represents the difference in the fair value and the nominal value of the shares issued. The reserve is not distributable.

26 Related party transactions

The information below sets out transactions and balances between the Group and related parties in the normal course of business for the year ended 31 December 2019.

The Directors, Chief Financial Officer and the Chief Operating Officer of the Company are considered to be the only key management personnel as defined by IAS 24 – Related Party Disclosures.

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Short-term employee benefits	1,145	1,384
Share plan	637	717
Social security costs	133	197
Fees	100	100
	2,015	2,398

Short-term employee benefits: These amounts comprise fees paid to the key management personnel in respect of salary and benefits earned during the relevant financial year, plus bonuses awarded for the year.

Share plan: This is the cost to the Group of key management personnel's participation in SIP, MRP and EIP plans, as measured by the fair value of SIP, MRPs and EIPs granted, accounted for in accordance with IFRS 2.

27 Subsequent events

On 24 January 2020, the Group issued 66,076 Ordinary £0.00002 shares in relation to the Group's SIP scheme. The shares were issued at £0.47 resulting in share premium of £31,054.

The global pandemic of COVID-19 in early 2020 has caused worldwide economic disruption. The Group considers this to be a non-adjusting post balance sheet event as of 31 December 2019. As described in our going concern assessment, there is material uncertainty of the potential impact of COVID-19 on the Group's operational activities, future commodity prices and the outcome of the May 2020 redetermination of the RBL.

PARENT COMPANY FINANCIAL STATEMENTS – DIRECTORS' STATEMENT OF RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Parent Company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union (IFRSs).

Under Company Law the Directors must not approve the Parent Company financial statements unless they are satisfied that they present fairly the financial position of the Parent Company and its financial performance and cash flows for that period. In preparing the Parent Company financial statements the Directors are required to:

- Present fairly the financial position, financial performance and cash flows of the Parent Company;
- Select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Make judgements and estimates that are reasonable and prudent;
- Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Parent Company's financial position and financial performance;
- State that the Parent Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless, having assessed the ability of the Parent Company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with these requirements and, having a reasonable expectation that the Parent Company has adequate resources to continue in operational existence for the foreseeable future, will continue to adopt the going concern basis in preparing the financial statements.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF IGAS ENERGY PLC

Report on the audit of the parent company financial statements

Opinion

In our opinion, IGas Energy plc's Parent company financial statements (the financial statements):

- give a true and fair view of the state of the Parent company's affairs as at 31 December 2019 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts (the Annual Report), which comprise: the Parent Company Balance Sheet as at 31 December 2019; the Parent Company Cash Flow Statement, and the Parent Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1b to the financial statements concerning the Parent Company's ability to continue as a going concern. The ability of the Group, and that of the Parent Company, to operate as a going concern is dependent upon the Group generating cash flows and the availability of the monies drawn under its RBL. The RBL is redetermined on a semi-annual basis and is based on the estimate of reserves and future oil prices, which have recently declined. The Group's operational activities and cash flows could also be impacted by the uncertainty over the impact of COVID-19. These conditions, along with the other matters explained in note 1b to the financial statements, indicate the existence of material uncertainties which may cast significant doubt upon the Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Parent Company was unable to continue as a going concern.

What audit procedures we performed

In concluding there is a material uncertainty, our audit procedures included:

- checking the mathematical accuracy of management's cash flow forecast and confirming the opening cash position;
- challenging and evaluating management's underlying cash flow projections including comparing forecast sales volumes, operating costs, capital expenditure and abandonment expenditure to recent actuals and internal forecasts and comparing forecast future oil prices and foreign exchange rates to external data;
- assessing the reasonableness of management's downside case, including assessing management's ability to take mitigating actions, including delaying capital expenditure and reducing costs; and
- reviewing the completeness and appropriateness of management's going concern disclosures as disclosed in the financial statements.

Our audit approach

Overview

Materiality	Overall materiality: £1.1 million (2018: £1.1 million), based on 1.3% of net assets.
Audit scope	<ul style="list-style-type: none"> • We obtained coverage over 100% of Company's total assets and 100% of Company's total liabilities. • Consideration of the impact of COVID-19.
Key audit matters	<ul style="list-style-type: none"> • Carrying value of investment in subsidiaries.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Consideration of the impact of COVID-19 Refer to Strategic Report.</p> <p>The international outbreak of COVID-19 in early 2020 has affected business and economic activity around the world, including the United Kingdom where the Company operates. Given the spread of COVID-19, the range of the potential outcomes are difficult to predict, but include a prolonged global recession and long term decrease in commodity prices, including oil.</p> <p>The Company is monitoring the COVID-19 outbreak developments closely and is following the guidance of the World Health Organization and abiding by the requirements of the United Kingdom government, however the virus has the potential to cause disruption to the Group's operational activities and impact earnings, cash flows and financial conditions. The Company has made an assessment of the impact of COVID-19 on its operations and ability to continue as a going concern, for the details please refer note 1 of the financial statements.</p>	<p>Management concluded that the COVID-19 outbreak and geopolitical factors which together have led to a decrease in oil price is a result of conditions that arose after the balance sheet date and as a result are non-adjusting post balance events.</p> <p>We concur with management that these factors are non-adjusting post balance events and as a result that the future assumptions used in the Company's impairment of investments assessments performed as at 31 December 2019 are not to be adjusted for changes subsequent to that date.</p> <p>We have reviewed the disclosures included in the Annual Report in respect of this risk, including principal risk and uncertainties, going concern, impairment sensitivities and post balance sheet events and consider them reasonable.</p> <p>The impact of COVID-19 on the Company's ability to continue as a going concern is considered in the 'material uncertainty related to going concern' section above.</p>
<p>Carrying value of investment in subsidiaries Refer to note 2 Investment in subsidiaries.</p> <p>The carrying value of the Company's investments in subsidiaries were £217.5 million at 31 December 2019, comprising of £74 million of investment in subsidiaries and £143.5 million of loans to Group companies. These represents 90.7% of the Company's total assets. We focused on this area due to the material nature of the balance.</p>	<p>We have obtained management's assessment over whether the carrying value of the investments in subsidiaries is supportable. This included comparing the fair value of each entity with the carrying value of the Parent Company investments. Fair values were derived from a combination of the subsidiary net assets and the fair value of subsidiaries oil and gas properties based on the Group impairment model. Based on the procedures performed we concur with management that, after impairment of £63.7 million, the carrying value is supportable.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Parent Company, the accounting processes and controls, and the industry in which it operates.

Materiality

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

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

Overall materiality	£1.1 million (2018: £1.1 million).
How we determined it	1.3% of net assets.
Rationale for benchmark applied	We consider net assets to be one of the principal considerations of the members of the Parent Company. The overall materiality has been limited to 90% of the Group's overall materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £55,000 (2018: £55,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Parent Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF IGAS ENERGY PLC continued

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

In preparing the financial statements, the Directors are responsible for assessing the 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 Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the Group financial statements of IGas Energy plc for the year ended 31 December 2019. That report includes a 'material uncertainty related to going concern' section.



Richard Spilsbury

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

9 April 2020

PARENT COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2019

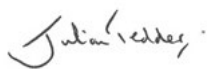
	Note	31 December 2019 £000	31 December 2018 £000
ASSETS			
Non-current assets			
Investments in subsidiaries	2	217,475	362,707
Property, plant and equipment	3	57	83
		217,532	362,790
Current assets			
Trade and other receivables	4	18,004	35,502
Cash and cash equivalents	5	4,232	6,806
		22,236	42,308
Total assets		239,768	405,098
LIABILITIES			
Current liabilities			
Trade and other payables	6	(141,772)	(133,187)
Borrowings	8	–	(2,389)
Derivative financial instruments	10	–	(71)
		(141,772)	(135,647)
Non-current liabilities			
Borrowings	8	(13,071)	(18,591)
Total liabilities		(154,843)	(154,238)
Net assets		84,925	250,860
EQUITY			
Capital and reserves			
Called up share capital	11	30,333	30,333
Share premium account	11	102,680	102,501
Other reserves	12	32,781	31,310
Accumulated (deficit)/surplus		(80,869)	86,716
Total equity		84,952	250,860

As a Consolidated income statement is published in this Annual Report, a separate income statement for the Company is not presented within these financial statements as permitted by Section 408 of the Companies Act 2006. The Company reported a loss for the year of £167.6 million (2018: a loss of £0.5 million).

These financial statements were approved and authorised for issue by the Board on 8 April 2020 and are signed on its behalf by:



Stephen Bowler
Chief Executive Officer



Julian Tedder
Chief Financial Officer

The notes on pages 106 to 121 form an integral part of these financial statements.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital (note 11) £000	Share premium account (note 11) £000	Capital redemption reserve £000	Other reserves (note 12) £000	Accumulated surplus/ (deficit) £000	Total equity £000
Balance at 1 January 2018	30,333	102,342	–	29,994	86,906	249,575
Loss for the year	–	–	–	–	(478)	(478)
Employee share plans (note 12)	–	159	–	1,489	115	1,763
Lapse of LTIPs under the employee share plan (note 12)	–	–	–	(173)	173	–
Issue of shares (note 11)	–	–	–	–	–	–
Balance at 31 December 2018	30,333	102,501	–	31,310	86,716	250,860
Loss for the year	–	–	–	–	(167,585)	(167,585)
Employee share plans (note 12)	–	–	–	1,599	–	1,599
Lapse of LTIPs under the employee share plan (note 12)	–	–	–	(128)	–	(128)
Issue of shares (note 11)	–	179	–	–	–	179
Balance at 31 December 2019	30,333	102,680	–	32,781	(80,869)	84,925

The notes on pages 106 to 121 form an integral part of these financial statements.

PARENT COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Cash flows from operating activities:			
Loss before tax		(167,585)	(478)
Net loss on extinguishment of re-financing		692	–
Depletion, depreciation and amortisation		26	53
Share-based payment charge		194	236
Impairment of investments		63,730	36,060
Credit loss allowance		113,362	–
Income from subsidiary undertakings		–	(37,076)
Unrealised (loss)/gain on foreign exchange contracts		(71)	71
Finance income		(13,857)	(11,384)
Finance costs		1,873	10,452
Other non-cash adjustments		(9)	(1)
Operating cash flow before working capital movements		(1,645)	(2,067)
Increase in trade and other receivables		(4,697)	(4,555)
Increase/(decrease) in trade and other payables		13,429	(20,888)
Cash from/(used in) operating activities		7,087	(27,510)
Tax refunded		–	–
Net cash from/(used in) operating activities		7,087	(27,510)
Cash flows from investing activities:			
Purchase of property, plant and equipment		–	(89)
Interest received		–	5
Net cash used in investing activities		–	(84)
Cash flows from financing activities:			
Cash proceeds from issue of ordinary share capital	11	69	70
Drawdown on reserves-based loan facility	5	19,319	–
Repayment on reserves-based loan facility	5	(4,639)	–
Fees paid related to debt re-financing	5	(1,059)	–
Repayment of bonds	5	(21,355)	(1,722)
Dividend received from subsidiary undertakings		–	37,076
Interest paid	5	(2,021)	(1,751)
Net cash (used in)/from financing activities		(9,686)	33,673
Net increase in cash and cash equivalents in the year		(2,599)	6,079
Net foreign exchange difference		25	(131)
Cash and cash equivalents at the beginning of the year		6,806	858
Cash and cash equivalents at the end of the year	5	4,232	6,806

The notes on pages 106 to 121 form an integral part of these financial statements.

1 Accounting policies

(a) Basis of preparation of financial statements

The Parent Company financial statements of IGas Energy plc (the Company) have been prepared in accordance with International Financial Reporting Standards, adopted for use by the European Union (IFRSs) as they apply to the Company for the year ended 31 December 2018, and with the Companies Act 2006. The financial statements were approved by the Board and authorised for issue on 8 April 2020. IGas Energy plc is a public limited company incorporated, registered in England and Wales and is listed on the Alternative Investment Market (AIM).

The Company's financial statements are presented in UK pound sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

As a Consolidated income statement is published in this Annual Report, a separate income statement for the Company is not presented within these financial statements as permitted by Section 408 of the Companies Act 2006. The Company reported a loss for the year of £167.6 million (2018: a loss of £0.5 million).

New and amended standards and interpretations

During the year, the Company adopted the following new and amended IFRSs for the first time for their reporting period commencing 1 January 2019:

- IFRS 16 Leases;
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments; and
- Amendments to IAS 28 Long-term Interest in Associates and Joint Ventures.

The Parent Company adopted IFRS 16 from 1 January 2019, which resulted in changes in accounting policies; however no adjustments were required to the amounts recognised in the financial statements. The other amendments and interpretations listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards have been published that are not mandatory for 31 December 2019 reporting periods and these have not been adopted early by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods.

(b) Going concern

The Group continues to closely monitor and manage its liquidity risks. Cash forecasts for the Group are regularly produced based on, inter alia, management's best estimate of:

- The Group's production and expenditure forecasts;
- Future oil prices;
- The level of available facilities under the Group's RBL; and
- Foreign exchange rates.

Sensitivities are run to reflect different scenarios including, but not limited to, possible further reductions in commodity prices, strengthening of sterling and reductions in forecast oil and gas production rates.

In the first quarter of 2020, the oil price has been affected by the global spread of COVID-19 and the resultant reduction in oil demand.

This situation has since been compounded by the failure of OPEC to reach an agreement on constraining supply and the decision of several countries to increase output. At the date of this report, there remains significant uncertainty over the impact of COVID-19 on future global demand for oil and therefore the price of oil.

The ability of the Group to operate as a going concern is dependent upon the future oil prices and foreign exchange rates as they impact the continued generation of future cash flows and the loan facility available under its RBL (which is redetermined semi-annually based on various parameters including oil price and level of reserves) and is also dependent on the Group not breaching its RBL covenants. To mitigate these risks, the Group benefits from its hedging policy with 420,000 bbls hedged at an average minimum price of \$53.6/bbl for 2020. The Group also has \$12 million of foreign exchange hedges in place at rates between \$1.17-\$1.20:£1 for the period to 30 June 2021. Furthermore, the Group's net reserves position has increased by 1.5 mmbbl during 2019 which will partially offset any impact of lower prices in its RBL at the next redetermination in May 2020.

1 Accounting policies continued

(b) Going concern continued

Management has considered the impact of the COVID-19 global crisis on the Group's operations. We continue to monitor the situation closely and act within Government guidelines and have a number of contingency plans in place should our operations be significantly affected by COVID-19. Many of our sites are remotely manned and at this stage we are well equipped as a business to ensure we maintain business continuity. Our production comes from a large number of wells in a variety of locations (all of which are on land and in the UK) and we have flexibility in our off-take arrangements, as we transport oil via road. In this regard, we continue to liaise and co-operate with all the relevant regulators.

The Group's base case going concern model was run with average oil prices of \$32/bbl for April to December 2020 rising to \$45/bbl from January 2021 and a foreign exchange rate of \$1.20:£1 during the period. Our forecasts show that the Group will have sufficient financial headroom to meet its financial covenants based on the existing RBL facility, as well as an estimate, based on management's knowledge and past experience, of the outcome of the next half-yearly redetermination due in May 2020, and the following redetermination date in December 2020, albeit the level of the facility available to us is dependent on the facility provider, BMO, and is beyond our control.

Given the uncertainties described above, the level of Group revenues and availability of facilities under the RBL are inherently uncertain. As such management has also prepared a downside forecast with the following assumptions:

- Oil prices at \$20/bbl in the second quarter of 2020 rising to \$30/bbl in the fourth quarter of 2020 and \$43-\$45/bbl in 2021. As this assumption is lower than external current forward curves, management considers this is a reasonable downside scenario that reflects further potential reductions in price caused by the failure of OPEC to reach an agreement on constraining supply and lower demand from reduced industrial activity caused by COVID-19. This downside is partially mitigated by the commodity hedges the Group has in place. However, oil price is outside the Company's control and this could be lower should there be further market disruption either from COVID-19, or OPEC disagreements;
- No change to the level of available RBL loan facility during the forecast period as this reflects longer-term oil price assumptions that have been considered in conjunction with recent discussions with the RBL provider;
- A reduction in production of 10% to reflect a disruption risk to operational and production related activities from the COVID-19 crisis. As the Group is providing a government designated essential service and due to the large number of operational wells, the impact of COVID-19 on production has to date been very limited and has been assumed to remain so as management does not currently foresee wells needing to be shut down due to the impact of COVID-19. Management therefore considers this assumption represents a reasonable downside in this uncertain time based on management's experience of previous unplanned shut downs;
- Exchange rates of \$1.20:£1 for 2020 and \$1.25:£1 for 2021 to reflect a downside caused by the weakening of the dollar later in the period. This downside is partially mitigated by the currency hedges the Group has in place; and
- Includes the impact of action management could take to reduce cash outflow, including delaying capital expenditure and additional reductions in costs in order to remain within the Company's debt liquidity covenants based on the Group's expected RBL redeterminations in May 2020 and December 2020. All such mitigating actions are within management's control and could be actioned within the required time frame.

In this downside scenario, our forecast shows that the Group will have sufficient liquidity and financial headroom to meet its financial covenants for the 12 months from the date of approval of the financial statements. However, should oil price or demand (and therefore revenue) fall further, the Company may not have sufficient funds available for 12 months from the date of approval of these financial statements. As a result, at the date of approval of the financial statements, there is material uncertainty over future commodity prices, the outcome of the May 2020 redetermination of the RBL and the potential impact of COVID-19 on the Group's operational activities. These material uncertainties may cast significant doubt upon the Group's ability to continue as a going concern. Notwithstanding these material uncertainties, the Directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future and have concluded it is appropriate to adopt the going concern basis of accounting in the preparation of the financial statements. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

(c) Significant accounting judgements and estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Recoverable value of investment in subsidiaries

The Company evaluates investments in subsidiaries for indicators of impairment as described in (d) below. Any impairment test, where required, involves estimates and associated assumptions related to matters (when appropriate), such as recoverable reserves; production profiles; forward gas and electricity prices; development, operational and offtake costs; nature of land access agreements and planning permissions; application of taxes, and other matters. Where the final outcome or revised estimates related to such matters differ from the estimates used in any earlier impairment reviews, the results of such differences, to the extent that they actually affected any impairment provisions, are accounted for when such revisions are made. Details of the Company's investments are disclosed in note 2.

1 Accounting policies continued

(c) Significant accounting judgements and estimates continued

Functional currency

The determination of a company's functional currency often requires significant judgement where the primary economic environment in which it operates may not be clear. The Company's financial statements are presented in UK pound sterling, the primary economic environment of the Company.

(d) Non-current assets

Investments in subsidiaries

Investments in Group companies held as non-current assets are held at cost less provision for impairment unless the investments were acquired in exchange for the issue or part issue of shares in the Company, when they are initially recorded in the Company's balance sheet at the fair value of the shares issued together with the fair value of any consideration paid, including costs of acquisition less any provision for impairment.

The Company's investments in Group companies held as non-current assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable, when impairment is calculated on the basis as set out below. Any impairment is charged to the income statement.

Loans to Group companies are stated at amortised cost.

Impairment

Impairment tests, when required, are carried out on the following basis:

- By comparing any amounts carried as investments held as non-current assets with the recoverable amount; and
- The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The Company generally assesses value in use using the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the recoverable amount is higher than the net book value at the time. In reversing impairment losses, the carrying amount of the investment will be increased to the lower of its original carrying value and the carrying value that would have been determined had no impairment loss been recognised in prior periods.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual values, over their estimated useful lives at the following rates, with any impairment being accounted for as additional depreciation:

Buildings	– over five years on a straight-line basis
Fixtures, fittings and equipment	– between three and five years on a straight-line basis
Motor vehicles	– over four years on a straight-line basis

(e) Financial instruments

Classification

From 1 January 2018, the Parent Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will be recorded either in profit or loss or in OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Parent Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Parent Company reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date (that is, the date on which the Parent Company commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Parent Company has transferred substantially all the risks and rewards of ownership.

1 Accounting policies continued

(e) Financial instruments continued

Measurement

At initial recognition, the Parent Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The Parent Company holds financial assets at amortised costs being trade and other receivables, cash and cash equivalents and restricted cash and derivative financial instruments used for hedging.

The Parent Company also hold financial liabilities at amortised cost being trade and other payables, borrowings, other creditors and derivative financial instruments used for hedging.

The Parent Company classifies its financial assets at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

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 receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are initially recognised at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value. Details about the Company's impairment policy and the calculation of loss allowance is provided in the Impairment accounting policy below.

Trade and other payables

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

Impairment of financial assets

At the end of each reporting period, a provision is made if there is objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment loss is incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Assets carried at amortised cost

For loans and receivables, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of loss is recognised in the income statement.

If in the subsequent period, the amount of loss decreased and the decrease is related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Borrowings

Borrowings are measured initially at fair value. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process. When management's estimates of the amounts or timings of cash flows are revised, borrowings are re-measured using the revised cash flow estimates under the original effective interest with any consequent adjustment being recognised in the income statement.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

1 Accounting policies continued

(e) Financial instruments continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(f) Leases

As explained in note 1 (a) above, the Group has changed its accounting policy for leases where the Group is the lessee, however no adjustments were required to the amounts recognised in the financial statements.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Company were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

(g) Taxation

The tax expense represents the sum of current tax and deferred tax.

Current income tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities. Taxable profit/(loss) differs from the profit/(loss) before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Temporary differences arise from differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

The carrying amount of deferred tax is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

(h) Share-based payments

Where share options are awarded to employees (including Directors), the fair value of the options at the date of the grant is recorded in equity over the vesting period. Non-market vesting conditions, but only those related to service and performance, are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. All other vesting conditions, including market vesting conditions, are factored in to the fair value of the options granted. As long as all other vesting conditions are satisfied, the amount recorded is computed irrespective of whether the market vesting conditions are satisfied. The cumulative amount recognised is not adjusted for the failure to achieve a market vesting condition; although equity no longer required for options may be transferred to another equity reserve.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured by the change from immediately before to after the modification, is also recorded in equity over the remaining vesting period.

1 Accounting policies continued

(h) Share-based payments continued

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised or the award is recognised immediately.

Where an equity-settled award is identified as a replacement it will be treated as a modification to the original plan where the incremental fair value of the replacement award is expensed over the vesting period of the replacement award. The fair value of the original award on its grant date is continued to be recognised over its original vesting period.

Where equity instruments are granted to persons other than employees, the amount recognised in equity is the fair value of goods and services received.

Charges corresponding to the amounts recognised in equity are accounted as a cost against the profit and loss which will usually be to the income statement unless the services rendered qualify for capitalisation as a non-current asset. Costs may be capitalised within non-current assets in the event of services being rendered in connection with an acquisition or intangible exploration and evaluation assets or property, plant and equipment.

Where shares are issued to an Employee Benefit Trust, and the Company is the sponsoring entity, the value of such shares at issue will be recorded in share capital and share premium account in the ordinary way, but will not affect shareholders' funds since this same value will be shown as a deduction from shareholders' funds by way of a separate component of equity (Treasury shares).

(i) 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, share premium accounts or merger reserve as appropriate.

(j) Foreign currency

Transactions denominated in currencies other than the functional currency UK pound sterling 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 date of transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange rate ruling at the balance sheet date. All differences that arise are recorded in the income statement.

2 Investments in subsidiaries

Investments in subsidiaries comprises:

	31 December 2019			31 December 2018		
	Investment in Group companies £000	Loans to Group companies* £000	Total £000	Investment in Group companies £000	Loans to Group companies £000	Total £000
Parent Company						
At 1 January	136,349	226,358	362,707	170,894	221,381	392,275
Additions	1,407	8,258	9,665	1,515	11,379	12,894
Impairments	(63,730)	–	(63,730)	(36,060)	–	(36,060)
Credit loss allowance	–	(91,167)	(91,167)	–	(6,402)*	(6,402)
At 31 December	74,026	143,449	217,475	136,349	226,358	362,707

* Refer note 10 for credit risk.

Loans to Group companies are repayable on demand and bear interest at either 1.2% above LIBOR or at a fixed rate of 6% and 12%.

Additions represent investment of £1.4 million relating to employee share-based payment costs under IFRS 2 and £8.3 million interest accrued on existing loans to Group companies.

The Company's investments in subsidiaries were reviewed for indicators of impairment as at 31 December 2019. Impairments of £63.7 million (2018: £36.1 million) are recorded against the investments which are not supported by the subsidiaries' underlying net asset values.

PARENT COMPANY FINANCIAL STATEMENTS – NOTES
FOR THE YEAR ENDED 31 DECEMBER 2019 continued

2 Investments in subsidiaries continued

Name of company	Principal activity and Country of incorporation	Registered office address
Subsidiaries held by Company:		
Dart Energy Pty Ltd	Investment holding, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Island Gas Limited	Oil and gas exploration, development and production, England	7 Down Street, London, W1J 7AJ
Island Gas Operations Limited	Dormant, England	7 Down Street, London, W1J 7AJ
IGas Energy Enterprise Limited	Oil and gas exploration, development and production, England	7 Down Street, London, W1J 7AJ
IGas Exploration UK Limited**	Dormant prior to dissolution, England	7 Down Street, London, W1J 7AJ
Star Energy Group Limited	Service company, England	7 Down Street, London, W1J 7AJ
Star Energy Limited	Service company, England	7 Down Street, London, W1J 7AJ
Star Energy Weald Basin Limited	Oil and gas processing, England	7 Down Street, London, W1J 7AJ
Star Energy Oil and Gas Limited**	Dormant prior to dissolution, England	7 Down Street, London, W1J 7AJ
Subsidiaries held through subsidiaries:		
Island Gas (Singleton) Limited	No operations but not dormant, England	7 Down Street, London, W1J 7AJ
Dart Energy (Europe) Limited	Investment holding, Scotland	C/O Womble Bond Dickinson (UK) LLP, 2 Semple Street, Edinburgh, EH3 8BL
Star Energy (East Midlands) Limited**	Dormant prior to dissolution, England	7 Down Street, London, W1J 7AJ
Dart Energy (East England) Limited	Shale gas exploration, England	7 Down Street, London, W1J 7AJ
Dart Energy (West England) Limited	Shale gas exploration, England	7 Down Street, London, W1J 7AJ
IGas Energy Development Limited	Oil and gas exploration, development and production, England	7 Down Street, London, W1J 7AJ
IGas Energy Production Limited	Oil and gas exploration, development and production, Scotland	C/O Womble Bond Dickinson (UK) LLP, 2 Semple Street, Edinburgh, EH3 8BL
Dart Energy (Carbon Storage) Limited**	Dormant prior to dissolution, Scotland	C/O Womble Bond Dickinson (UK) Llp, Level 6, 124-125 Princess Street, Edinburgh, EH2 4AD
Dart Energy (Lothian) Limited**	Dormant prior to dissolution, Scotland	C/O Womble Bond Dickinson (UK) Llp, Level 6, 124-125 Princess Street, Edinburgh, EH2 4AD
Greenpark Energy Transportation Limited	Dormant, England	7 Down Street, London, W1J 7AJ
Apollo Gas Pty Limited***	Dormant, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy (Bruxner) Pty Limited*	Dormant prior to deregistration, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy (India) Pty Limited	Investment holding, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy SPV No.1 Pty Limited*	Dormant prior to deregistration, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy SPV No.2 Pty Limited*	Dormant prior to deregistration, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy (China) Pty Limited*	Dormant prior to deregistration, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy (Overseas) Pty Limited*	Dormant prior to deregistration, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy Global CBM Pty Limited*	Dormant prior to deregistration, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy India Services Pvt Limited	Service company, India	804-805, 8th Floor, Tower B, Global Business Park, M.G Road, Gurugram, Harvana
Dart Energy International Limited	Investment holding, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Europe) Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (China) Holdings Pte Limited**	Investment holding – dormant prior to strike off, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (India) Pte Limited	Investment holding – dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (ST) Pte Limited	Investment holding – dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (AS) Pte Limited	Investment holding, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Sangatta West) Pte Limited***	Investment holding – dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Dajing) Pte Limited**	Dormant prior to strike off, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Vietnam) Holdings Pte Limited**	Investment holding – dormant prior to strike off, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (India) Holdings Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy Asia Holdings Pte Limited**	Dormant prior to strike off, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Hanoi Basin CBM) Pte Limited**	Dormant prior to strike off, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy India (CMM) Pte Limited**	Dormant prior to strike off, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (CIL) Pte Limited**	Dormant prior to strike off, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (MG) Pte Limited**	Dormant prior to strike off, Singapore	80 Robinson Road, #02-00, Singapore 068898

* These entities have been deregistered with the Australian Securities and Investments Commission (ASIC) effective 5 September 2019.

** These entities have been either dissolved/struck-off or liquidated during the period.

*** The liquidator for this entity has been appointed.

**** This entity is in creditors' voluntary liquidation since 28 June 2019 but as of the date of this report not yet finalised.

3 Property, plant and equipment

	31 December 2019				31 December 2018			
	Buildings £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000	Buildings £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost								
At 1 January	464	96	20	580	375	139	20	534
Additions	–	–	–	–	89	–	–	89
Disposals	–	–	–	–	–	(43)	–	(43)
At 31 December	464	96	20	580	464	96	20	580
Accumulated depreciation and impairment								
At 1 January	384	93	20	497	331	136	20	487
Charge for the year	25	1	–	26	53	–	–	53
Disposals	–	–	–	–	–	(43)	–	(43)
At 31 December	409	94	20	523	384	93	20	497
NBV at 31 December	55	2	–	57	80	3	–	83

4 Trade and other receivables

	31 December 2019 £000	31 December 2018 £000
Amounts falling due within one year:		
VAT recoverable	53	2
Other debtors	20	8
Amounts due from subsidiary undertakings	17,750	35,429
Prepayments	181	63
	18,004	35,502

Amounts due from subsidiary undertakings are unsecured, interest free and payment terms are as mutually agreed between the Group's companies with no expected credit loss. Amounts due from subsidiary undertakings are stated after the expected credit loss allowance of £22.2 million (31 December 2018: £nil). Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

5 Cash and cash equivalents

	31 December 2019 £000	31 December 2018 £000
Cash at bank and in hand	4,232	6,806

The carrying value of the Company's cash and cash equivalents as stated above is considered to be a reasonable approximation of their fair value.

Net debt reconciliation

	31 December 2019 £000	31 December 2018 £000
Cash and cash equivalents	4,232	6,806
Borrowings	(13,071)	(20,980)
Net debt	(8,839)	(14,174)
Borrowings – capitalised fees	(1,272)	(518)
Net debt excluding capitalised fees	(10,111)	(14,692)

5 Cash and cash equivalents continued

	31 December 2019			31 December 2018		
	Cash and cash equivalents £000	Borrowings £000	Total £000	Cash and cash equivalents £000	Borrowings £000	Total £000
At 1 January	6,806	(20,980)	(14,174)	858	(21,240)	(20,382)
Repayment of borrowings	(21,355)	21,355	–	(1,722)	1,722	–
Interest paid	(2,021)	–	(2,021)	(1,751)	–	(1,751)
Drawdown of RBL (note 8)	19,319	(19,319)	–	–	–	–
Capitalised fees	(1,059)	1,308	249	–	–	–
Repayment of RBL (note 8)	(4,639)	4,639	–	–	–	–
Foreign exchange adjustments	25	645	670	(131)	(1,238)	(1,369)
Other cash flows	7,156	–	7,156	9,552	–	9,552
Other non-cash movements	–	(719)	(719)	–	(224)	(224)
At 31 December	4,232	(13,071)	(8,839)	6,806	(20,980)	(14,174)

6 Trade and other payables

	31 December 2019 £000	31 December 2018 £000
Trade creditors	(39)	(155)
Taxation and social security	(36)	(54)
Amounts due to subsidiary undertakings	(141,040)	(132,081)
Accruals and other creditors	(657)	(897)
	(141,772)	(133,187)

Trade creditors are unsecured and usually paid within 30 days of recognition.

Amounts due to subsidiary undertakings are unsecured, interest free and payment terms are as mutually agreed between the Group's companies.

The carrying value of each of the Company's financial liabilities included within trade and other payables are considered to be a reasonable approximation of their fair value.

7 Taxation

Tax losses, none of which are considered sufficiently certain of utilisation to recognise deferred tax assets, amount to:

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Excess management expenses	20,799	19,134
Non-trade loan relationship debits	47,905	47,905

8 Borrowings

	31 December 2019			31 December 2018		
	Within 1 year £000	Greater than 1 year £000	Total £000	Within 1 year £000	Greater than 1 year £000	Total £000
Bonds – secured	–	–	–	(2,389)	(18,591)	(20,980)
Reserve Based Lending facility – secured	–	(13,071)	(13,071)	–	–	–

In 2013, the Company and Norsk Tillitsmann ('Bond Trustee') entered into a Bond Agreement for the Company to issue up to \$165.0 million secured bonds and up to \$30.0 million unsecured bonds (issued at 96% of par). These bonds were subsequently listed on Oslo Bors and the Alternative bond market in Oslo. Both secured and unsecured bonds carried a coupon of 10% per annum (where interest was payable semi-annually in arrears). The secured bonds were amortised semi-annually at 2.5% of the initial loan amount. Final maturity on the secured notes was on 22 March 2018 and on the unsecured notes was 11 December 2018.

8 Borrowings continued

In April 2017, the Company restructured its debt resulting in the equitisation of the unsecured bonds and a repayment/equitisation of a portion of the secured bonds. The restructuring reduced the total aggregate face value of the secured bonds to \$30.4 million. The interest rate was reduced to 8%, the repayment term was extended to 30 June 2021, and the amortisation rate was increased to 5% of the initial loan amount from 23 March 2018.

On 19 November 2019, the Company repaid its secured bonds at par value (100%) plus accrued interest through the drawdown of \$25 million from the RBL with BMO.

Reserve Based Lending facility (RBL)

On 3 October 2019, the Company announced that it had signed a \$40.0 million RBL with BMO. In addition to the committed \$40.0 million RBL, a further \$20.0 million is available on an uncommitted basis, and can be used for any future acquisitions or new conventional developments. The RBL has a five-year term, an interest rate of LIBOR plus 4.0%, matures in September 2024 and is secured on the Company's assets. The RBL is subject to a semi-annual redetermination in May and November when the loan availability will be recalculated taking into account forecast commodity prices, remaining field reserves (assessed by an independent reserves auditor annually) and the latest forecast of operating and capital costs.

Under the terms of the RBL, the Company is subject to a financial covenant whereby, as at 30 June and 31 December each year, the ratio of Net Debt at the period end to EBITDAX for the previous 12 months shall be less than or equal to 3.5:1.

A loss of £0.7 million arising from debt re-financing was recognised for the year ended 31 December 2019.

Collateral against borrowing

A Security Agreement was executed between BMO and IGas Energy plc and some of its subsidiaries, namely; Island Gas Limited, Island Gas Operations Limited, Star Energy Weald Basin Limited, Star Energy Group Limited, Star Energy Limited, Island Gas (Singleton) Limited, Dart Energy (East England) Limited, Dart Energy (West England) Limited, IGas Energy Development Limited, IGas Energy Enterprise Limited, Dart Energy (Europe) Limited and IGas Energy Production Limited.

Under the terms of this Agreement, BMO have a floating charge over all of the assets of these legal entities, other than property, assets, rights and revenue detailed in a fixed charge. The fixed charge encompasses the Real Property (freehold and/or leasehold property), the specific petroleum licences, all pipelines, plant, machinery, vehicles, fixtures, fittings, computers, office and other equipment, all related property rights, all bank accounts, shares and assigned agreements and rights including related property rights (hedging agreements, all assigned intergroup receivables and each required insurance and the insurance proceeds).

9 Commitments

The Company leases property under non-cancellable operating leases. From 1 January 2019, the Group has recognised a right-of-use asset for this lease.

Operating lease commitments:

	31 December 2019 £000	31 December 2018 £000
– expiring within 1 year	–	(390)
– expiring within 2 to 5 years	–	(873)
– expiring after 5 years	–	–
Total	–	(1,263)

10 Financial instruments and risk management

Fair values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, other than those with carrying amounts that are a reasonable approximation of their fair values, are as follows:

	Carrying amount		Fair value	
	31 December 2019 £000	31 December 2018 £000	31 December 2019 £000	31 December 2018 £000
Financial liabilities				
Amortised cost				
Bonds – secured ¹	–	(20,980)	–	(20,875)
Reserve Based Lending facility – secured	(13,071)	–	(13,071)	–

1 The fair value of borrowings (hierarchy level 1) have been calculated by reference to quoted market prices for these specific liabilities.

10 Financial instruments and risk management continued

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For financial instruments there are no non-recurring fair value measurements nor have there been any transfers between levels of the fair value hierarchy.

The financial assets and liabilities measured at fair value are categorised into the fair value hierarchy as at the reporting dates as follows:

	31 December 2019 £000	31 December 2018 £000
Financial liabilities: Level 2		
Derivative financial instruments – foreign exchange contract	–	(71)

Financial risk management

The Company's principal financial liabilities comprise borrowings, foreign exchange contracts and trade and other payables, including amounts due to subsidiary undertakings. The main purpose of these financial liabilities is to finance the Company's subsidiary operations and to fund acquisitions. The Company has trade and other receivables, and cash and cash equivalents that are derived directly from its operations and restricted cash.

The Company manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the Company's financial targets while protecting future financial security. The Company is exposed to the following risks:

- Market risk including interest rate, and foreign currency risks;
- Credit risk; and
- Liquidity risk.

Management reviews and agrees policies for managing each of these risks which are summarised below. It is the Company's policy that all transactions involving derivatives must be directly related to the underlying business of the Company. The Company does not use derivative financial instruments for speculative exposures.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market factors, such as interest rate and foreign currency.

The sensitivity analyses below have been prepared on the basis that the amount of net debt, and the proportion of financial instruments in foreign currencies are all constant and that derivatives are held to maturity. The sensitivity analysis is intended to illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable.

10 Financial instruments and risk management continued

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans with related parties. The Company currently has all of its external borrowings at fixed rates of interest.

The following table summarises the impact on profit before tax for changes in interest rates on the fair value of the loans to related parties. The analysis is based on the assumption that LIBOR moves 50 basis points, with all other variables held constant.

	Increase/(decrease) in profit before tax for the year ended and to equity as at	
	31 December 2019 £000	31 December 2018 £000
50 basis point increase in LIBOR	388	388
50 basis point decrease in LIBOR	(388)	(388)

Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from purchases in currencies other than the UK pounds sterling, the functional currency of the Company. The Company's borrowings are also denominated in US dollars.

The following table summarises the impact on profit before tax for changes in the US dollar/UK pound sterling exchange rate on financial assets and liabilities as at the year end, principally relating to the Group's borrowings which are denominated in US dollars. The impact on equity is the same as the impact on profit before tax.

The analysis is based on the assumption that the pound moves 10%, with all other variables held constant.

	Increase/(decrease) in profit before tax for the year ended and to equity as at	
	31 December 2019 £000	31 December 2018 £000
10% strengthening of the pound against the US dollar	1,307	2,004
10% weakening of the pound against the US dollar	(1,307)	(2,004)

Credit risk

With respect to credit risk arising from the financial assets of the Company, which comprise cash and cash equivalents and amounts due from subsidiary undertakings, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The expected credit loss allowance against amounts due from subsidiary undertakings amounts to £22.2 million (31 December 2018: £nil). The Company limits its counterparty credit risk on cash and cash equivalents by dealing only with financial institutions with credit ratings of at least A or equivalent other than if the UK government is a majority shareholder. £4.2 million (2018: £6.8 million) of cash and cash equivalents were held with two institutions.

The loans to subsidiaries are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months' expected losses apart from one loan which was provided for in full. The expected credit loss allowance against loans to subsidiaries amounts to £91.2 million. Management consider 'low credit risk' to be when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

The loss allowance for the loan to subsidiary as at 31 December reconciles to the opening loss allowance as follows:

	Loan to subsidiary	
	31 December 2019 £000	31 December 2018 £000
Opening loss allowance at 1 January	6,402	–
Amounts restated through opening retained earnings	–	6,402
Increase in lifetime expected credit loss allowance recognised in income statement during the year	195	–
Increase in 12 month expected loss allowance recognised in income statement during the year	113,168	–
Closing loss allowance at 31 December	119,765	6,402

10 Financial instruments and risk management continued

Liquidity risk

The Company manages liquidity risk by maintaining adequate banking and borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities and future capital and operating commitments.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	On demand £000	<1 year £000	1–2 years £000	2–3 years £000	>3 years £000	Total £000
At 31 December 2019						
Borrowings	–	–	–	–	(13,071)	(13,071)
Trade and other payables	–	(39)	–	–	–	(39)
	–	(39)	–	–	(13,071)	(13,110)
At 31 December 2018						
Borrowings	–	(4,070)	(3,878)	(17,698)	–	(25,646)
Trade and other payables	–	(155)	–	–	–	(155)
	–	(4,225)	(3,878)	(17,698)	–	(25,801)

Management considers that the Company has adequate current assets and forecast cash from operations to manage liquidity risks arising from current and non-current liabilities.

Capital management

The Company manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value. The Company's funding requirements are met through a combination of debt and equity and are adjustments made in light of changes in economic conditions. The Company's strategy is to maintain ratios in line with covenants associated with its new secured RBL (see note 8).

The Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Company includes within net debt, interest bearing loans less cash, cash equivalents and restricted cash in net debt. Capital includes share capital, share premium, other reserves and accumulated profits/losses.

The Company signed a new \$40.0 million RBL with BMO on 3 October 2019. In addition to the committed \$40.0 million RBL, a further \$20.0 million is available on an uncommitted basis, and can be used for any future acquisitions or new conventional developments (see note 8). Management believe that the new financing structure will be sustainable in the current oil price environment and, together with a carried work programme of up to \$214 million, means that the Company is well positioned to pursue its strategy.

11 Share capital and share premium

On 3 April 2017, the shareholders approved the subdivision of each of the 303,305,534 ordinary shares of 10p each of the Company into one new ordinary share of 0.0001p each and one deferred share of 9.9999p each. At the Annual General Meeting of the Company on 14 June 2017, the shareholders approved a consolidation and subdivision of the Company's share capital in order to reduce the number of shares in issue to that more appropriate for the size of the Company. Following the consolidation, every 200 ordinary shares of 0.0001p each were consolidated into one new ordinary share of 0.02p each and immediately sub-divided into 10 ordinary shares of 0.002p. The consolidation and subdivision reduced the number of shares in issue from 2.4 billion to 121 million.

	Ordinary shares*		Deferred shares**		Share capital	Share premium
	Nominal value No.	£000	Nominal value No.	£000	Nominal value £000	Value £000
Issued and fully paid						
At 1 January 2018	121,881,119	2	303,305,534	30,331	30,333	102,342
2018 SIP share issue – partnership	83,996	–	–	–	–	70
2018 SIP share issue – matching	112,154	–	–	–	–	89
At 31 December 2018	122,077,269	2	303,305,534	30,331	30,333	102,501
2019 SIP share issue – partnership	107,135	–	–	–	–	69
2019 SIP share issue – matching	175,771	–	–	–	–	110
At 31 December 2019	122,360,175	2	303,305,534	30,331	30,333	102,680

* The number of ordinary shares as at 31 December 2019 includes 190,651 Treasury shares (2018: 201,451).

** Deferred shares were created on capital restructuring which completed in April 2017.

Accordingly, the Company share capital account comprised:

	£000
Share capital account	
At 1 January 2018	30,333
Shares issued during the year	–
At 31 December 2018	30,333
Shares issued during the year	–
At 31 December 2019	30,333

Share premium

The share premium account arises from the Company issuing shares for consideration in excess of their nominal value less the cost of such issues. During the year, the Company issued 282,906 ordinary shares at a nominal value of 0.002p each (2018: 196,150 ordinary shares of 0.002p each), resulting in an increase in share premium of £0.2 million (2018: £0.2 million). No issuing costs were incurred during the year (2018: none).

12 Other reserves

Other reserves are as follows:

	Share plan reserves £000	Treasury shares £000	Capital contributions £000	Merger reserve £000	Total £000
Balance at 1 January 2018	9,098	(1,373)	47	22,222	29,994
Share options issued under the employee share plan	1,430	–	–	–	1,430
Shares issued under the SIP	–	–	–	–	–
Lapse of options under the employee share plan	–	59	–	–	59
Transfers	(173)	–	–	–	(173)
Lapse of options under the employee share plan	99	(99)	–	–	–
Transfers	–	–	–	–	–
Balance at 31 December 2018	10,454	(1,413)	47	22,222	31,310
Share options issued under the employee share plan	1,607	–	–	–	1,607
Shares issued under the SIP	–	(8)	–	–	(8)
Forfeiture of options under the employee share plan	(128)	–	–	–	(128)
Balance at 31 December 2019	11,933	(1,421)	47	22,222	32,781

12 Other reserves continued

Employee share plans – Equity settled

Details of the share options under employee share plans outstanding are as follows:

	EIP Number of units	MRP Number of units	EDRP Number of units
Outstanding at 1 January 2018	2,086,704	267,252	325,000
Exercisable at 1 January 2018	2,086,704	267,252	325,000
Awarded during the year	1,911,057	76,310	–
Exercised during the year	–	(52,371)	–
Forfeited during the year	–	–	–
Outstanding at 31 December 2018	3,997,761	291,191	325,000
Exercisable at 31 December 2018	3,997,761	291,191	325,000
Awarded during the year	2,033,093	157,624	–
Exercised during the year	(33,808)	(8,883)	–
Forfeited during the year	(450,256)	–	–
Outstanding at 31 December 2019	5,546,790	439,932	325,000
Exercisable at 31 December 2019	5,546,790	439,932	325,000

Note – all options are nil cost and therefore the weighted average exercise price is nil.

Detail disclosure of each employee share plan scheme is in the Group consolidated financial statements note 25.

Executive Incentive Plan (EIP)

The total charge for the year was £0.15 million (2018: £0.12 million). Of this amount, £nil (2018: £nil) was capitalised and £0.15 million (2018: £0.12 million) was charged to the Income Statement.

Management Retention Plan (MRP)

The total charge for the year was £0.02 million (2018: £0.01 million). Of this amount, £nil (2018: £nil) was capitalised or recharged to joint venture partners and £0.02 million (2018: £0.01) was charged to the Income Statement.

Executive Director Retention Plan (EDRP)

The total charge for the year was £nil (2018: £nil). Of this amount, £nil (2018: £nil) was capitalised and £nil (2018: £nil) was charged to the Income Statement.

12 Other reserves continued

Other share-based payments

Detail disclosure of other share-based payments is in the Group consolidated financial statements note 25.

Share Incentive Plan (SIP)

The total charge for the year was £nil (2018: £nil). Of this amount, £nil (2018: £nil) was capitalised and £nil (2018: £nil) was charged to the Income Statement.

Merger reserve

The merger reserve arose as a result of a reverse acquisition on 31 December 2007 whereby Island Gas Limited (IGL) became a wholly owned subsidiary of the Company but with IGL's shareholders acquiring 94% of the ordinary share capital of the Company. The reserve represents the difference in the fair value and the nominal value of the shares issued. The reserve is not distributable.

13 Related party transactions

(a) with Group companies

A summary of the transactions in the year is as follows:

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Amounts due from/(to) subsidiaries:		
At 1 January	129,706	106,349
Services performed (for)/by subsidiary	52	719
Net cash advances	(9,431)	(12,309)
Group loan interest	8,258	11,379
Allowance for credit loss	(113,362)	(6,402)
Dividend receivable	–	37,076
Revaluations	4,936	(7,106)
At 31 December	20,159	129,706
	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Amounts due from subsidiary undertakings (note 4)	17,750	35,429
Amounts due to subsidiary undertakings (note 6)	(141,040)	(132,081)
Loans to Group companies (note 2)	143,449	226,358
Total	20,159	129,706

Payment terms for balances due to or from subsidiaries are as mutually agreed between the Group's companies. The payment terms in respect of loans are detailed in note 2.

(b) with Directors

Key management as defined by IAS 24 – Related Party Disclosures are those persons having authority and responsibility for planning, controlling and directing the activities of the Company. In the opinion of the Board, the Company's key management are the Directors of the Company. Information regarding their compensation is given in the Directors' Remuneration Report.

14 Subsequent events

On 24 January 2020 the Company issued 66,076 Ordinary £0.00002 shares in relation to the Company's SIP scheme. The shares were issued at £0.47 resulting in share premium of £31,054.

The global pandemic of COVID-19 in early 2020 has caused worldwide economic disruption. The Group considers this to be a non-adjusting post balance sheet event as of 31 December 2019. As described in our going concern assessment, there is material uncertainty of the potential impact of COVID-19 on the Group's operational activities, future commodity prices and the outcome of the May 2020 redetermination of the RBL.

OIL AND GAS RESERVES

AS AT 31 DECEMBER 2019

The Group's estimate of proved plus probable reserves at 31 December 2019 are based on an independent evaluation of IGas conventional oil and gas interests prepared by D&M, the leading international reserves and resources auditors. Proved reserves are estimated reserves that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years under existing economic and operating conditions, while probable reserves are estimated reserves determined to be more likely than not to be recoverable in future years under existing economic and operating conditions.

All of the Group's oil and gas assets are located in the United Kingdom.

Group proved plus probable reserves

	Oil mmbbls	Gas Bcf	Total mmboe
At 1 January 2019	12.59	11.41	14.56
Additions during the year	0.66	–	0.66
Revision of previous estimates	1.94	(1.58)	1.67
Production	(0.78)	(0.35)	(0.84)
Total change during the year	1.82	(1.93)	1.49
At 31 December 2019	14.41	9.48	16.05

IGAS ONSHORE UK LICENCE INTERESTS

Licence	Fields	Area km ²	IGas interest	Operator	Other partners
East Midlands					
AL 009	Dunholme ¹	9	100%	IGas	
EXL 288	Trumfleet ²	75	75%	IGas	INEOS
ML 3	Egmanton	26	100%	IGas	
ML 4	Gainsborough, Beckingham, Corringham, Glentworth	72	100%	IGas	
ML 6	Bothamsall	11	100%	IGas	
ML 7	South Leverton	11	100%	IGas	
PEDL 006	Cold Hanworth	136	100%	IGas	
PEDL 012		33	55%	IGas	INEOS
PEDL 139		100	32%	IGas	INEOS, Egdon, Ecorp
PEDL 140		142	32%	IGas	INEOS, Egdon, Ecorp
PEDL 146		276	75%	IGas	INEOS
PEDL 169 ³		62	80%	IGas	Egdon
PEDL 200		114	55%	IGas	INEOS
PEDL 210	Hemswell ¹	116	75%	IGas	INEOS
PEDL 273 ⁴		194	35%	IGas	Total, Egdon, INEOS
PEDL 278		38	50%	IGas	Egdon
PEDL 305		143	35%	IGas	Total, Egdon, INEOS
PEDL 316		111	35%	IGas	Total, Egdon, INEOS
PL 178	West Beckingham	2	100%	IGas	
PL 179	Welton, Stainton, Nettleham, Scampton South, Scampton North, East Glentworth	107	100%	IGas	
PL 199 ⁶	Nettleham	4	100%	IGas	
PL 220	Long Clawson, Rempstone	13	100%	IGas	
Weald Basin					
DL 002	Stockbridge	10	100%	IGas	
DL 004	Albury	14	100%	IGas	
ML 18	Bletchingley	8	100%	IGas	
ML 21	Bletchingley	9	100%	IGas	
PEDL 021	Goodworth	50	100%	IGas	
PEDL 070	Avington	18	54%	IGas	Egdon, Aurora, UKOG, Corfe
PEDL 235	Godley Bridge ¹	100	100%	IGas	
PEDL 257	Lingfield ¹	28	100%	IGas	
PEDL 326		95	100%	IGas	
PL 182	Palmers Wood	55	100%	IGas	
PL 205	Storrington	18	100%	IGas	
PL 211	Horndean	27	90%	IGas	UKOG
PL 233	Stockbridge	58	100%	IGas	
PL 240	Singleton	46	100%	IGas	
PL 249	Stockbridge	16	100%	IGas	

Notes:

- Dunholme, Hemswell, Beckering, Godley Bridge and Lingfield are undeveloped fields.
- Trumfleet Field was abandoned in 2009 prior to IGas acquiring an interest in licence EXL288.

Licence	Fields	Area km ²	IGas interest	Operator	Other partners
North West					
EXL 273		48	15%	INEOS	
PEDL 145		74	40%	INEOS	
PEDL 147		89	25%	IGas	INEOS
PEDL 184		286	50%	IGas	INEOS
PEDL 189		100	25%	IGas	INEOS
PEDL 190		94	50%	IGas	INEOS
PEDL 193		296	40%	INEOS	
PEDL 293		200	30%	INEOS	
PEDL 295		200	30%	INEOS	
Scotland					
P 1270	Lybster	16	100%	IGas	
PEDL 158	Lybster	46	100%	IGas	

Notes:

1. Dunholme, Hemswell, Beckering, Godley Bridge and Lingfield are undeveloped fields.
2. Trumfleet Field was abandoned in 2009 prior to IGas acquiring an interest in licence EXL288.

GLOSSARY

£	The lawful currency of the United Kingdom
\$	The lawful currency of the United States of America
1P	Low estimate of commercially recoverable reserves
2P	Best estimate of commercially recoverable reserves
3P	High estimate of commercially recoverable reserves
1C	Low estimate or low case of Contingent Recoverable Resource quantity
2C	Best estimate or mid case of Contingent Recoverable Resource quantity
3C	High estimate or high case of Contingent Recoverable Resource quantity
AIM	AIM market of the London Stock Exchange
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
Contingent Recoverable Resources	Contingent Recoverable Resources estimates are prepared in accordance with the Petroleum Resources Management System (PRMS), an industry recognised standard. A Contingent Recoverable Resource is defined as discovered potentially recoverable quantities of hydrocarbons where there is no current certainty that it will be commercially viable to produce any portion of the contingent resources evaluated. Contingent Recoverable Resources are further divided into three status groups: marginal, sub marginal, and undetermined. IGas' Contingent Recoverable Resources all fall into the undetermined group. Undetermined is the status group where it is considered premature to clearly define the ultimate chance of commerciality.
GIIP	Gas initially in place
m	Million
Mbbl	Thousands of barrels
MMboe	Millions of barrels of oil equivalent
MMscfd	Millions of standard cubic feet per day
NBP	National balancing point – a virtual trading location for the sale and purchase and exchange of UK natural gas.
OGA	Oil and Gas Authority
OIIP	Oil initially in place
PEDL	United Kingdom petroleum exploration and development licence
PL	Production licence
RBL	Reserve Based Lending facility
ROSPA	Royal Society for the Prevention of Accidents
SoS	Secretary of State
Tcf	Trillions of standard cubic feet of gas
UK	United Kingdom

GENERAL INFORMATION

Directors

C McDowell – Interim Non-executive Chairman
S Bowler – Chief Executive Officer
P Jackson – Non-executive
T Kumar – Non-executive
H Årstad – Non-executive

Company Secretary

Thamala Perera Schuetze

Nominated Adviser and Joint Broker

Investec Bank plc

30 Gresham Street
London
EC2V 7QP

Joint Broker

BMO Capital Markets

95 Queen Victoria Street
London
EC4V 4HG

Joint Broker

Canaccord Genuity

88 Wood Street
London
EC2V 7QR

Registrar

Computershare Investor Services plc

The Pavilions
Bridgwater Road
Bristol BS13 8AE

Auditor

PricewaterhouseCoopers LLP

1 Embankment Place
London
WC2N 6RH

Banker

Barclays Bank Plc

1 Churchill Place
London E14 5HP

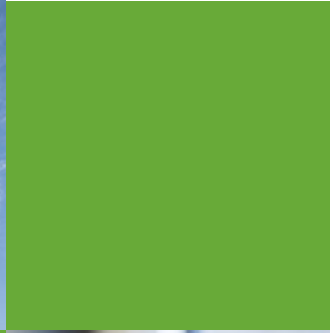
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Copies of Reports and Accounts

Further copies of this Annual Report and Accounts can be obtained from the Registered Office of IGas Energy plc (IGas Energy).

NOTES



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