phoenix GLOBAL RESOURCES
Unlocking potential
Annual Report and Accounts 2018

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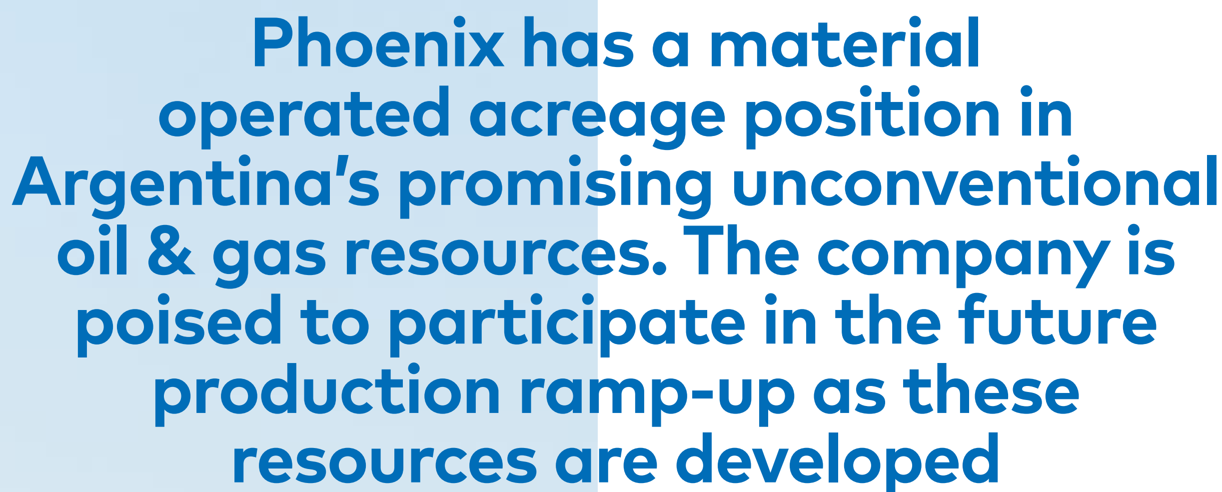


Phoenix has a material operated acreage position in Argentina's promising unconventional oil & gas resources. The company is poised to participate in the future production ramp-up as these resources are developed

HIGHLIGHTS

US$177.0m
Revenue
2017: US$ 141.8m

US$59.26/bbl*
Average crude price realised
***before hedge**
2017: US$50.46/bbl

10,249 boepd
Production
2017: 11,070 boepd

US$39.2m
Adjusted EBITDAX
2017: US$40.6m

US$78.3m
Loss for the year
2017: US$270.1m

57.1 MMboe
2P reserves
2017: 57.2 MMboe

1

Vaca Muerta and Argentina unconventional

Moving from appraisal towards development

The best comparison for Argentina unconventional development is the history of shale development in the United States. The Eagle Ford area in South Texas provides the closest comparison as it contains three distinct, highly prospective thermal maturity windows: oil, a mix of condensate and volatile oil, and dry gas.

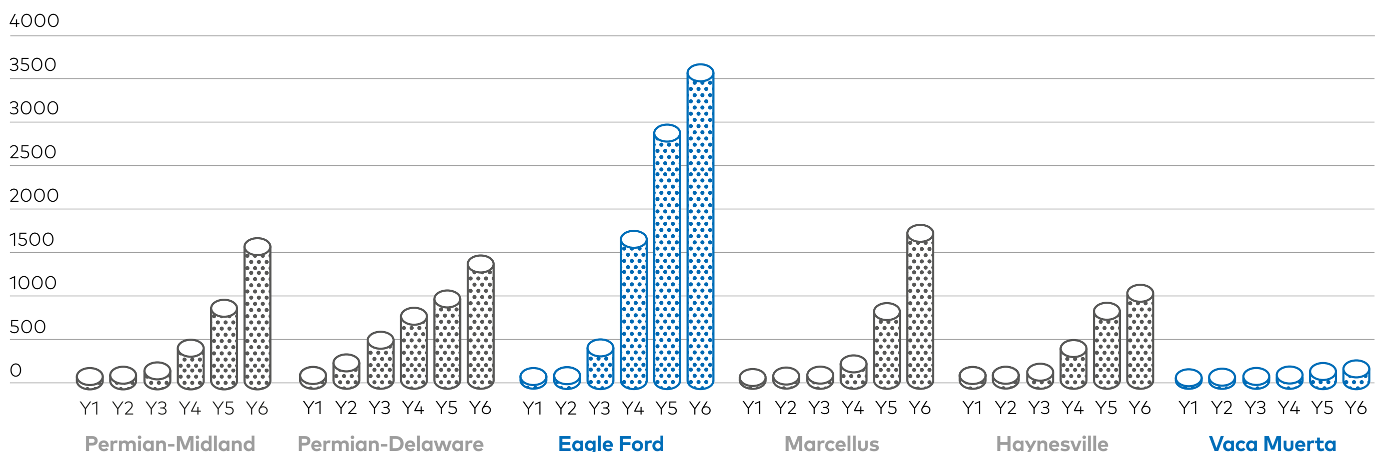
Much of the recent activity at Vaca Muerta has focused on the deeper dry gas window that is currently yielding production. At Eagle Ford the dry gas window has proved not to be commercial.

HORIZONTAL WELLS COMPLETED IN EARLY DEVELOPMENT YEARS

Vaca Muerta is at a relatively early stage in its development. The acceleration seen in the early development period at Eagle Ford and in the Permian has not yet been replicated in the Vaca Muerta.

A number of operators including YPF, Shell, Tecpetrol, Pan American and Total are now entering or preparing to enter the development phase on key concessions with drilling and unconventional completion activity set to increase accordingly.

Graphs show years one to six of development



Source: Rystad Energy Shale Intel – Vaca Muerta study 2018

Cumulative investment commitments in Argentina shale of more than US$165.0 billion

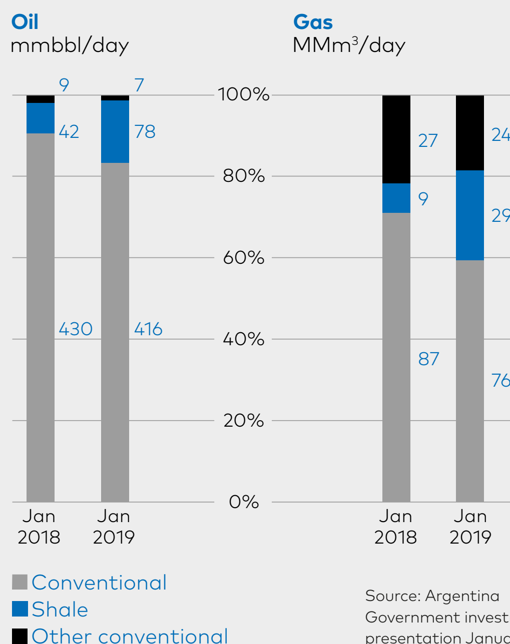
US$165.0bn

S&P Global Platts, January 2019

THE GROWING IMPORTANCE OF UNCONVENTIONALS IN THE PRODUCTION MIX

Argentina unconventional oil and gas production continues to increase and shale, as a component of unconventional, has increased significantly and particularly in gas production.

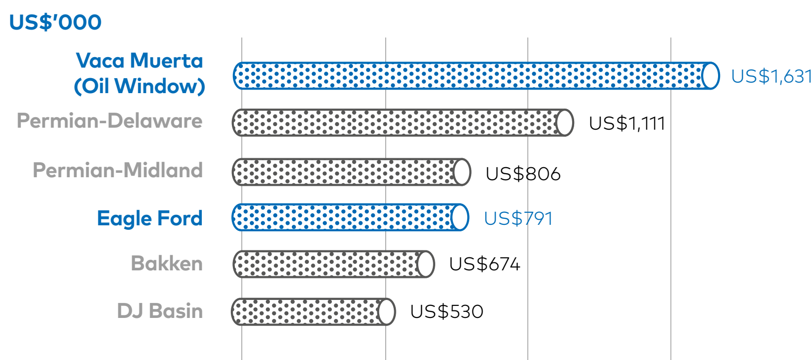
The unconventional sector is still at an early stage of development. The pace of development is expected to increase over the next several years as Dollars committed to projects are invested in the ground. In addition, infrastructure development is planned including rail access for equipment to Vaca Muerta, additional pipelines and oil ducts.



Source: Argentina Government investment presentation January 2019

OIL PLAYS: WELL COST PER LATERAL FOOT 2017

- Much of the unconventional activity to date in the oil window has been focused on appraisal with limited well count.
- Vaca Muerta drilling costs are high per lateral foot in the evaluation stage but are expected to reduce as development accelerates.
- Cost reduction is key to successful and profitable development of unconventionals.
- The target breakeven price for development needs to be below US$40/boe.
- Costs per lateral foot are 48% lower at Eagle Ford.



Source: Rystad Energy Shale Intel – Vaca Muerta study 2018

RISKS TO DEVELOPMENT VELOCITY AT VACA MUERTA

- **Political risk**
- **Access to capital**
- **Scarcity of oilfield services**
- **Availability of proppant**
- **Logistics and transport**
- **Labour**

2

Puesto Rojas focus

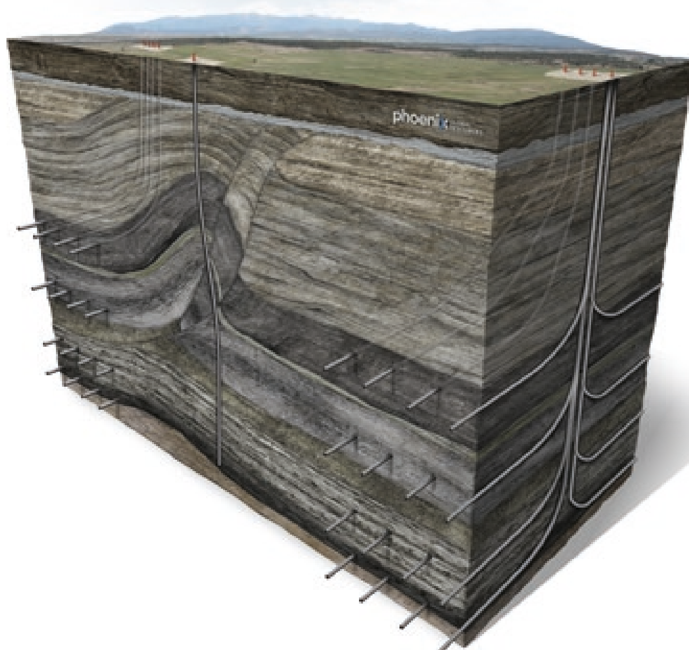
Increasing our unconventional activity

2017 — 2019 PROGRESS

1. Phoenix's first Vaca Muerta vertical well drilled Q1 2017. Flow rates > 200 boepd
2. Significant upgrade in Cerro Mollar gathering and processing facility
3. Total of eight unconventional appraisal wells drilled
4. Appraisal completions in four distinct, prospective horizons
5. Initial evaluation phase concluding

IN A STACKED DEVELOPMENT PLAY MULTIPLE FORMATIONS ARE PRESENT AT VARYING DEPTHS

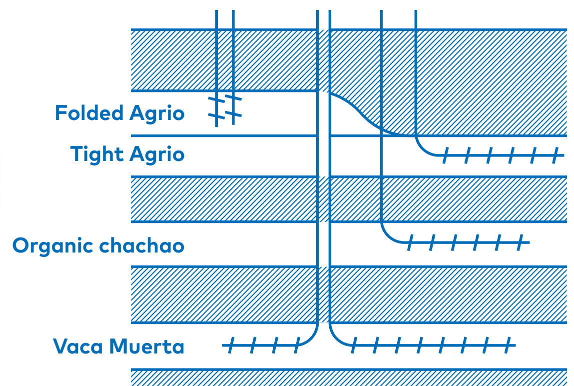
Efficiencies can be gained on stacked development plays where multiple wells are drilled into different formations and horizons from a single well pad.

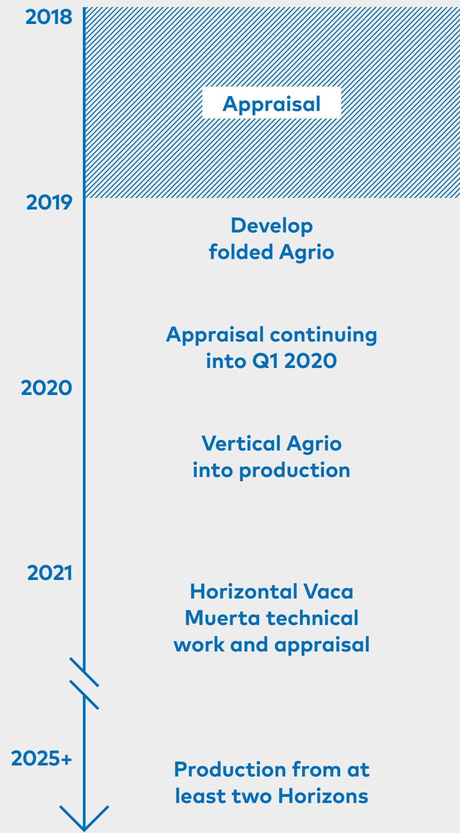


PUESTO ROJAS CONTAINS FOUR DEFINED UNCONVENTIONAL OPPORTUNITIES:

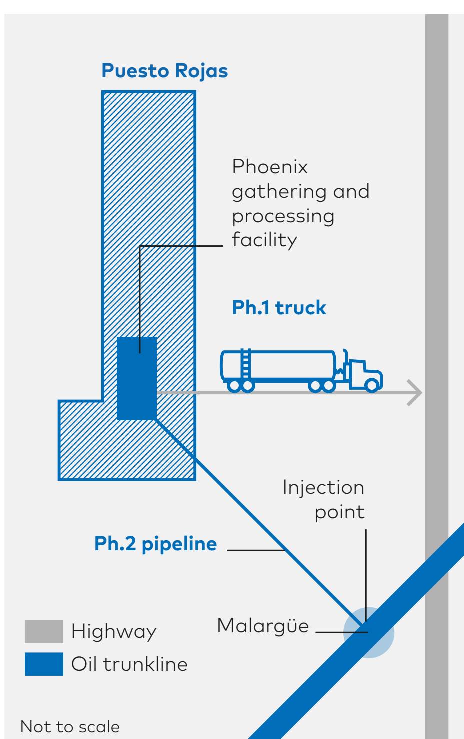
Phoenix has identified four potential target horizons for testing and appraisal at Puesto Rojas. The initial development will target the folded Agrio with vertical unconventional wells. Activity will then move to additional technical work to appraise potential for horizontal development. The current expected program following the folded Agrio is:

> Testing and Appraisal
> Horizontal Vaca Muerta
> Horizontal Agrio
> Chachao





COMMERCIALISING PUESTO ROJAS



1. **Existing processing and storage facility at Cerro Mollar was upgraded and expanded in 2017**
2. **Existing production is delivered to YPF pipeline inlet point in Malargüe city by tanker that is approximately 20km from the processing facility**
3. **As volumes grow, a dedicated line will be constructed to provide direct access to the YPF trunkline from Cerro Mollar**

DRILLING SIGNIFICANTLY INCREASES IN DEVELOPMENT PHASE

Development of the unconventional opportunities at Puesto Rojas will require a significant increase in drilling and completion activity. Indicative well counts (by area) for the development of the vertical Agrio development are shown below. Long term contracts for multiple wells are typically used to reduce development well cost.

PUESTO ROJAS AGRIO DEVELOPMENT POTENTIAL

Potential Agrio vertical well count by area and risk type:

	Cerro Mollar Norte	El Manzano	La Brea	Puesto Rojas	Rio Atuel
Reserve	—	1	40	14	—
Low Risk Resource	1	—	47	19	11
Medium Risk Resource	—	—	39	59	133
High Risk Resource	—	—	137	171	506

3

Mata Mora focus

De-risking significant potential

The Mata Mora concession has significant Vaca Muerta potential proximate to existing production from Shell's Sierras Blancas concession and nearby development plays operated by both Vista and Pan American.

Sierras Blancas phased development decision was announced by Shell in December 2018 and is planned to take current production and processing capacity of 12 mboe per day to more than 40 mboe per day by 2021 and to over 70 mboe per day thereafter.

COMMERCIALISING MATA MORA

Mata Mora is one of a contiguous set of four licences located in an area that is highly prospective for Vaca Muerta. The concentration of assets in a relatively compact geographical area can bring efficiencies to development including efficiencies related to infrastructure, potential shared facilities and other collaboration.

1 Multiple potential offtake routes

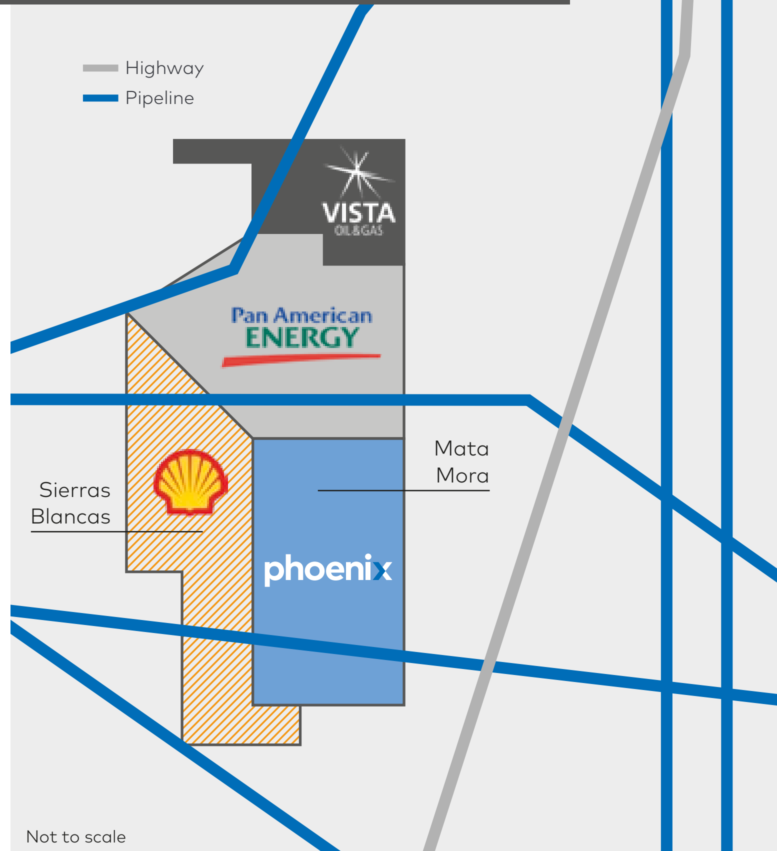
A number of exiting pipelines are proximate to Mata Mora and its neighbouring concessions. While capacity may need to be upgraded in the future, this pipeline network gives multiple access routes to markets.

2 Potential for shared facilities or throughput agreements for processing

In-field processing facilities could be shared in the initial stages of development or access to neighbouring facilities agreed on a tolling basis.

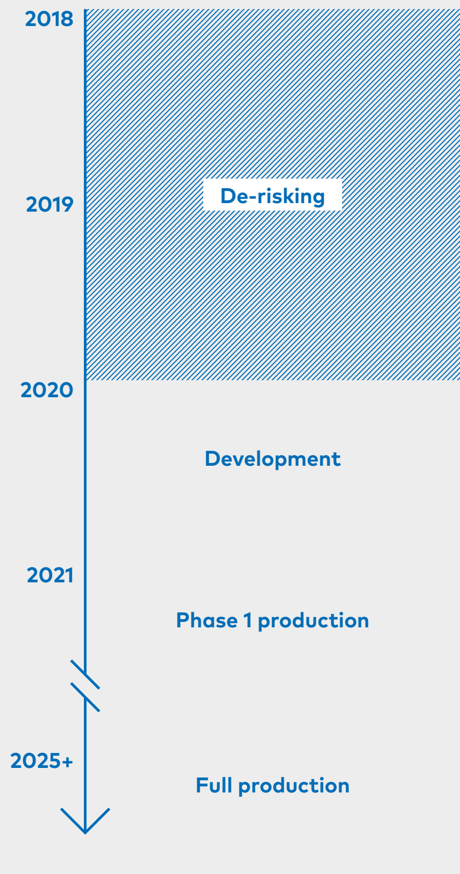
3 Good road access, near to a major highway

The Mata Mora area is served by a major highway, easing the logistics of getting drilling, frac sets and other heavy machinery to site. Multiple operators in the same geographic area may provide efficiency opportunities in regard to mobilisation and demobilisation costs in the early stages of evaluation and development.



INDICATIVE DEVELOPMENT TIMELINE

Activity summary

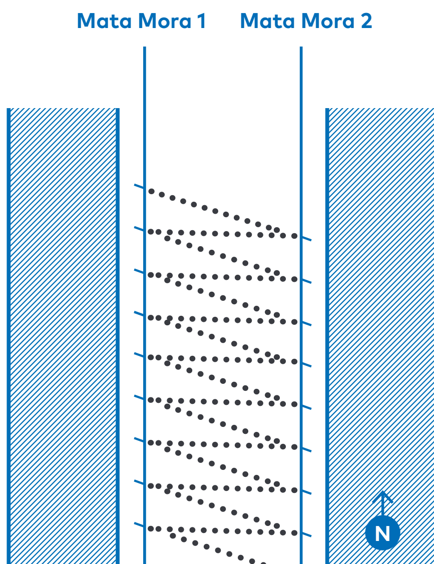


ANNOUNCED PRODUCTION CAPACITY PROGRESSION AT SIERRAS BLANCAS

Current	12m boepd
Phase 1 (by 2020)	>40m boepd
Phase 2 (by mid 2020's)	>70m boepd

Source: Royal Dutch Shell Press release 2018

APPLYING THE LATEST US TECHNOLOGY



Two evaluation wells were drilled on the Mata Mora block in late 2018 and early 2019. These wells represented the company's first two unconventional horizontal wells.

The wells will be completed in a simultaneous zipper frac that is a relatively new technique developed in the United States.

Further evaluation drilling is planned at Mata Mora pending the results from the frac of the initial two wells.

Zipper frac

In a 'zipper-frac' performed on adjacent wells, the frac stages are completed on the two wells in a simultaneous operation with the stages completed in an alternating sequence along the lateral portion of the well.

Applying frac stages to two adjacent wells in this manner helps to promote constructive interference between the two wells in a phenomenon known as stress shadowing. This allows for more complete fracture coverage and a higher stimulated rock volume.

Where frac stages are applied to two wells consecutively, i.e. fracking the entire length of the first well before initiating fracking on the second well, then the frac stages deployed in the second well could negatively interfere with those on the first well resulting in reduced performance from one or other of the wells.

The development of unconventional oil and gas is vital for Argentina's economic future

Sir Michael Rake
Non-executive chairman

Dear shareholders,

2018 has been an important year in the development of Phoenix as a leading independent player in the Argentine unconventional oil and gas industry. Our company was formed in 2017 based around a significant portfolio of onshore unconventional exploration and appraisal assets in Argentina. Our focus this year has been on securing the foundations for the future growth and success of your company and on de-risking key assets.

On 23 April 2019, Anuj Sharma served a notice on the company, which the company is treating as a notice terminating his employment in accordance with his service agreement and resigning from his position as chief executive officer and a director of the company with immediate effect. Pending the recruitment of a new chief executive officer, Tim Harrington, a non-executive director of the company, will be appointed interim chairman of the executive committee, working closely with the chief financial officer and chief operating officer.

Mendoza province established a regulatory framework for unconventional oil and gas operations that is both environmentally responsible and provides a sensible economic framework for the province, federal government and operators alike. The industry now has a clear set of rules for both the permitting for and the execution of unconventional oil and gas projects in Mendoza.

Related to our licence portfolio, we formalised title to the important Mata Mora and Corralera concessions previously held under memoranda of understanding with Neuquén province. These assets, together with Puesto Rojas, represent the cornerstone assets for the future development of your company.

We have also taken the opportunity to selectively add additional acreage that is complementary to our unconventional portfolio in both the Mendoza and Neuquén province bid-rounds. Importantly, we have now secured all the individual concessions that comprise the Corralera block, acquiring Corralera Noroeste in early 2019.

In late 2018, we successfully divested several licences that we previously held in Colombia, further concentrating our focus on Argentina.

I believe the actions we have taken as a company in 2018 have been important to secure the foundations of the future growth of Phoenix.

The Argentine economy however had something of a turbulent year. In April, Argentina's financial markets came under sudden and significant pressure as several conditions negatively affecting the economy manifested themselves concurrently. In the agriculture sector, a severe drought resulted in lower crop yields and a consequent fall in export revenue. World energy prices increased through the year with the Brent crude benchmark opening the year at a US$65/barrel level and continuing to strengthen through 2018. The consistent increase in Brent pricing through much of the year placed further pressure on Argentina in its current position as a net importer of energy. In addition, financial markets tightened globally as the US Dollar appreciated in value following an upward shift in US interest rates.

The principal impact of these factors was to place significant downward pressure on the Argentine Peso and to increase market anxiety about the ability of the Macri administration to roll over short-term central bank paper. This also led to an increase in the sovereign risk premium.

As a result of this pressure on the Argentine economy, the government approached the International Monetary Fund in May 2018 to discuss potential support. In June 2018, a package of measures aimed at stabilising the economy was announced. The key feature of this package was the provision of a standby loan arrangement of US$50.0 billion that was subsequently upgraded to US$56.0 billion in October 2018.

The provision of the standby arrangement by the IMF underscores the positive progress made under the Macri administration in terms of market reform, continued deregulation, establishing the autonomy of the central bank and other economic measures that have been put in place since the election of the Cambiemos in 2015.

The economic plan for the country that underpins the provision of support by the IMF sees a consistent macroeconomic programme established that puts Argentina's public debt balance on a firm downward trajectory. It also strengthens the plan to reduce inflation by setting more realistic inflation targets and enforces the independence of the central bank. The initial plan put in place also sought to protect society's most vulnerable by maintaining social spending and providing for increases should the economy further deteriorate.

In support of the IMF plan, the government announced a zero-deficit budget for 2019 that was approved by congress in late 2018. The budget is aimed at achieving a primary balance of payments by 2020 where government income and expenditure is balanced before taking account of interest payments on historic debt.

The government has a clear objective of strengthening the credibility of monetary policy and controlling inflation. Whilst we saw some intervention in commodity prices during the year, these measures were short term in nature and focused on specific temporary economic issues. Maintaining the focus on free-market principles will be fundamental to the success or failure of the arrangements in place with the IMF. To date, the Argentine government has responded to market pressure in an open, transparent and consistent manner.

The upcoming national elections that are due to take place in October 2019 bring an element of uncertainty in the coming year, however the response from the administration to economic pressure, with some minor exceptions, has been consistent and has been prosecuted openly and with clarity. This provides Phoenix with the confidence to continue to invest in Argentina.

The coming year is set to be an exciting one for your company with significant evaluation and development projects continuing across our core assets at Puesto Rojas, Mata Mora and Corralera. I look forward to updating you on our progress as this exciting story unfolds during the year.

Sir Michael Rake
Non-executive chairman
2 May 2019

OUR INVESTMENT CASE

Phoenix seeks to secure a partnership with significant working interest on acreage that is prospective for Vaca Muerta and other unconventional opportunities

Phoenix acres under licence

>700,000

3 KEY ASSETS

Phoenix existing production

>10,000 BOEPD

5 PROSPECTIVE HORIZONS

MULTINATIONAL OPERATIONS

USA

US UNCONVENTIONAL TECHNOLOGY TRANSFER
Technical centre in Houston with subsurface, reservoir and drilling specialists

Management and technical staff have decades of unconventional experience of US shale development

Applying the latest shale and unconventional technology and expertise to crack the Vaca Muerta code more quickly

UK

LISTED PURE PLAY IN LONDON AND BUENOS AIRES
Focus on onshore Argentina unconventional development opportunities

Positioned for unconventional upside with significant acreage under licence

Listed on London Stock Exchange (AIM: PGR) and Buenos Aires Stock Exchange (BCBA: PGR)

ARGENTINA

IN-COUNTRY OPERATOR
Operational centre in Mendoza, administrative centre also dealing with government and partner affairs in Buenos Aires

Proven operator of both conventional and unconventional oil and gas projects

Strong relationships with government and partners

GLOBAL

FINANCIAL STRENGTH AND ACCESS TO CAPITAL
Strong financial backing and commitment to highest standards of governance

Ability to access to global equity from UK, US, Europe, Asia and Latin America

Ability to source local and international finance

Experienced international board of directors

Read more on page 58 to 60

Vaca Muerta/ US comparison

CHARACTERISTICS	VACA MUERTA	EAGLE FORD
	Oil and liquid rich gas	**Oil and liquid rich gas**
Area (million acres)	7.5	3.00
Total organic content (%)	3-10	3-5
Thickness of shale horizon (ft)	~1,000	~250
Reservoir pressure (Kpsi)	4.5-9.5	7.0-12.0

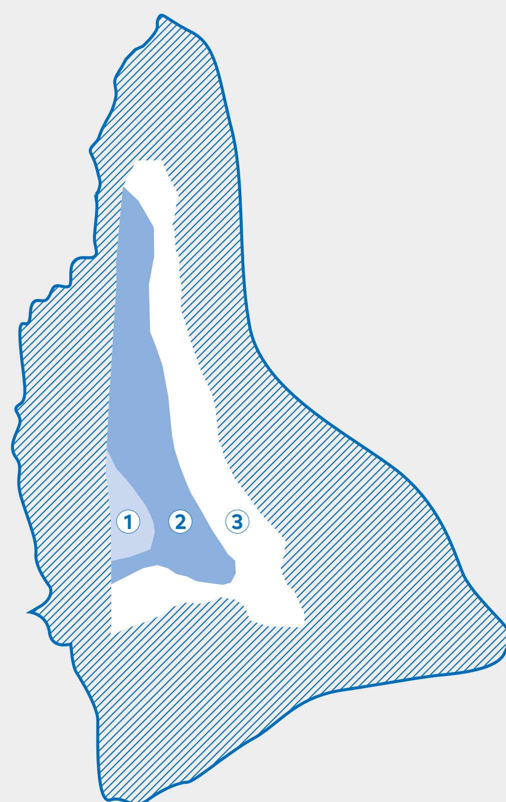
Early stage opportunities available:

> The seven most advanced plays cover only 8% of total acreage

7.5 million acres

3 distinct thermal maturity windows

Close comparison to Eagle Ford in Texas



Source: US EIA

Argentina

Continuing programme of market deregulation

- > Currency
- > Commodity
- > Capital markets

Chair of successful 2018 G20 summit

Oil & Gas and Agriculture

sectors provide foundation for economic recovery and solving balance of trade

STAND BY LOAN ARRANGEMENT IN PLACE WITH IMF

US$56 billion

Long history in conventional oil and gas, established industry and workforce

Autonomy of central bank reinforced, active programme for managing Peso/ USD exchange rate

CUYANA BASIN

Gross km²	528
Phoenix WI acres	83,687
Operated WI acres	70,964
2P reserves	6,303
Net WI production (boepd) 2017	2,136
Net WI production (boepd) 2018	1,819

NEUQUINA BASIN

Gross km²	8,572
Phoenix WI acres	869,470
Operated WI acres	603,660
2P reserves	34,723
Net WI production (boepd) 2017	5,062
Net WI production (boepd) 2018	4,471

ARGENTINA

GOLFO SAN JORGE BASIN

AUSTRAL BASIN

Gross km²	5,625
Phoenix WI acres	529,718
Operated WI acres	–
2P reserves	16,055
Net WI production (boepd) 2017	3,898
Net WI production (boepd) 2018	3,960

We are applying technology to de-risk our world class resource base and move towards development

De-risking and consolidating Phoenix's asset position

The primary focus for Phoenix in 2018 has been on de-risking and consolidating our unconventional asset and licence positions in Argentina. De-risking is important in terms of geology, subsurface understanding and reserves but also in terms of title and operatorship, and in relation to the regulatory environment in which we operate.

We have consolidated our operated activity in 2018 around our three key prospective licence areas of Puesto Rojas, Mata Mora and Corralera. In addition, we have successfully participated in bid-rounds with the objective of acquiring acreage that is complementary to our unconventional portfolio in Argentina.

Unconventional regulation and permitting in Mendoza province

In the first half of the year, we consulted with Mendoza Province and its advisors as they finalised regulations for unconventional oil and gas activity in the province. While regulations for oil and gas activity had been in place in the province for some time, those regulations did not specifically address the nuances of unconventional activity.

It is important for the Province and for Phoenix that unconventional activity is undertaken economically and in a manner that is both safe and environmentally

responsible. The unconventional regulations that were formally issued in March 2018 provide a clear framework for unconventional operations in Mendoza province. A process for obtaining unconventional permits for individual projects has also been established and was followed by Phoenix to obtain the necessary unconventional permits for activity undertaken at Puesto Rojas in the second half of the year.

Securing Mata Mora and Corralera with increased participation

In April 2018, the company successfully renegotiated its interests on both the Mata Mora and Corralera blocks that were previously held under a memorandum of understanding with GyP, the province-owned oil and gas company. Phoenix's interest in the blocks was increased from 27% to 90% and the company was awarded operatorship of the area.

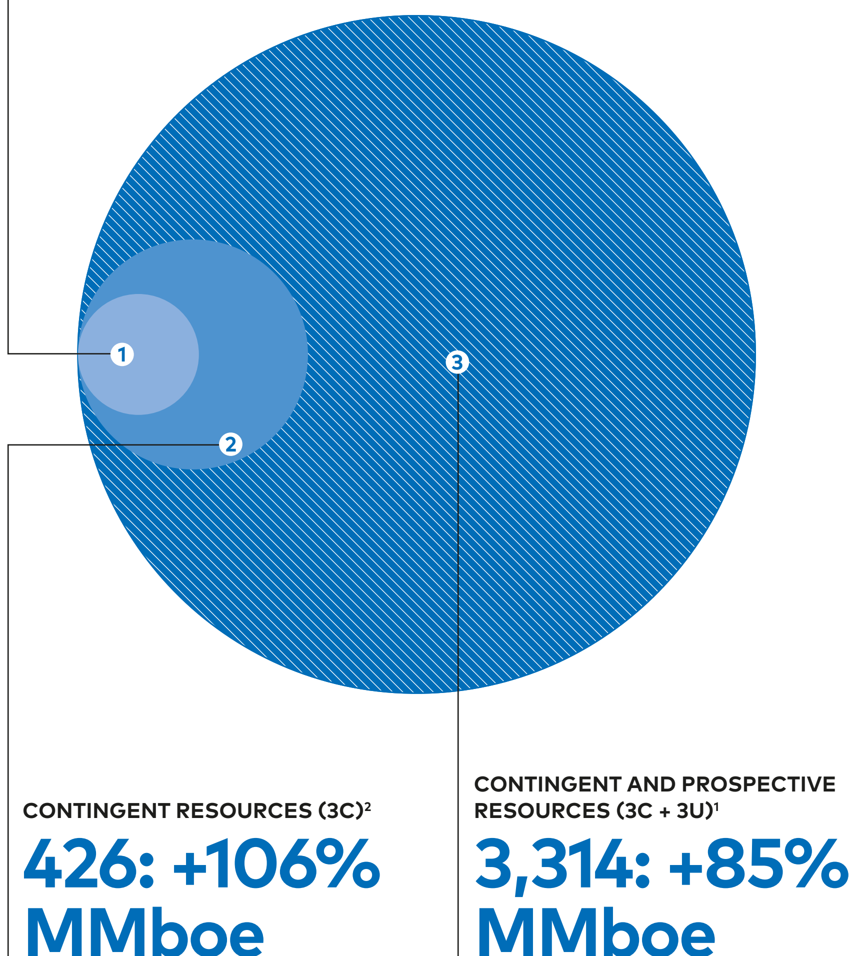
Mata Mora is a particularly important block for the company given it directly neighbours the Sierras Blancas block that is operated by Shell. Sierras Blancas is one of the most prolific blocks currently producing from the Vaca Muerta formation. The proximity to other producing areas can give more options related to access to and development of offtake and transport infrastructure.

In February 2019, the company was awarded the Corralera Noroeste licence. This is the third of three licences comprising the Corralera block. The award unifies all of Corralera under Phoenix operatorship with a 90% working interest.

PHOENIX'S GROWTH POTENTIAL

2P RESERVES[1]

57.1 MMboe



CONTINGENT RESOURCES (3C)[2]

426: +106% MMboe

CONTINGENT AND PROSPECTIVE RESOURCES (3C + 3U)[1]

3,314: +85% MMboe

1 Source: Gaffney, Cline & Associates reserves statement as of 31 December 2018
2 Source: Various reports compiled by Gaffney, Cline and Associates, W.D. Von Gonten & Co., Netherland Sewell & Associates, ASR and OPG

SUMMARY OF RESERVES BY BASIN

		31 December 2017			Production			Revision to estimate			31 December 2018		
		Oil Mbbl	Gas MMscf	Total Mboe	Oil Mbbl	Gas* MMscf	Total Mboe	Oil Mbbl	Gas MMscf	Total Mboe	Oil Mbbl	Gas MMscf	Total Mboe
Neuquina	1P	18,043	2,492	18,458	(1,489)	(856)	(1,632)	3,998	7,096	5,181	**20,552**	**8,732**	**22,007**
	2P	28,831	10,224	30,535	(1,489)	(856)	(1,632)	4,367	8,716	5,820	**31,709**	**18,084**	**34,723**
	3P	36,416	13,815	38,719	(1,489)	(856)	(1,632)	6,346	10,149	8,037	**41,273**	**23,108**	**45,124**
Austral	1P	3,040	72,223	15,077	(388)	(6,347)	(1,446)	(861)	(39,973)	(7,523)	**1,791**	**25,903**	**6,108**
	2P	4,272	98,512	20,691	(388)	(6,347)	(1,446)	(49)	(18,844)	(3,190)	**3,835**	**73,321**	**16,055**
	3P	4,640	106,568	22,401	(388)	(6,347)	(1,446)	(242)	(24,757)	(4,368)	**4,010**	**75,464**	**16,587**
Cuyana	1P	5,602	–	5,602	(648)	(92)	(664)	1,137	–	1,153	**6,091**	**–**	**6,091**
	2P	6,000	–	6,000	(648)	(92)	(664)	951	–	967	**6,303**	**–**	**6,303**
	3P	6,287	–	6,287	(648)	(92)	(664)	795	–	811	**6,434**	**–**	**6,434**

Source: Gaffney, Cline & Associates reserves statement as of 31 December 2018 and 2017
*Gas: all produced gas at Cuyana is used in operations, hence no reserve volumes are attributed to gas in the basin
Figures may not add due to rounding

Puesto Rojas unconventional completions campaign

Following the issuance of the unconventional regulations and establishment of the associated permitting process, the company undertook an eight-well unconventional completions campaign in the Puesto Rojas area. The objective of the campaign was to continue the evaluation work already undertaken at Puesto Rojas and to de-risk the area in respect of technical feasibility and in terms of reserves potential.

Of the eight wells that were completed, four were new wells drilled specifically for evaluation of the unconventional potential and four were from previous campaigns where limited tests of specific stages were undertaken. All the wells are currently on test and producing.

As a result of the work performed at Puesto Rojas, three prospective unconventional opportunities have been identified in this important stacked play. These opportunities are in the Vaca Muerta, where the company found initial success, and in both the folded and the tight Agrio formations. There is also longer-term potential in the organic Chachao formation.

The delineation of these individual significant opportunities plays an important part in de-risking the Puesto Rojas area for development. This work has identified the folded Agrio as the primary near-term unconventional development prospect at Puesto Rojas with the other formations subject to further testing and appraisal before moving to development.

First horizontal well at Mata Mora

The company's first unconventional horizontal well, MMx-1001, was spudded at Mata Mora in September 2018, with drilling of the lateral section concluded in January 2019. The well had a measured depth of 5,259 metres with the lateral section drilled to a total length of 1,969 metres. The lateral section was successfully held within a 7-metre window in the Vaca Muerta across 99.3% of the total length of the well.

The second horizontal well at Mata Mora was spudded in late January 2019 and drilling of the vertical section completed at a total depth of approximately 2,400 metres at the end of February. Drilling of the lateral portion of the well concluded in late March 2019. The well is now awaiting completion together with MMx-1001.

Both wells will be completed in a simultaneous hydraulic fracture operation. Whilst we await the results from the completion of the two wells, the success of the drilling operation is positive for our future operations at Mata Mara, substantially de-risking the drilling process for horizontal wells in the block.

Reserves progression

Reserves volumes remained consistent year-on-year with production almost entirely offset by revisions to estimates on key assets, particularly at Puesto Rojas reflecting the work done there in the year. The reserves replacement ratio achieved was 96.2%, a significant increase on the prior year.

High case contingent resources more than doubled in the year to 426 million barrels of oil equivalent. Substantially all contingent resource gains relate to the Corralera Noreste and Sur concessions and result from both a structured analysis of data in 2018 and the increase in the working interest participation from 27% to 90%. These gains exclude Corralera Noroeste that was awarded in early 2019. High case prospective and contingent resources taken as a whole increased similarly posting gains of 85% over the figure reported in 2017.

Focused evaluation and development plan

The work done in 2018 in de-risking and consolidating the company's interests has focused the evaluation and development plan around three key assets and five specific opportunities within those assets. The Puesto Rojas folded Agrio play is now considered sufficiently de-risked to move to development and represents a lower risk, less capital-intensive project with promising economics, and relatively high initial production.

The results from the completion of the two Mata Mora wells will be used to determine the development decision for that block during 2019.

Our team has worked hard to progress our assets and move our company forward in 2018. Our success through this evaluation stage will be measured in the results of the evaluation work performed on the blocks that should result in the net migration of reserves and an increase in resources.

We have built our acreage position both in terms of new blocks and, importantly, by increasing our working interest on the key Mata Mora and Corralera concessions. We have de-risked acreage through technical evaluation and through drilling to define a succinct population of potentially lucrative development opportunities. We have secured key acreage and have divested non-core Colombian assets to focus on Argentina unconventional development.

Our thanks go to our team for their continued dedication and hard work. We look forward to the challenge of developing our exploration and development opportunities into world class production assets.

Kevin Dennehy
Chief financial officer

Javier Vallesi
Chief operating officer
2 May 2019

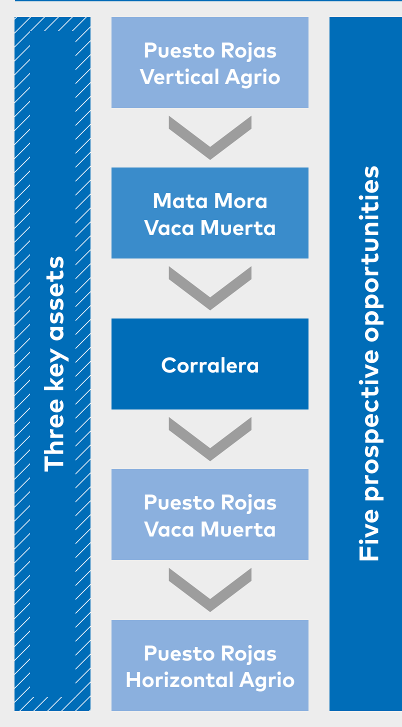
PLANNED CAPITAL EXPENDITURE FOR 2019

$100.0m+

FOCUSED ON UNCONVENTIONAL APPRAISAL AND EVOLUTION

c.70%

OUR DEVELOPMENT PORTFOLIO



Our overriding objective is to build value over the medium to long term, focusing our efforts on the following priority areas:

Proving up and de-risking our extensive unconventional acreage.

Phoenix is one of the largest independent holders of acreage with unconventional potential in Argentina. The company's initial focus is on appraising, de-risking this large unconventional asset base. We plan to progressively move our assets towards development phase as we appraise and de-risk, working across our substantial asset portfolio.

Building our organisation to prepare for large-scale development of our unconventional resources.

We will continue to strengthen our organisation, adding expertise through specific appointments and developing our people through training programmes, as we prepare for the large-scale development of our unconventional resources. Bringing the right expertise from the US independents' shale experience remains key to the efficient development of Argentina's vast unconventional resources. Phoenix will continue to access that experience through our Houston technical centre.

Opportunistic inorganic growth through farm-ins, joint ventures, partnerships and portfolio rationalisation.

While Phoenix holds a large portfolio of both unconventional and conventional assets and is well set for long-term organic growth, the group remains open to working with others to develop our own portfolio or to add new prospects to our portfolio. This may be through acquisition, farm-in/out opportunities, joint ventures or partnerships in the Neuquina basin and other attractive basins throughout Argentina. We will focus on opportunities where we can realise attractive synergies, share know-how, or where such arrangements have clear strategic and operational alignment with other operators.

MARKET

Oil prices

LINK TO STRATEGY

Control and consolidate

Explore and develop

Profitable production

MARKET ISSUES

The energy commodity markets in Argentina were previously subject to government regulation. The current administration has a stated objective to move towards market-based pricing and to substantially reduce or eliminate market intervention.

In October 2017, the Argentina government removed regulation of the domestic crude price with the objective of moving to a Brent-minus basis for pricing. Pricing is on a Brent-minus basis due to location and quality differentials versus the Brent benchmark.

YPF, the Argentina state-owned oil and gas company, sets prices for domestic crude deliveries monthly by reference to the Brent crude benchmark price. The pricing mechanism uses the arithmetical of the average quoted Brent price for the fifteen days immediately prior to the pricing month and the first fifteen days within the pricing month.

Brent pricing was soft in 2017, fluctuating within the US$45/bbl to US$55/bbl range. Prices remained volatile within this band through much of the year with little support for a sustained run or rally in prices. Towards the end of 2017, pricing began to firm up with consensus support building for prices around the US$65/bbl level going into 2018.

In Q2 2018, crude prices started to trend upward, breaching US$70/bbl in early April 2018 and going on to exceed US$85/bbl in September 2018.

This upward pressure on crude prices that started in April 2018 began to translate into higher prices for oil products at the refinery gate, further exacerbated by the devaluation of the Peso. In response to rising prices for transport fuel and lubricants, the government introduced capped prices for crude for the months of May, June and July in 2018.

Gas prices

LINK TO STRATEGY

Control and consolidate

Explore and develop

Profitable production

Despite being the largest dry gas producer in South America and having the world's second-largest shale gas resource Argentina is a net importer of natural gas.

The country relies on imports of gas from Bolivia together with LNG cargoes from the international market.

Argentina has almost no coal reserves and relies heavily on gas to generate power for domestic and industrial use. The import price for gas remains high, with both pipeline imports from Bolivia and LNG landed cargoes priced higher per MMbtu than the price charged to the end user.

Although the Macri administration has sought to reduce subsidies, particularly on domestic gas, this differential between import prices and the domestic market price negatively impacts the country's balance of trade.

Several incentive schemes have previously been in place under which a producer could receive a higher price for gas sold in certain circumstances.

These schemes were focused primarily on conventional gas production and had been established in order to encourage domestic production and reduce the reliance on imported gas.

By the end of 2018, substantially all the incentive schemes have been withdrawn. The schemes had become increasingly expensive, with the cost of providing incentive almost outweighing the benefit gained from not importing gas.

The 2017 Article 46 incentive programme that incentivised the development of the Vaca Muerta shale gas resource has also been withdrawn, with only one independent producer accepted to the scheme before it was terminated.

OUR RESPONSE

Whilst easing inflationary pressure on the end consumer, capped pricing limits exposure to upside gains for producers. Reactive intervention by the government also impacts on the ability of producers to effectively plan and budget, and prevents the effective hedging of production and sales.

In September 2018, a 10% export duty was established for all exports from Argentina. The duty applies to crude oil and was introduced by the federal government as part of a package of measures to support a zero fiscal-deficit budget for 2019. The zero deficit budget was one of the conditions agreed with the IMF as part of the US$56.0 billion standby loan package. Refer also to currency and inflation section.

The company's exploration and evaluation activity is capital intensive. The Brent crude price had strengthened in the latter part of 2017 and into 2018 however the forward curve in January was showing flat or downward trending prices for 2018. Given that forward pricing continued to look uncertain and, as the Argentina domestic price was now based on a Brent-minus benchmark, the board considered it appropriate to hedge a modest portion of the company's production in order to support part of the planned capital expenditure programme.

The capped pricing introduced for May, June and July of 2018 broke the relationship between the Argentina domestic crude price and Brent, rendering the hedge ineffective. As Brent prices increased above US$65.97/bbl, the value of the hedge payments made on the instrument were not compensated by corresponding gains in the domestic price in Argentina, resulting in a net cash loss on the hedge instrument.

While the company has a policy to fix prices when it is commercial to do so and hedge relationships can be shown to be effective, it is not expected that further hedges will be entered in the near term. The monthly pricing mechanism in Argentina together with the introduction of export duties complicates the relationship between domestic prices and Brent, reducing the company's ability to enter into an effective hedge.

The company will continue to monitor domestic pricing and the relationship to the Brent crude benchmark.

Phoenix remains a price-taker for gas and does not seek to hedge production. The majority of Phoenix's current gas production is derived from conventional assets in the Santa Cruz Sur and Tierra del Fuego areas.

The company's objective for gas production in the long term is to develop the unconventional gas resources within the asset portfolio where it is commercially viable to do so.

We will continue to work with our partner, ROCH S.A., to maximise Santa Cruz and Tierra del Fuego production. The company will participate in gas incentive arrangements where possible.

Our operated oil production activity results in associated gas that is produced alongside oil, albeit in smaller quantities. Where volumes of associated gas are commercial and the cost of getting gas into the transmission system is not prohibitive, we seek to sell the gas into the grid.

Where the volume of associated gas produced is not commercial for market sale, we seek to use the gas as fuel for infield power generation, reducing the use of purchased diesel.

MARKET

Currency and inflation

LINK TO STRATEGY

Profitable production

Realise value

MARKET ISSUES

The Argentine Peso has historically been volatile and has suffered from extended periods of devaluation.

2018 was a particularly turbulent year for the Argentine economy with the Peso devaluing by more than 100% against the US Dollar, annual cost inflation of more than 40% and a central bank lending rate higher than 60%.

The catalyst for the devaluation of the Peso was the move by the US Federal Reserve to increase US interest rates. This caused capital to move away from emerging markets, putting pressure on the domestic currencies of those markets with a consequential impact on cost inflation. The increase in cost inflation caused central banks to intervene by raising lending rates to support currencies.

The Argentine Peso and Turkish Lira performed particularly poorly in 2018, largely due to high levels of historic US Dollar denominated debt held by both countries.

Notwithstanding, the economic crisis in 2018 was primarily a currency crisis and did not translate to a debt or sovereign crisis as has happened in the past. Arguably, the Peso was overvalued going into the crisis with its value now being a more reasonable reflection of its underlying fair value.

Competition for skills and services

LINK TO STRATEGY

Explore and develop

Realise value

The unconventional oil and gas industry in Argentina has seen a significant increase in investment, both domestically and by international oil and gas companies, over the last several years. Exploration and development activity related to the Vaca Muerta and other unconventional resources in Argentina has increased concurrently over the same period.

The technical and physical resources to prosecute unconventional drilling and completions campaigns in-country is limited, this has resulted in competition for services and potential delays to activity as operators wait for the right resources to become available.

OUR RESPONSE

In 2018, the Argentine government secured a US$50.0 billion standby loan package from the IMF that was increased to US$56.0 million following the currency crisis. Certain commitments have been made by the administration in order to secure the support of the IMF. Primary amongst these are a commitment to a zero fiscal-deficit budget for 2018 and a pledge to manage the value of the Peso within a refined band of exchange rates, currently between 38 and 44 Pesos to the US Dollar.

The oil and gas industry in Argentina benefits from a degree of natural hedge protection from currency risk as sales contracts for oil are denominated in US Dollars by reference to the Brent benchmark price.

Oilfield service contracts, for example those related to drilling and completion, are also predominantly denominated in US Dollars.

Whilst priced by reference to the US Dollar, contracts for oil sales and oilfield services are settled in Peso. The company currently generates enough Pesos from the US Dollar denominated sales contracts to allow it to settle all of its operating costs and a portion of its exploration and evaluation costs using Pesos generated from operations.

Cost inflation affects the company in relation to salaries and wages that are denominated in Pesos. Peso salaries are adjusted for inflation periodically before performance or other increases. In addition, contracts for parts, materials, services or property sourced domestically will increase year-on-year due to inflation.

There are a limited number of drilling rigs in Argentina capable of drilling the long lateral horizontal wells that are required for evaluation and, ultimately, development and large-scale production of unconventional oil and gas. In addition, the number of unconventional completion crews with international experience is limited and their availability is driven by demand.

The company seeks to form relationships with trusted service providers and individual crews. Contracts for drilling and completion services are put in place in advance with campaigns scheduled to maximise operational efficiencies and crew and equipment mobilisation and demobilisation synergies where possible.

OUR BUSINESS MODEL

Unconventional technology and expertise unlock the value of our assets

INPUTS

1

OUR VALUE ENABLERS

Technology
We use the latest international technology to appraise and develop our assets. Our Houston technical office puts us in the engine room of the US shale industry, alongside the best and most knowledgeable shale industry expertise.

People
Our technical and operational teams combine deep knowledge of the Argentina oil and gas industry with unconventional specialism and the cutting edge industry expertise from the US.

Financial capital
We benefit from strong financial backing from a supportive major shareholder and have a history of securing financing in Argentina. Our dual listing in London and Buenos Aires gives us access to domestic and international equity markets.

2

THE RIGHT ASSETS

Identify assets
We seek to secure operatorship on the assets that we participate in. We acquire acreage positions that are contiguous with our existing licence areas and have unconventional potential or acreage positions that are proximate to or on trend with our existing unconventional producing areas.

Supported by a robust governance framework

OUTPUTS

6

OUTPUTS AND OUTCOMES

Reinvestment
Reinvesting cash from operations into our assets in the medium term to achieve financing self-sufficiency.

Other stakeholders
As our operations grow we expect to recruit more people and create jobs in our key operating locations. A greater level of activity will provide opportunities to new and existing employees alike.

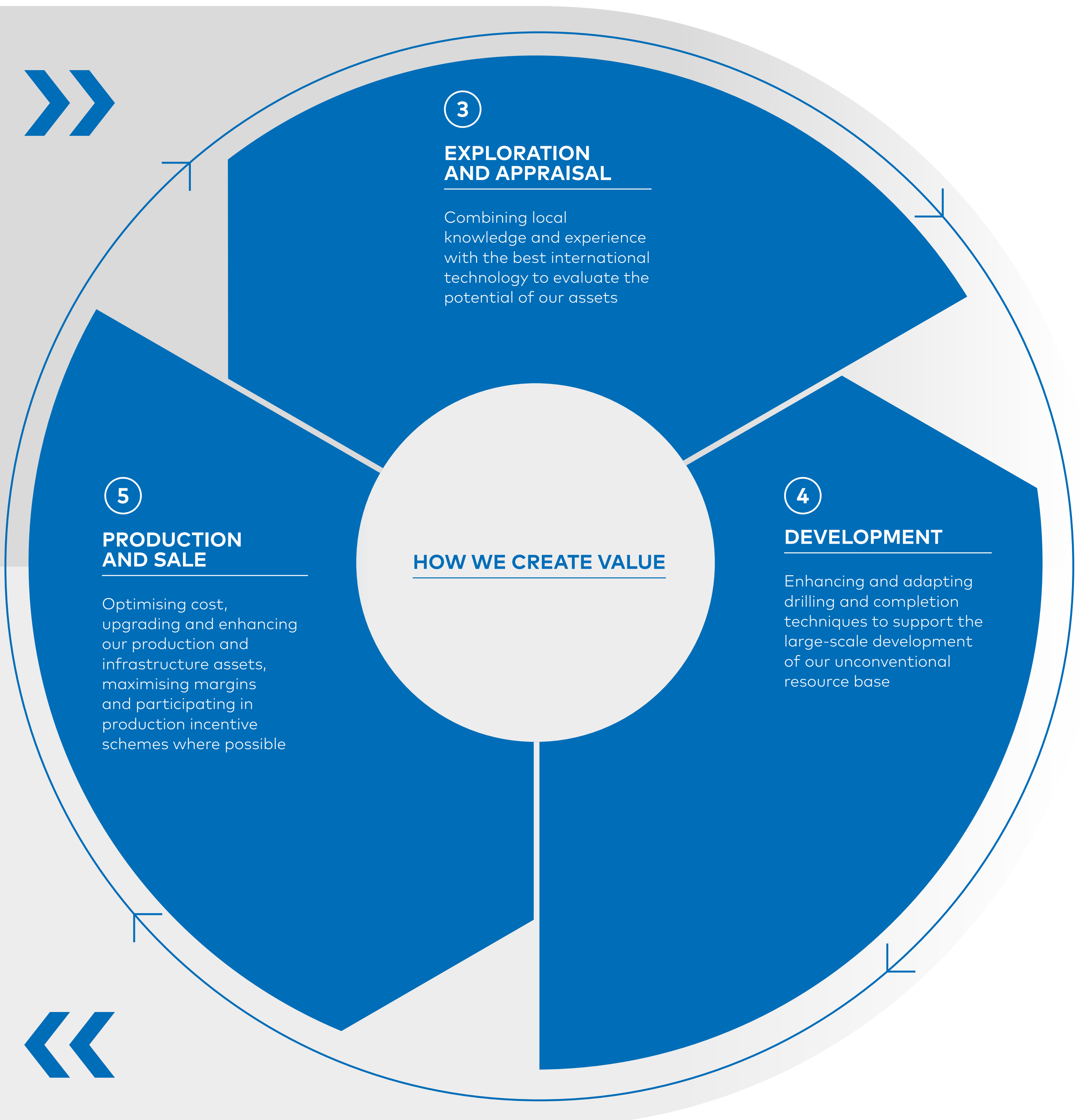
As our production increases and, with it, our profitability then our contribution to taxes at the provincial and at the federal level will likely increase.

Returns to shareholders
Our ultimate objective is to build a sustainable portfolio of unconventional production assets that delivers capital for shareholder return.

Our business

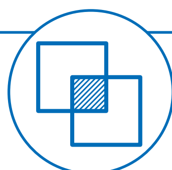
Phoenix is working in one of the most prospective unconventional oil and gas basins globally. The level of investment in Vaca Muerta and other unconventional opportunities in Argentina is substantial and is growing.

We are proud to be playing our part in the energy future of Argentina and to be creating value for our stakeholders.



Strategy and capital allocation

OUR STRATEGIC OBJECTIVES



Control and consolidate

Phoenix holds significant licence acreage in Argentina. Our focus is to secure operatorship and consolidate our ownership position of that acreage. We will seek to strategically add additional acres with exposure to unconventional resources, including the Vaca Muerta.

HOW WE DO THIS AND WHAT WE HAVE DONE

In April 2018, the group participated in the Neuquén province licensing round and secured four additional operated blocks. Phoenix also reached agreement with GyP, the Neuquén province-owned oil and gas company and our partner in the Corralera and Mata Mora concessions, to increase our participation in these blocks from 27% to 90% and to assume operatorship.

In January 2019, GyP confirmed the award of the Corralera Noroeste licence to the company at a 90% participation level with GyP holding the remaining 10% non-operated interest. The acquisition of Corralera Noroeste unifies all three licences comprising this significant block under the company's operatorship.

In November 2018, the company divested its 70% operated interest in eight onshore licences in Colombia. The licences carried potentially significant licence commitments. The divestiture allows the company to focus on its core objective of developing the Vaca Muerta shale and other unconventional resources in Argentina.

MEASURING OUR PROGRESS

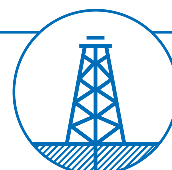
> Total Vaca Muerta and other unconventional acreage
> Percentage of acreage operated by Phoenix

LINK TO KPIs

2 6

POTENTIAL RISKS

> Competition for acreage (especially Vaca Muerta and other unconventional acreage)
> May not be possible to obtain operatorship
> Ability to fulfil licence commitments



Explore and develop

Our exploration and development activity is focused on appraising and evaluating the group's unconventional acreage. We apply the latest US shale technologies on our Argentina assets to define a consistent, repeatable drilling and completion solution for our unconventional resources.

HOW WE DO THIS AND WHAT WE HAVE DONE

We focus our exploration and evaluation work where we have significant contiguous acreage positions, such as the Puesto Rojas area. Activity is also focused where our acreage is proximate to areas where others have found success – such as at both Mata Mora and Corralera, which sit close to a number of successful Vaca Muerta producing licences, including Sierras Blancas and Loma Campana.

We have continued the unconventional completions campaign on our Puesto Rojas and neighbouring concessions in relation to the well stock that we drilled in 2017.

In 2018, we successfully completed eight unconventional wells designed to evaluate multiple horizons and targets in the Puesto Rojas area. In 2019, we completed the drilling of the company's first horizontal wells that are located at the Mata Mora concession.

MEASURING OUR PROGRESS

> Absolute reserve and resources volumes
> Year-on-year reserves growth
> Migration of resource and reserve categories

LINK TO KPIs

1 2 6

POTENTIAL RISKS

> Exploration and development risk
> The timely availability of capital to fund operations
> Availability of experienced service crews
> Competition for services and related costs

Profitable production

Phoenix has existing economic production from our conventional oil assets in the Neuquina and Cuyana basins and our gas assets in the Austral basin. Our conventional production objectives will be balanced with high growth unconventional development objectives.

We continue to exploit and develop our high margin conventional assets, providing us with a conventional production base and cash from operations, as we evaluate unconventional opportunities for development.

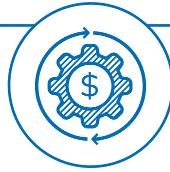
In 2017, the group had net production of 11,070 boepd – sourced principally from conventional assets. This production fell by 7% to 10,249 boepd in 2018 as natural decline continued on conventional assets which has not yet been offset by unconventional production. In addition, certain wells were taken offline while unconventional operations were undertaken nearby.

We continued to perform workovers on existing conventional wells and drilled a number of in-fill wells targeting high margin areas, notably at Chachahuen.

Our unconventional activity will continue to be accretive to production as we complete new appraisal wells.

- Year-on-year production volumes
- Opex per boe produced

- Formation integrity and ability to achieve design type-curve
- Commodity prices and volatility
- Impact of inflation and foreign exchange risk



Realise value

Realising value for all of our shareholders is fundamental to what we do. Demonstrating the commerciality of our assets and bringing forward production through accelerating asset development is key to creating value.

In February 2018, the group announced the restructuring of its financing arrangements with the Mercuria Group that underpinned the appraisal activity and business development work in 2018. The facility was extended through a Tranche B element initially put in place for US$25.0 million in December 2018, further extended to US$75.0 million in early 2019.

The disposal of certain of our non-core Colombian licences in November 2018 avoids the need to fulfil potentially significant licence commitments and preserves shareholder value.

Through enhanced data analysis and technical study, we have increased the reported resources at Corralera from a previous high case of 1,087 MMboe of prospective resources assessed for Corralera as a whole to 244 MMboe of contingent and 1,578 MMboe of prospective resources for Corralera Sur and Noreste only. Adding volumes through better analysis and skilled personnel is core to our business model and delivers value for shareholders.

- EBITDAX
- Total shareholder return

- Fiscal risk
- Financing risk
- Final decommissioning costs and obligations
- Ability to optimise the asset portfolio through acquisition, divestment, licencing rounds and farm-in/out

OUR KPIS

For performance measurement and management remuneration.

We measure our performance and management remuneration is influenced by the following key performance indicators (KPIs).

1. Number of reportable HSE incidents
2. Year-on-year growth of reserves and resources by category
3. Operating cost per boe
4. Production volume increase/decrease
5. EBITDAX – earnings before interest, taxation, depreciation, amortisation and exploration expense
6. Personal/group project delivery and milestone targets

Read more on pages 26 and 27

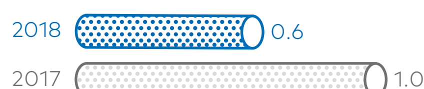
KEY PERFORMANCE INDICATORS

Measuring progress across our business

KPIs are used to measure the performance of the company. The performance measures used to assess performance may change over time as the company's activities develop.

1 LOST-TIME INCIDENT RATE (LTIR)

0.6



Definition

The company measures its safety performance under the Incident Statistics Program issued by the International Association of Drilling Contractors (IADC) that was last updated in 2014.

The measure that the company uses is lost-time incident rate (LTIR) that is defined by the IADC as:

$$\frac{\text{Number of LTI's * 200,000}}{\text{total hours worked}}$$

The company calculates total hours worked, including contractor hours, on a monthly basis. Lost-time incidents are reported by line managers or supervisors to the HSE manager and are documented.

Comment

The LTIR fell from 1.0 in 2017 to 0.6 in 2018, demonstrating improved safety performance year-on-year.

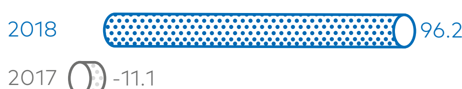
The improvement in safety performance is notable given the level of physical activity at the field level during the year, including undertaking the seismic survey over La Brea and southern Puesto Rojas, the unconventional completions campaign at Puesto Rojas and drilling activity at Mata Mora.

Read more on pages 51–53

2 YEAR-ON-YEAR GROWTH IN RESERVES AND RESOURCES

96.2%

RESERVE REPLACEMENT RATIO



Definition

The year-on-year growth in reserves and resources is calculated by reference to reserves statements issued by independent reservoir engineers. The company currently commissions reserve statements annually. In-house engineers also maintain the company's own estimates of reserve volumes.

There are several measures that can be used to assess reserve performance. One measure is to monitor the migration of resources through risked categories into reserves. This demonstrates the physical de-risking of properties as volumes move progressively from technical volumetric resource categories into reserve categories with defined probability of economic production.

Another commonly used measure is the reserve replacement ratio that calculates how much of the previous year's production has been replaced by new reserves and looks to the sustainability of production.

Comment

Phoenix is in the evaluation stage on much of its unconventional portfolio and is now starting to de-risk acreage. This includes at Corralera where mid-case contingent resources of 126 MMboe have been booked (the first contingent resources booked on the concession).

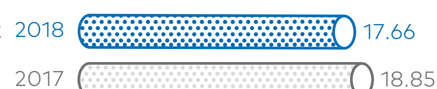
Notwithstanding, the company is in the early stages of de-risking its unconventional acreage and so has measured reserve performance in 2018 by reference to the reserve replacement ratio. The 96.2% replacement ratio demonstrates that substantially all the 2018 production has been replaced by new reserve additions.

Read more on pages 14–16

3 OPERATING COST PER BOE (US$)

-5.8%

(excludes depreciation)



Definition

Operating cost per boe is a measure of production efficiency and is calculated by dividing total cash production costs by the volume of boe produced.

Operating costs include both fixed and variable elements, so as production increases, the fixed costs are spread over a larger volume base therefore resulting in a lower unit cost.

In addition, process efficiencies, new technologies and optimisation of production infrastructure can also result in cost savings on a per boe produced basis.

Comment

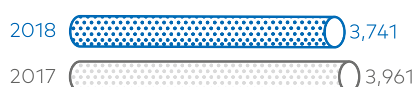
Our target is to maintain or reduce production costs per boe. There will be instances however where production costs per boe can rise for legitimate reasons. These may include where costs are semi-fixed in nature or in mature areas where the per-unit costs increase as production suffers natural decline and additional workover and other intervention activity is required.

In 2018, the operating cost per boe fell by 5.8% despite aging assets in both Cuyana and Austral basins.

Read more on pages 38–41

4 PRODUCTION VOLUMES (MMboe)

-7.9%



Definition

Production performance is measured by reference to the absolute and percentage increase/decrease in boe production year-on-year.

Comment

The company generates its revenue and hence cash from operations from sales of oil and gas production volumes.

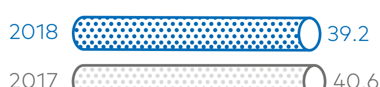
Production growth over time is fundamental to the financial performance of the group and shareholder return.

Production was lower in 2018 compared with 2017 on both a gross production basis and a boepd basis. This was largely due to the production decline as a result of natural decline not being offset by new production as a result of the delays experienced in the unconventional completions campaign at Puesto Rojas and the focus on appraisal projects in the year.

Read more on pages 28–37

5 EBITDAX (US$M)

-3.4%



Definition

EBITDAX is defined as earnings before interest, taxation, depreciation, amortisation and exploration expense. EBITDAX is used as a proxy for cash generated from operations in measuring performance.

EBITDAX is like the EBITDA measure used in non-oil and gas businesses but takes account of exploration cost that is often high value and can also be treated differently between companies. Removing the exploration cost looks to the cash generating capability of the underlying operations.

Comment

The generation of cash from operations supports the company's debt capacity for development, provides funds for re-investment and, ultimately, shareholder return.

EBITDAX performance was largely flat year-on-year with US$39.2 million generated in 2018 compared with US$40.6 million in 2017.

Read more on pages 38–41

6 PERSONAL AND COLLECTIVE PERFORMANCE TARGETS

Measured based on individual performance.

Definition

Personal and collective performance targets are set for employees and groups by line managers. These performance targets are often qualitative in nature and focused on performance individually and collectively and in relation to systems, processes and operations.

Comment

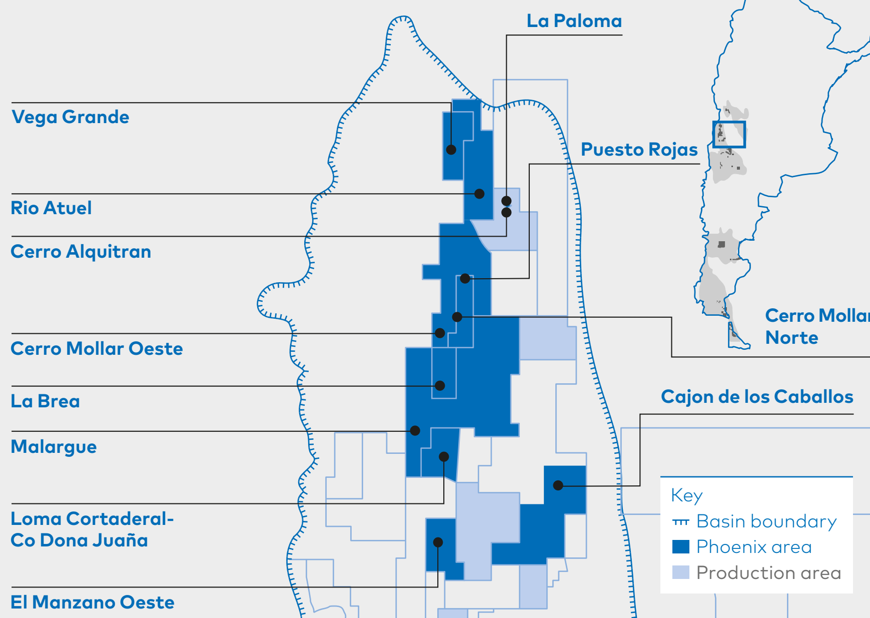
Key aspects of personal performance targets in 2018 included the permitting of unconventional projects in Mendoza province, the execution of the completions campaign at Puesto Rojas and the drilling of the first horizontal well at Mata Mora. Administrative targets related to the enhancement of systems and the improvement of the control environment and IT infrastructure for the group.

Appraisal focused on the key Puesto Rojas and Mata Mora concessions in preparation for development

Javier Vallesi
Chief operating officer

NEUQUINA BASIN

Gross km²	8,572
Phoenix WI acres	869,470
Operated WI acres	603,660
2P reserves	34,723
Net WI production (boepd) 2017	5,062
Net WI production (boepd) 2018	4,471



Production

Average daily production from the Neuquina basin was 591 boepd or 11.7% lower in 2018 compared with 2017. The overall decline in average daily production was primarily due to losses at Puesto Rojas of 743 boepd offset by gains at Chachahuen of 343 boepd. The losses at Puesto Rojas were due to a combination of natural decline from conventional wells together with the impact of downtime as production wells were taken offline while hydraulic fracturing operations were carried out nearby as part of the eight-well unconventional completions campaign undertaken in H2 2018.

Business development activity

In April 2018, the company entered three joint venture agreements with GyP, the Neuquén province oil and gas company, related to Corralera and Mata Mora. These agreements formalised the participation of the company in the Mata Mora, Corralera Sur and Corralera Noreste licences that were previously held under memoranda of understanding. In addition to formalising the arrangements, the company's working interest was increased from 27% to 90% with Phoenix as operator. Agreement was also reached with Integra Oil & Gas S.A. related to the relinquishment of its non-participating interest in the licences.

The company also submitted bids on four additional blocks as part of the Q1 2018 Neuquén province bid round. These bids were successful and licences for La Tropilla I, Aguada de Castro I & II and Santo Domingo I were awarded in April 2018. La Tropilla is proximate to unconventional activity being undertaken by Vista and Equinor on offset blocks. The Aguada de Castro and Santo Domingo licences represent a closely grouped series of licences with unconventional exposure. Commitments associated with these licences are modest and mainly comprise seismic reprocessing and other geological and geophysical work on the completion of which the results will be assessed and, pending that assessment, evaluation wells may be drilled on the acreage.

The company is operator of each of the four additional licences obtained in the bid round and participates at a 90% working interest level in all the licences with GyP as 10% partner.

In Q2 2018, the company participated in the Mendoza province bid round where it was successful in obtaining the Loma Cortaderal-Cerra Dona Juaña concession. The company holds a 100% working interest in the licence and is the operator.

In Q3 2018 and as part of the Neuquén province open bid round, the company submitted a bid for the Corralera Noroeste licence which is the third of the three licences comprising the Corralera block. The company was successful in its bid and the licence was awarded by GyP in January 2019, pending ratification by the governor of Neuquén province. This award unifies the three licences comprising Corralera with Phoenix as operator and holding a 90% working interest. The remaining 10% interest in each of the licences is held by GyP.

NEUQUINA BASIN: PUESTO ROJAS AREA

Licence	Puesto Rojas	Cerro Mollar Norte	Cerro Mollar Oeste
Operator	Phoenix	Phoenix	Phoenix
Production/exploration	Production	Production	Production
Phoenix WI (%)	100	100	100
Area (WI)	46,038	1,186	26,781
2017 production (net WI) (boepd)	2,488	105	107
2018 production (net WI) (boepd)	1,744	91	88
Active production wells	23	3	4
2P reserves (Mboe)	20,234	152	253
Expiry	Jan-27	Jul-22	Jul-27

Production

Production from Puesto Rojas fell 28.8% in the period with 2018 average daily production at 1,923 boepd compared with 2,700 boepd in 2017. The decrease in production year-on-year was primarily due to natural decline on existing production wells that was not offset by production from new wells. This was largely due to the suspension of completion activities by the company in the first half of the year as Mendoza province undertook the process of developing and implementing new unconventional regulations and associated permitting processes.

In addition, certain production wells were temporarily taken offline in the second half of 2018 where unconventional completions were being performed on neighbouring wells. The wells were returned to production on conclusion of the completions activity.

Drilling and completion activity

The company's focus in 2018 was on the unconventional completions campaign at Puesto Rojas. In March 2018, the Mendoza province issued its unconventional oil and gas regulations, providing the framework for unconventional activity in the province.

Two additional wells, CDM-3007 and CDM-3023, were drilled in H1 2018 ahead of the completions campaign that was undertaken in the second half of the year. A comprehensive suite of logging data and core wall samples was obtained during the drilling of these wells. This information was analysed using external specialists to help to determine the optimum completions methodology for the various unconventional horizons. This analysis is important given the stacked nature of the plays in the Puesto Rojas area that gives multiple potential development opportunities.

In August 2018, the company secured the necessary unconventional permits from Mendoza province to allow the unconventional completion of wells already drilled and to undertake further drilling at the Puesto Rojas area.

A total of eight wells were completed in the second half of 2018, comprising four new wells and four wells from previous campaigns. All eight wells are currently on test and are producing. Three of the completed wells are testing the full interval from the base of the Vaca Muerta formation through the shallower tight Agrio formation. The five remaining completions were aimed at productive intervals in the tight Agrio and selective testing in the tight Agrio and Vaca Muerta sections.

The four new wells completed in the period are all located at the Cerro del Medio concession. The initial performance of these completions is summarised as follows:

CDM-3001 flowed back the tight Agrio, organic Agrio, and organic Chachao sections comingled at a rate of 92 bopd and as of 2 January 2019 was flowing back Vaca Muerta stages in the well.

CDM-3007 flowed back the tight Agrio, organic Agrio, and organic Chachao sections comingled at a peak rate of 84 bopd. As of 8 December 2018, the well was flowing back Vaca Muerta stages at a peak rate of 96 bopd. This well also has behind-pipe potential in the folded Agrio section which will be completed later.

CDM-3023 flowed back the folded Agrio and tight Agrio sections together with a peak rate of 351 bopd. The well has been flowing back Vaca Muerta stages since 8 November 2018 with a peak rate of 153 bopd. During the Vaca Muerta flowback, the Agrio stages were allowed to continue producing up the annulus and have continued to flow naturally at over 350 bopd.

CDM-3012 is currently testing the Vaca Muerta formation and has achieved a peak rate to date during pumping operations of 88 bopd. It is likely that the rate will continue to increase as pump rate is increased and water cut decreases.

Based on the very encouraging results of CDM-3023, the folded Agrio has been identified as a target development with vertical unconventional wells. The remaining wells show promise for horizontal development of the formations under test, given that each is flowing from vertical completions at rates in excess of the 40-50 bopd, the approximate economic level for horizontal unconventional development.

The older wells completed in the 2018 campaign were located at the Cerro Pencal, Cerro los Choiques and Puesto Rojas fields. The initial performance of these completions is summarised as follows:

CP-1013 and CP-1017 were limited tests of tight Agrio stages and flowed back at a peak rate of 25 bopd and 20 bopd respectively.

PR-53, an older Chachao well, was completed in the Vaca Muerta section. The well is now currently on test in the Agrio stages, with results pending.

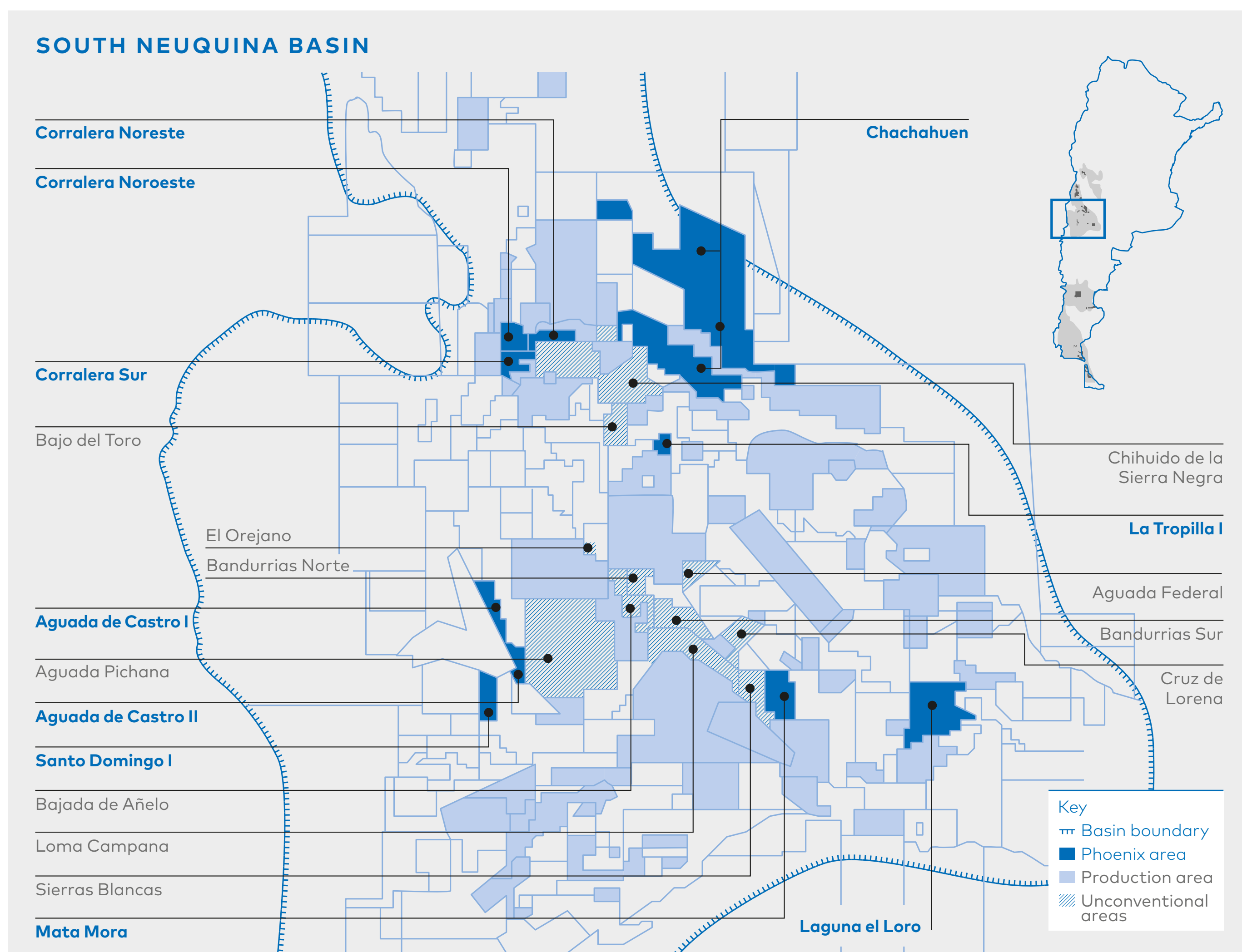
ClCh.x-2001 was a more selective test of tight Agrio and Vaca Muerta stages. The Vaca Muerta stages produced at a peak rate of 30 bopd. On 16 September 2018, the Agrio stages were put online and reached a peak rate of 37 bopd.

Each of these wells provides valuable information related to the formations being tested that will be used to determine the most appropriate drilling and completion methodologies.

In April 2018, the company completed the acquisition of 59,000 acres of 3D seismic data across the south of Puesto Rojas and part of La Brea. The completed suite of seismic volumes from the shoot was delivered in October 2018. The seismic volumes are being analysed by the company to appraise the resource potential of the area and to inform future drilling programmes. The company hopes to find structures similar to those that were found and have been developed in the Cerro Pencal area in the northern portion of the Puesto Rojas block.

Future appraisal and development activity

Up to eight additional unconventional vertical wells are planned for 2019 as part of the initial development of the Puesto Rojas folded Agrio formation.



NEUQUINA BASIN: MATA MORA AND CORRALERA

Licence	Mata Mora	Corralera Noreste	Corralera Noroeste	Corralera Sur
Operator	Phoenix	Phoenix	Phoenix	Phoenix
Production/exploration	Exploration	Exploration	Exploration	Exploration
Phoenix WI (%)	90	90	90	90
Area (WI)	51,956	23,469	24,789	26,234
2017 production (net WI) (boepd)	–	–	–	–
2018 production (net WI) (boepd)	–	–	–	–
Active production wells	–	–	–	–
2P reserves (Mboe)	–	–	–	–
Expiry	Aug-21	Aug-21	TBD	Aug-21

Drilling and completion activity

The primary focus at Mata Mora in the year was on the drilling of the two initial horizontal wells on the licence, which also represented the company's first ever unconventional horizontal wells.

The MM.x-1001 well successfully reached its total depth of 5,259 metres on 2 January 2019 and was subsequently cased and cemented. The well was drilled to a total lateral length of 1,969 metres, with 99.3% of the lateral section successfully drilled within a seven-metre window in the Vaca Muerta and a significant portion of the lateral remaining within a narrower three-metre window.

The second horizontal well at Mata Mora, the MM.x-1002 well, was spud in late January 2019 and drilling of the vertical section completed at a depth of approximately 2,400 metres in late February. Drilling of the lateral portion concluded at the end of March 2019 and the well is now awaiting completion together with MMx-1001.

Future appraisal and development activity

MM.x- 1001 and MM.x- 1002 will be completed in a simultaneous hydraulic fracturing operation. This operation is planned for Q2 2019. The performance of these wells will then be evaluated ahead of drilling further wells in the block.

The initial appraisal plan for Corralera contemplates two horizontal wells that will be completed in tandem. The objective of these wells is to move towards the de-risking of the Vaca Muerta and Agrio formations at Corralera. The wells are tentatively planned in the second half of 2019.

NEUQUINA BASIN: CHACHAHUEN

Licence	Chachahuen
Operator	YPF S.A.
Production/exploration	Production
Phoenix WI (%)	20
Area (WI)	130,911
2017 production (net WI) (boepd)	2,005
2018 production (net WI) (boepd)	2,348
Active production wells	287
2P reserves (Mboe)	6,778
Expiry	Oct-38

Production

Chachahuen represents the company's most significant non-operated production block in terms of activity and production. Average daily production increased by 17.1% compared with 2017 reflecting the contribution of the 92 production wells that came online in 2017. These wells were accretive to production in 2018. Wells drilled in 2018 were also accretive to production albeit at a lower level, with only 59 wells coming online as producers in 2018 as drilling activity reduces in relation to the main production area which is now substantially drilled out.

Drilling and completion activity

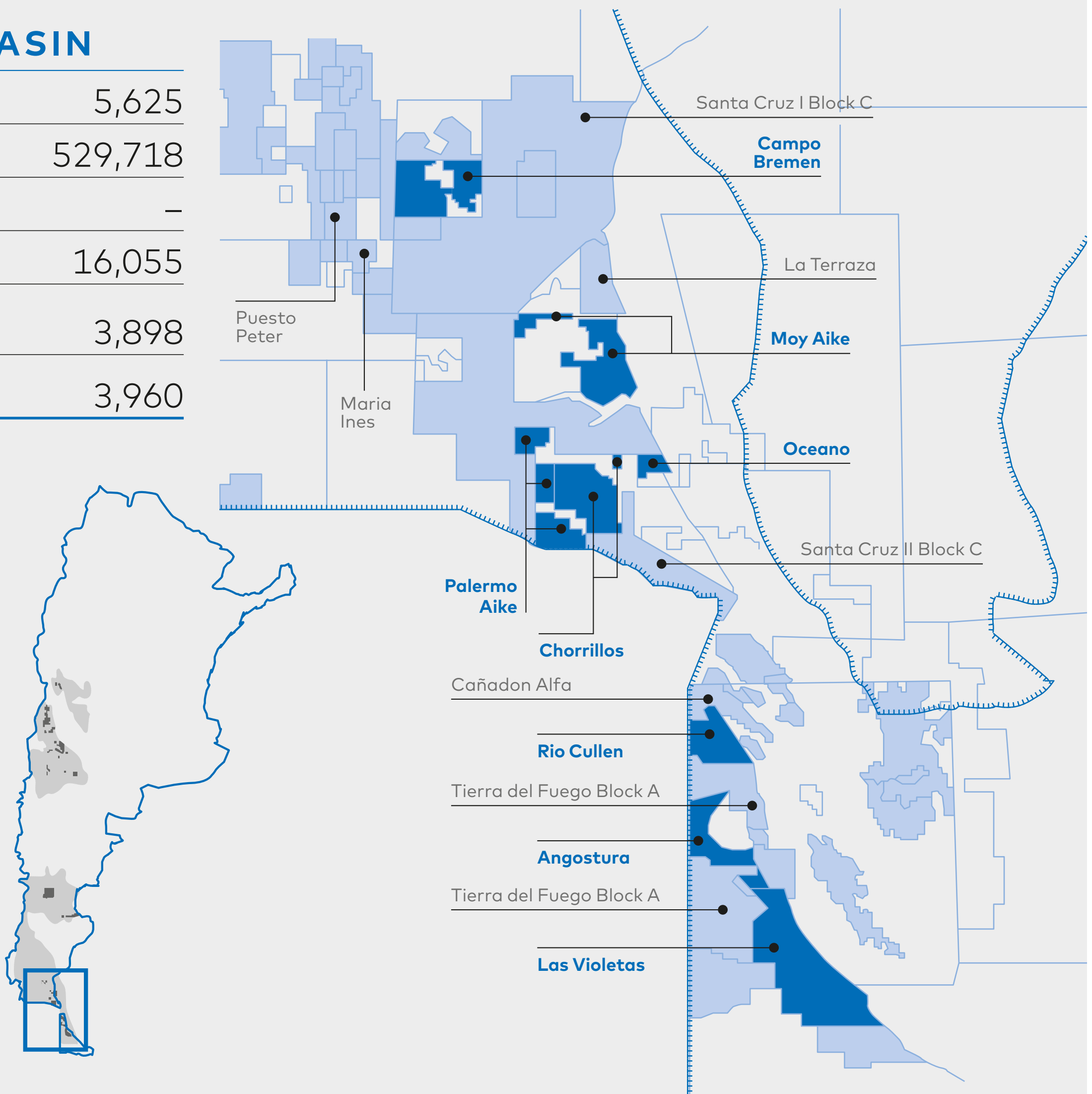
The rate of production drilling at Chachahuen has slowed in 2018 as the main production area is increasingly drilled out. YPF continues to selectively convert certain producing wells to water injectors to improve water-flood performance as well as drilling new water injection wells. Overall recoveries are expected to be greater over time due to improved secondary recovery. This activity is part of the field-wide enhanced recovery efforts and is aimed at improving water-flood conformance that looks at the effectiveness of water injection wells in pushing oil volumes towards producing wells in order to ultimately increase the recovery factor from the area.

Future appraisal and development activity

In December 2018, the province of Mendoza granted the Cerro Morado Este part of the original Chachahuen concession as a separate exploitation concession. YPF is operator of the concession and is currently drawing up plans to develop the concession over the next several years. Any development decision will require the company's approval and the company is in discussion with YPF through a regular programme of operating committee meetings to understand the plans, economics of the play and the associated capital requirements, in advance of any capital investment sanction.

AUSTRAL BASIN

Gross km²	5,625
Phoenix WI acres	529,718
Operated WI acres	–
2P reserves	16,055
Net WI production (boepd) 2017	3,898
Net WI production (boepd) 2018	3,960



AUSTRAL BASIN: TIERRA DEL FUEGO AREA

Licence	Las Violetas	Angostura	Rio Cullen
Operator	ROCH S.A.	ROCH S.A.	ROCH S.A.
Production/exploration	Production	Production	Production
Phoenix WI (%)	12.615	12.615	12.615
Area (WI)	39,394	13,166	11,453
2017 production (net WI) (boepd)	646	50	24
2018 production (net WI) (boepd)	563	352	22
Active production wells	53	3	3
2P reserves (Mboe)		2,382	
Expiry	Aug-26	Aug-26	Aug-26

Average daily working interest production from the Austral basin was largely flat compared to 2017. Increases in production from the Angostura field in Tierra del Fuego were offset by losses from Las Violetas and Chorrillos.

We continue to work with the operator ROCH S.A. on options to further develop the South Argentina assets and maximise shareholder value.

Production

Production gains were made at Angostora due to the success of the LFE-1004 well drilled in the Tobifera formation in October 2018. This added to success seen in the same formation from the SM.x-1002 well that came online in August 2018, adding approximately 1,877 boepd of gross production. Also, during Q3 2018, the newly drilled May.x-1 well was tested at 1,836 Mscfpd (312 boepd). The well is currently awaiting pipeline connection to commence commercial production.

Licence	Chorrillos	Campo Bremen	Oceano	Moy Aike	Palermo Aike
Operator	ROCH S.A.	ROCH S.A.	ROCH S.A.	ROCH S.A.	ROCH S.A.
Production/exploration	Production	Production	Production	Production	Production
Phoenix WI (%)	70	70	70	70	70
Area (WI)	111,540	118,935	19,095	124,653	91,373
2017 production (net WI) (boepd)	2,102	573	399	105	–
2018 production (net WI) (boepd)	1,999	538	389	98	–
Active production wells	57	14	10	11	–
2P reserves (Mboe)			13,673		
Expiry	Apr-26	Apr-26	Aug-26	Apr-26	Aug-26

Production

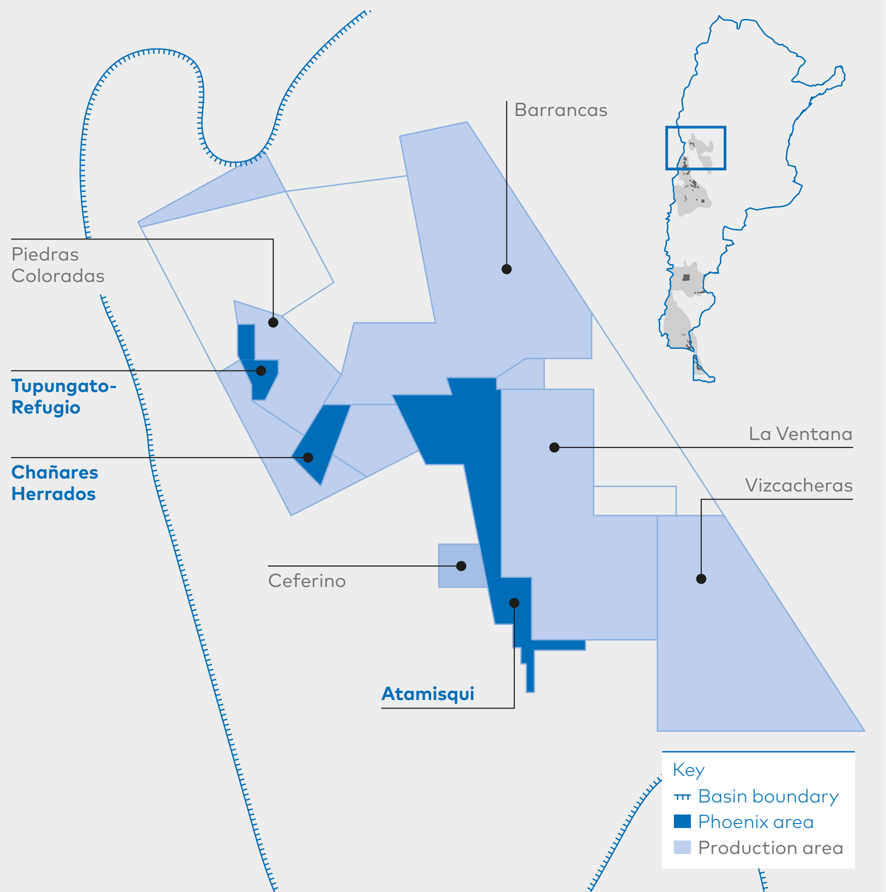
Production decreases at Santa Cruz Sur were driven largely by natural decline in the Chorillos area.

Future appraisal and development activity

The continued development plans for both Santa Cruz Sur and Tierra del Fuego remain under discussion between Phoenix and the asset operator, ROCH S.A.

CUYANA BASIN

Gross km²	528
Phoenix WI acres	83,687
Operated WI acres	70,964
2P reserves	6,303
Net WI production (boepd) 2017	2,136
Net WI production (boepd) 2018	1,819



SUMMARY OF OTHER CONCESSIONS BY BASIN

	NEUQUINA						
Licence	**Cajon del los Caballos**	**Cajon Oriental**	**La Paloma**	**Cerro Alquitrán**	**El Manzano Oeste**	**La Brea**	**Malargüe**
Operator	ROCH S.A.	YPF S.A.	Phoenix	Phoenix	Phoenix/YPF S.A.	Phoenix	YPF S.A.
Production/exploration	Production	Exploration	Exploration	Exploration	Production	Production	Exploration
Phoenix WI (%)	37.5	15	100	100	100 (Agrio) 40 (other)	100	20
Area (WI)	7,449	24,659	600	801	26,161	35,259	76,631
2017 production (net WI) (boepd)	159	—	4	—	59	67	—
2018 production (net WI) (boepd)	121	—	1	—	28	37	—
Active production wells	15	—	1	—	5	3	—
2P reserves (Mboe)	261	—	673	—	289	6,083	—
2018 activity summary						3D seismic survey shot and data processed	
Expiry	Sep-2025	Sep-2025	Nov-2040	Nov-2040	Oct-2027	Oct-2027	In process of renegotiation

CUYANA BASIN

Licence	Refugio-Tupungato	Atamisqui	Chanares Herrados
Operator	Phoenix	Phoenix	Medanito
Production/exploration	Production	Production	Production
Phoenix WI (%)	100	100	78
Area (WI)	6,781	64,184	7,762
2017 production (net WI) (boepd)	1,014	333	514
2018 production (net WI) (boepd)	1,002	318	499
Active production wells	40	15	22
2P reserves (Mboe)	3,246	751	2,306
Expiry	Jan-26	Sep-25	Nov-27

Production

Average daily working interest production from the Cuyana basin was 15.0% or 318 boepd lower than in 2017 due to the relinquishment of the Puesto Pozo Cercados concession in the prior year that contributed 274 production barrels in 2017.

Production from the Cuyana basin licences is largely flat year-on-year with natural decline managed through pulling jobs and other workover activities. The assets produce relatively stable production and contribute positive cash from operations.

Future appraisal and development activity

In 2018, a single conventional vertical exploration well was drilled at Atamisqui. The well targeted the Rio Blanco formation that had been identified in the 3D seismic survey. Evaluation of the well log and preliminary test data indicated that, while having discovered hydrocarbons and thus being a geologic success, the well is tight and will require fracture stimulation before its commerciality can be determined.

Given that a fracture stimulation is required to fully evaluate the success or otherwise of the well, it has been treated as a suspended well with the costs carried in the balance sheet until such time as this work can be undertaken.

								GOLFO SAN JORGE		
	Rio Atuel	Vega Grande	Loma Cortaderal-Cerra Doña Juana	La Tropilla I	Santa Domingo I	Aguada de Castro I	Aguada de Castro II	Confluencia	San Bernado	Sur Rio Deseado Este
	Phoenix	Phoenix	Phoenix	Phoenix	Phoenix	Phoenix	Phoenix	YPF S.A.	YPF S.A.	ROCH S.A.
	Exploration	Production	Exploration	Exploration	Exploration	Exploration	Exploration	Exploration	Exploration	Production
	66.67	100	100	90	90	90	90	30	30	24.9175
	164,882	72,602	75,211	11,022	24,944	23,247	18,236	84,646	227,816	19,770
	—	68	—	—	—	—	—	—	—	8
	—	12	—	—	—	—	—	—	—	6
	—	3	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—
				Licence awarded in period						
	Oct-2019	Dec-2019	Aug-2021	Mar-2022	Mar-2022	Mar-2022	Mar-2022	Jun-2047	Jun-2047	Mar-2021

Strategically pacing investment to balance production and reserves growth with the development of infrastructure and deployment of technology

Kevin Dennehy
Chief financial officer

Financial overview	2018 US$'000	2017 US$'000
Revenue	**177.0**	141.8
Gross profit	**21.3**	8.4
Operating loss	**(34.9)**	(275.0)
EBITDAX	**39.2**	40.6
Loss for the year	**(78.3)**	(270.1)
Net assets	**336.2**	282.5
Investment in fixed assets	**81.4**	82.8
Net cash from operations	**20.2**	7.0

Overview

The 2018 financial statements include the performance of the combined group for the full year. The comparative financial information for 2017 presents the performance of Trefoil for the full year with the results and performance of the legacy Andes group consolidated from 10 August 2017, being the date of the combination transaction.

Revenue and gross margin

Total revenue increased from US$141.8 million in 2017 to US$177.0 million in 2018, driven primarily by revenue from oil sales of US$154.5 million compared to US$117.0 million in the prior year. Revenue from gas sales was US$22.5 million compared to US$24.8 million in 2017.

The realised price achieved per barrel of oil was US$59.26 in 2018 compared to US$50.46 in 2017, an increase of US$8.80 per barrel and reflecting the uptick in Brent pricing seen in 2018.

The Brent crude benchmark strengthened through the year resulting in an increase in the Argentina domestic price that looks to the Brent benchmark as a reference price. The increase in revenue compared to 2017 that was attributable to the increase in oil prices was US$20.4 million while the increase in volumes of oil sold accounted for US$17.0 million.

Total oil sales volume was greater in 2018 than in 2017 due to the inclusion of legacy Andes sales for the full year. On an average boepd basis however, overall sales volumes were marginally lower in 2018 as natural decline from the existing well portfolio was not fully compensated by production from new wells. This was primarily due to the time taken for Mendoza province to establish its unconventional regulations and permitting processes which delayed the unconventional completions campaign at Puesto Rojas to the second half of the year. The primary focus of the completions campaign was to appraise the unconventional potential at Puesto Rojas with production as a by-product rather than the focus.

Gas revenues were US$2.3 million lower in 2018 at US$22.5 million compared to US$24.8 million in 2017. Substantially all the company's gas production operations are in the Austral basin where ROCH S.A. is the operator. The fall in revenue from gas sales is caused by a decrease in gas production volumes where natural decline from existing wells was not offset by production from new drilling. Realised prices for gas were marginally higher in 2018 at 4.09/MMcf compared to 4.07/MMcf in the prior year.

Netback analysis

Netback is the measure of cash proceeds that, after operating costs and taxes, are retained by the company. The highest netback continues to be generated in the Neuquina basin where the company has most of its production and where oil is the main constituent of the production mix. The mature Cuyana basin continues to generate cash from operations and has benefited from the increase in oil prices in the year. Netback in Cuyana is lower than in Neuquina despite better pricing as a result of higher operating costs associated with maintaining later-life production assets. Production in the Austral basin is similarly cash generative though at a lower level both overall and on a per barrel basis. Like Cuyana, this is due to due to higher operating costs as assets mature but Austral also has a greater proportion of lower value gas in the production mix.

Operating costs used in the netback calculation comprise cost of sales less depreciation and selling expenses.

Operating costs

Operating costs were largely consistent year on year at US$17.66/boe in 2018 compared to US$18.85/boe in the preceding year. Operating cost per boe rose marginally in Neuquina basin as conventional wells experienced natural decline. In addition, several production wells proximate to hydraulic fracturing activity were taken offline for operational and safety reasons while that work was undertaken. This had the effect of reducing production resulting in the fixed element of production costs being spread over lower volumes giving higher operating costs on a per boe basis.

2018 US$/boe	Neuquina	Austral	Cuyana	Total
Oil revenue (US$/bbl)	58.12	61.73	60.19	59.26
Gas revenue (US$/MMcf)	2.47	4.10	–	4.09
Gross revenue	**58.04**	**36.34**	**60.19**	**50.24**
Royalties and turnover tax	(11.46)	(6.41)	(12.04)	(9.66)
Net revenues	**46.58**	**29.93**	**48.15**	**40.58**
Operating cost	(13.00)	(16.83)	(29.20)	(17.66)
Netback	**33.58**	**13.10**	**18.95**	**22.92**

2017 US$/boe	Neuquina	Austral	Cuyana	Total
Oil revenue (US$/bbl)	49.76	51.51	51.36	50.46
Gas revenue (US$/MMcf)	4.69	4.07	–	4.07
Gross revenue	**49.74**	**31.02**	**51.36**	**42.53**
Royalties and turnover tax	(9.72)	(5.04)	(10.00)	(7.89)
Net revenues	**40.02**	**25.98**	**41.36**	**34.64**
Operating cost	(11.04)	(20.62)	(31.05)	(18.85)
Netback	**28.98**	**5.36**	**10.31**	**15.79**

Depreciation in the year was US$15.4 million higher than in 2017 at US$64.7 million for 2018 compared to US$49.3 million in 2017. This was primarily due to the inclusion of a full year's depreciation charge on the legacy Andes assets in 2018 offset by a slight decline in average daily production volumes.

The increase in gross profit from US$8.4 million in 2017 to US$21.3 million in 2018 is mainly due to the impact of the increase in realised oil prices in the year.

Other operating costs

Other operating costs before impairment charges were US$56.2 million in 2018 compared to US$51.0 million in 2017.

Exploration expenses in 2018 primarily relate to the write-off of two unsuccessful exploration wells. Exploration expenses also include costs related to geological and geophysical work that is not specific to a particular asset and was expensed in the period.

In Austral basin, costs of US$3.4 million were expensed that related to the company's share of the unsuccessful Orkeke well drilled by ROCH S.A.. A further US$4.8 million was expensed related to an unsuccessful commitment well at the company's 100% operated Laguna el Loro concession in the Neuquina basin. The well has satisfied the exploration commitment on the block, however.

The decrease in administrative expenses in 2018 compared to 2017 is mainly due to a reduction in professional fees of US$20.6 million compared to 2017 that was offset by increased staff costs of US$5.4 million. The increase in staff costs was due to an increase in headcount resulting from senior appointments made in key technical positions in 2018 together with a full year of costs related to the executive management team. Staff costs in 2018 also include the impact of deal bonuses related to the 2017 combination transaction that were paid in 2018 together with accruals made for normal incentive payments in respect of personal performance in the 2018 calendar year.

In 2017, professional fees included approximately US$24.1 million of advisory and other transaction related costs that did not recur in 2018. These costs included technical and professional consulting costs, legal fees and other deal costs related to the combination transaction, of which US$5.5 million was settled in ordinary shares of the company during 2018.

Other operating expenses in 2018 include US$7.6 million related to realised hedge losses on the Brent crude swap contract entered in January 2018 that expired in December 2018.

Finance income and costs

Finance income was US$4.1 million in 2018 compared to US$2.0 million in 2017. Substantially all the increase year-on-year related to exchange gains recognised on Peso denominated borrowings held in Argentina. The Peso weakened significantly against the US Dollar in 2018 reducing the amount payable under these loans in Dollar terms and giving rise to a gain.

Finance costs were US$30.7 million in 2018 compared to US$13.7 million in 2017, an increase of US$17.0 million. Of this increase US$3.1 million related to an increase in interest cost on borrowings due to the higher average debt balance during 2018 of US$196.4 million compared to 2017 where the average outstanding debt balance was US$118.8 million.

In addition, foreign exchange differences increased by US$10.1 million compared to 2017 and primarily related to exchange losses on Peso related receivable balances. Whilst contracts for oil sales are priced by reference to the US Dollar, they are

Other operating costs	2018 US$'000	2017 US$'000
Exploration expenses	**9,359**	931
Selling and distribution expenses	**5,758**	5,036
Administrative expenses	**24,561**	39,978
Other operating expense	**16,568**	5,040
	56,246	50,985

settled in Peso. The devaluation of the Peso in 2018 resulted in lower collections in Dollar terms from receivables for oil sales. However, it should be noted that Peso collections for sales are used to satisfy in-country Peso related costs with substantially all Peso denominated operating costs satisfied using cash generated from operations at the current level of activity.

Taxation

In 2018, the company recorded a tax charge of US$16.8 million compared to a credit of US$16.6 million in 2017. The principal reason for the change was related to the devaluation of the Peso in the period. The devaluation significantly reduced the Peso denominated tax-deductible value of fixed assets which, when compared to their carrying value for accounting purposes, gave rise to a deferred tax charge for the period of US$17.0 million.

The tax charge also increased due to the non-recognition of deferred tax assets that would have offset tax losses by US$10.9 million. An asset was not recorded for the tax losses because it is not certain that the company will be able to use the tax losses over the period before they expire.

Balance sheet

Net assets are US$336.2 million at 31 December 2018 compared to US$282.5 million at 31 December 2017, representing an increase of US$53.7 million. This is primarily due to the debt to equity conversion where US$100.0 million of the bridging and working capital facility entered into on completion of the combination transaction was converted to equity at a price of £0.37 per share. In addition, new ordinary shares were issued in the period as a result of the exercise of warrants and giving proceeds of US$4.9 million. Offsetting this was the recognised loss for the year of US$78.3 million.

Property plant and equipment increased by US$12.0 million consisting additions of US$80.1 million offset by depreciation of US$64.7 million and the write-off of exploration costs amounting to US$3.4 million. Additions to property, plant and equipment primarily relate to costs associated with the completions campaign at Puesto Rojas, the initial horizontal well at Mata Mora and ongoing drilling investment at Chachahuen.

Additions to intangible exploration and evaluation assets in the period totalled US$59.0 million and mainly related to licence acquisition costs from the Neuquén and Mendoza province bid rounds, in addition to the costs associated with securing the company's rights related to Mata Mora and Corralera and increasing its participation in these areas.

Working capital

Current assets comprise inventories, trade and other receivables and cash. At 31 December 2018 inventories are US$2.9 million higher than the prior year. This is mainly due to drilling inventory on hand related to the horizontal well at Mata Mora where drilling was underway over the period end. Trade and other receivables primarily consist of receivables from the sale of oil and gas whose value fluctuates related to the timing of payments received for invoices over the year end period.

Current liabilities mostly comprise trade and other payables for equipment and services. Trade and other payables are US$34.9 million lower at 31 December 2018 compared to the prior year. The trade payable balance at 31 December 2017 included costs for drilling undertaken in the second half of 2017 at Puesto Rojas in preparation for the completions campaign undertaken in 2018, together with approximately US$20.0 million related to cash calls due to YPF at Chachahuen which were repaid during 2018.

The other balance sheet movements in the period related to movements in working capital items and borrowings.

Financing and liquidity

On completion of the combination transaction, Mercuria Energy Trading Group advanced a bridging and working capital facility to the company in the amount of US$160.0 million. In February 2018, US$100.0 million of this facility was converted to equity at a price of £0.37 per share with the remaining US$60.0 million restructured as a new convertible rolling credit facility bearing interest at 4% over three-month LIBOR. As part of the restructuring of the facility, new funds of US$100.0 million were made available to the company. In December 2018, the new convertible rolling credit facility was further amended to include a tranche B element of US$25.0 million. In February 2019, tranche B was extended by a further US$50.0 million.

Funds advanced under the credit facilities have been used to invest in exploration, evaluation and development work across the company's core licence areas and to satisfy an element of general corporate costs. At 31 December 2018 the company's net debt position was US$179.2 million compared to US$168.8 million at 31 December 2017.

The balance sheet at 31 December 2018 shows net current liabilities of US$50.3 million. In addition, the company has current commitments under its various licence agreements that require it to invest in drilling and other activities. Failure to do so could result in the termination of those licences.

Funding status and going concern

The company is currently evaluating options for financing its ongoing exploration, evaluation and development activity. Accordingly, the company's major shareholder, Mercuria Energy Group Limited, has provided the company with a letter of support that states that it will provide sufficient funds for the company to meet its obligations over a period of at least 12 months from the date of this annual report or until such time as the company has secured sufficient financing to fund its planned appraisal activities and meet its other obligations, whichever is sooner.

Dividend

Given the company's high growth objectives, the directors do not recommend the payment of a dividend.

Kevin Dennehy
Chief financial officer
2 May 2019

Managing risk to deliver our operational and commercial goals

Managing business risks

Understanding our principal risks and ensuring that we have the appropriate controls in place to manage those risks is critical to our growth and success. Managing business risks and opportunities is a key consideration in determining and then delivering against the group's strategy. The group's approach to risk management is not intended to eliminate risk entirely, but provides the means to identify, prioritise and manage risks and opportunities. This, in turn, enables the group to effectively deliver on its strategic objectives in line with its appetite for risk.

The board's responsibility for risk management

The board has overall responsibility for ensuring the group's risk management and internal control frameworks are appropriate and are embedded at all levels throughout the organisation. Principal risks are reviewed by the board and are specifically discussed in relation to setting the group strategy, developing the business plan to deliver that strategy and in agreeing annual work programmes and budgets.

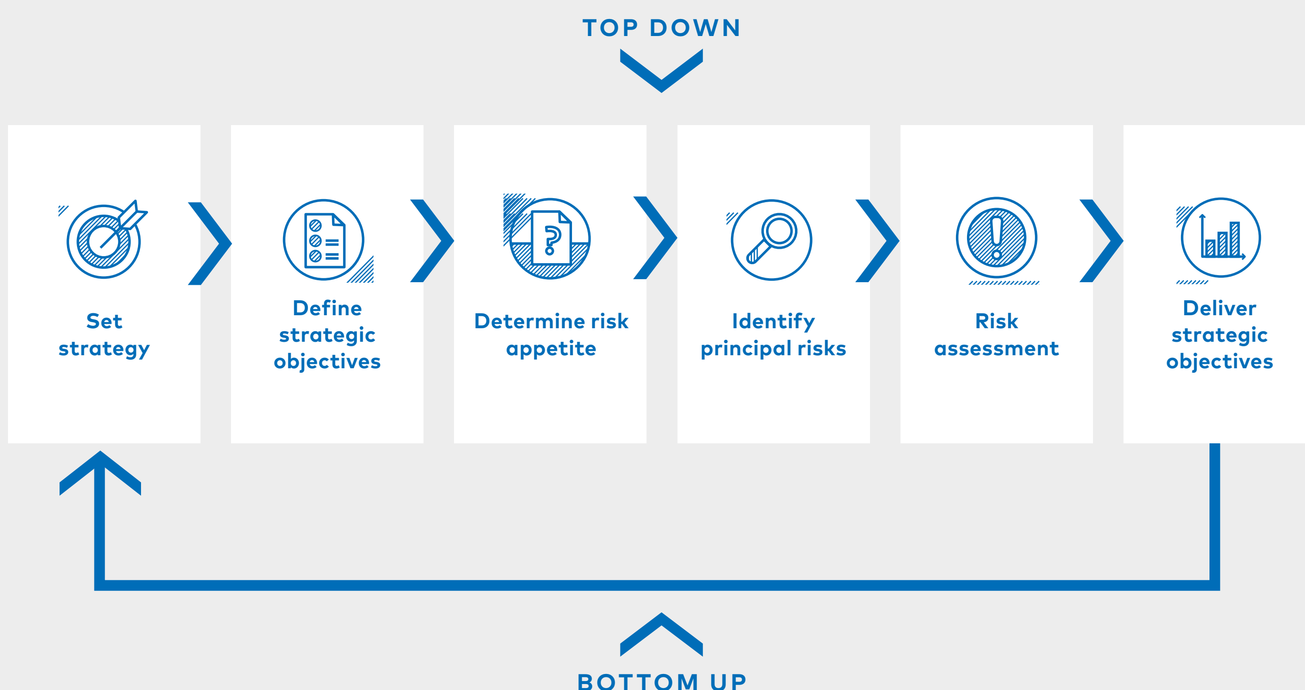
An enhanced focus on risk management at the board level

Several changes have been made to the composition of the board during the year as the company ramps up unconventional activity in its licence areas.

Unconventional oil and gas operations represent a fundamentally different discipline to conventional operations. The unconventional industry has developed rapidly over the last decade, driven largely by advancements made in the United States. Technologies, together with drilling and completion techniques, have evolved rapidly as the industry players sought to reduce costs and increase the efficiency of production.

While the unconventional sector has transformed the industry and the oil and gas market in a relatively short period of time, it remains a specialist area that, to date, has largely been driven by the independent sector. The sector is being further transformed as the 'oil majors' move into the unconventional sector and particularly into prospective basins such as the Neuquina basin in Argentina.

Providing robust challenge to management in relation to operating activity requires an understanding of and experience in the sector. Reflecting this, Tim Harrington joined the board in November 2018 bringing significant experience of unconventional oil and gas operations from the United States and providing support and challenge to the executive management team.



In addition, Kevin Dennehy joined the board as Chief Financial Officer bringing significant international experience of running finance organisations and implementing and enhancing internal control procedures. With the potential move to the main market in London deferred, Kevin's experience in internal control and reporting will be important in ensuring the company meets the standards expected of a main market listed company in regard to internal control, reporting and risk management.

The role of the audit and risk committee

The audit and risk committee assists the board in monitoring risk and in discharging its risk management responsibilities. A number of performance measures are set in order to assist in objectively assessing business performance and risk management. Performance measures are specific and are defined in relation to the business operation or activity to which they relate. Periodic reports provided to management and to the board contain an assessment of these performance measures. Several business performance measures have been established as key performance indicators for the group. Management will measure itself against those key performance indicators when evaluating performance against strategic objectives.

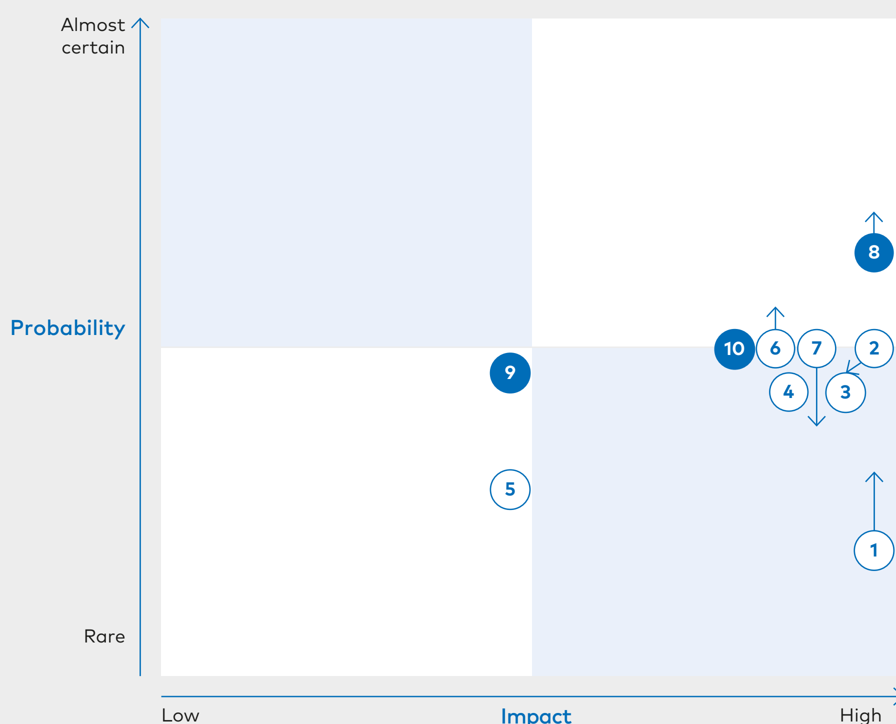
Key performance indicators used as performance measures for setting compensation may differ from those presented here. Performance related pay is set based on a number of factors and in collaboration with the remuneration committee before being recommended to the board for approval.

Principal risks and uncertainties

The principal risks facing the group at the end of 2018 together with a description of the potential impacts, mitigation measures and the appetite for the risk are presented below. The analysis includes an assessment of the potential likelihood of the risks occurring and the potential impact. The directors also consider the evolution of risk year-on-year.

Identified risks are segregated between those that we can influence and those outside our control. Where we can influence risks, we have more control over outcomes. Where risks are external to the business, we focus on how we control the consequences of those risks materialising

Mapping our principal risks



Risks we can influence

1. Health, safety and environment
2. Exploration, development and production
3. Reserve and resource estimation and migration of volumes
4. Portfolio concentration
5. Joint venture partners
6. Financing
7. Bribery and corruption

Risks outside our control

8. Commodity prices
9. Competition
10. Fiscal and political

Risk evolution in 2018

Risks we can influence	Risk appetite	Link to strategy

1 Health, safety and environment (HSE)

Oil and gas exploration, development and production activities are complex and physical in nature. HSE risks cover many areas including major accidents, personal health and safety, compliance with regulations and potential environmental harm.

Potential impact High ←→
Potential likelihood Low ↗

Risk appetite

The group strives to ensure the safety of its employees, contractors and visitors. We are very conscious of the natural environment that we operate in and seek to minimise our environmental impact and footprint. We actively promote strict adherence to regulations that govern our operations and the robust application of our own HSE policies and procedures. There is no reason for anyone associated with our business to take unnecessary risks related to their personal safety, the safety of others or the environment that we are privileged to work in. The group has a very low appetite for risks associated with HSE and strives to achieve a zero-incident rate.

The likelihood of incident will increase as our activity increases.

Link to strategy

2 Exploration, development and production

The ultimate success of the group is based largely on its ability to successfully develop its assets and to produce oil and gas profitably from its unconventional asset base.

The ability to develop a consistent, repeatable and cost-efficient method for drilling and completing horizontal wells is core to the successful development of unconventional oil and gas assets.

Potential impact High ←→
Potential likelihood Medium ↙

Risk appetite

The group recognises that the initial development of new unconventional assets is complex and technically challenging. This can expose the group to higher levels of risk, particularly in the early stages of exploration and appraisal and into initial development. The group has some tolerance of this risk and acknowledges the need to have effective controls in place in this area.

Link to strategy

3 Reserve and resource estimation and migration of volumes

The estimation of oil and gas reserves and resources involves a high level of subjective judgement based on available geological, technical and economic information.

Potential impact High ←→
Potential likelihood Medium ←→

Risk appetite

The growth in absolute reserve volumes and the migration of reserves and resources through the different categorisations is one element of the group's success. The group has some tolerance of risk in relation to the key activities required to deliver reserve growth, such as drilling and the ability to secure additional acreage.

Link to strategy

Key to risk change

←→ No change
↙ Reduced risk
↗ Increased risk

Mitigation		Relevant KPI by priority/significance
The group maintains a programme of HSE, asset integrity, upgrade and maintenance activity. This activity is supported by a core group of specifically selected specialist contractors. The group has also implemented a continual improvement programme focused on its infrastructure and processing assets. The risk of physical injuries or fatalities increases as physical operations such as drilling and completion activity increase. In 2018, we completed a seismic survey covering a wide area on the southern Puesto Rojas and La Brea concessions. We also commenced drilling operations at Mata Mora and undertook an eight-well completions campaign at Puesto Rojas.	Notwithstanding the increase in activity our lost-time incident rate metric decreased in the year due to the care and attention of our people and the contractors working with us in applying our HSE framework to the operations undertaken. The group has an active and continuous HSE training programme for its own staff and ensures that contractors are HSE trained on an ongoing basis. The group promotes an open and transparent culture related to HSE matters and incident reporting. HSE performance is communicated to the board through the monthly operating and financial summary and is also discussed at each board meeting.	1 Number of reportable HSE incidents
The group understands the importance of technology and operational experience in developing unconventional resources. Our Houston office also remains the fulcrum for the transfer of technology and experience from the US market, with the objective of accelerating the appraisal and development of our unconventional assets in Argentina. In March 2018, we added a senior drilling engineer to that team to augment the skills we already had in subsurface evaluation.	We undertook an eight-well completions campaign at Puesto Rojas in 2018 and completed drilling of the company's first horizontal well at Mata Mora. The first horizontal well was completed in accordance with the drilling plan, with 99.3% of the lateral section successfully drilled within a seven-metre window in the Vaca Muerta formation. The second horizontal well was spud at Mata Mora in January 2019, with drilling completed in February. The completions campaign for both wells was successful and has provided the information and data that was the objective of the campaign. The wells are due to be completed in a simultaneous hydraulic fracture in Q2 2019. Our ability to execute drilling and completions campaigns according to plan reduces the risk associated with exploration and development activity.	2 Year-on-year growth of reserves and resources by category 4 Production volume 6 Project delivery/ defined milestones
Reserve and resource volumes are estimated using the Petroleum Reservoir Management System developed by the Society of Petroleum Engineers. The group has a strong focus on subsurface analysis and employs industry technical specialists and qualified reservoir engineers. Technical specialists work together with the operational teams responsible for delivering asset performance to estimate reserve and resource volumes and when determining detailed development programmes for the group's assets.	The reserve and resource analysis performed is subject to internal review and, where appropriate, external review. External review is undertaken by an internationally recognised reservoir engineering firm and led within that firm by a nominated competent person. The group participates in licensing rounds in Argentina that are organised at the provincial level. In addition, Phoenix has an internal business development group that is focused on optimising existing acreage positions through purchase, swap or sale of assets.	2 Year-on-year growth of reserves and resources by category 3 Operating cost per boe 6 Project delivery/ defined milestones

Key to our KPIs

1. Number of reportable HSE incidents
2. Year-on-year growth of reserves and resources by category
3. Operating cost per boe
4. Production volume increase/decrease
5. EBITDAX — earnings before interest, taxation, depreciation, amortisation and exploration expense
6. Personal/group project delivery and milestone targets

Read more about our strategy and KPIs on pages 24 to 27

Risks we can influence	Risk appetite	Link to strategy

4 Portfolio concentration

The group's assets are concentrated in Argentina. Existing production is principally from conventional assets with the main exploration and development opportunities in unconventional assets. This places emphasis on the group's ability to successfully develop its unconventional resources, with the main long-term growth opportunity being in the exploration for and development of our unconventional oil and gas resources.

Potential impact High ←→
Potential likelihood Medium ←→

The group as it exists now was formed with the specific objective of exploiting its early entrant position in the Argentina unconventional sector. This position is derived from licence areas where the focus has historically been on conventional production, but where the unconventional opportunities are substantial.

Argentina has the largest producing shale oil and gas resources outside of the US and is open to inward investment. The strategic focus of the group and the positive investment climate in Argentina means the group has a high appetite for this risk.

We accept this risk as our strategy is Argentina focused. We diversify in terms of basin, multiple licences and areas within each basin, and also in terms of production objective.

Control and consolidate

Explore and develop

Profitable production

Realise value

5 Joint venture partners

The inability of joint venture partners to fund their obligations can impact the group's operations. The group's dependence on others is increased where it is not the operator.

Potential impact Medium ←→
Potential likelihood Low ←→

In certain of its operations, the group has joint venture partners, acting as either operator or non-operators. The group requires high quality partners. It recognises that it must accept a degree of exposure to the creditworthiness of its partners and evaluates this aspect carefully as part of each investment decision.

Where we are not the operator, we have less influence on the rate of capital expenditure for development.

Realise value

6 Financing

The inability to fund financial commitments, including licence obligations, could significantly delay the development of the group's assets. Financial or operational commitments are often a pre-condition to the grant of a licence. The group's inability to satisfy these could result in financial penalty and/or termination of such licence.

Potential impact High ←→
Potential likelihood Medium ↗

The development of unconventional oil and gas assets is capital intensive and production returns from new development activity are not immediate. The group has used both debt and equity to fund the development of its assets and benefited from the support of its major shareholder in doing so.

Explore and develop

Profitable production

Realise value

7 Bribery and corruption

Risk that third parties or staff could be encouraged to become involved in corrupt practices.

Potential impact High ←→
Potential likelihood Medium ↙

The global oil and gas industry, in common with other extractive industries, has a higher than average risk of bribery and corruption. Argentina has historically had a medium to high perceived risk of bribery and corruption. The current government is focused on tackling corruption and enacted new anti-corruption legislation in 2017.

We have zero-tolerance of bribery and corruption that is set by the board and communicated clearly to all employees.

Explore and develop

Profitable production

Realise value

Key – change in risk
←→ No change
↙ Reduced risk
↗ Increased risk

Mitigation	Relevant KPI by priority/significance
The licensing and regulation of oil and gas in Argentina is governed at the provincial level. Whilst the group is exposed to macro-economic and fiscal risk at the country level, its asset and regulatory risk is distributed among a number of provinces. The group's unconventional assets are principally in the Mendoza and Neuquén provinces. In 2018, the company has been successful in securing additional unconventional licences in the provincial bid rounds. The group selectively bids on acreage that is proximate to or on trend with our existing prospective acreage. In addition, the group has also secured its rights to a 90% operated interest in the Mata Mora and Corralera concessions during the year. The group participates in industry groups and initiatives in Argentina and maintains open communication with the provincial governments and key stakeholders, including labour unions.	n/a
The group's primary joint venture partner in its conventional oil operations is YPF, the Argentina state-owned oil and gas company. YPF is well capitalised and has a strategic objective on behalf of the government to develop the industry in Argentina. The group has a non-operated interest in gas licences in the Austral basin where it partners with ROCH S.A., which also fulfils the role of operator. Phoenix has the option to take over operatorship of Santa Cruz Sur at its election. The group maintains regular dialogue with its partners to anticipate and react to potential operational or financial issues. In 2018, the group undertook a number of reviews of operators' systems and processes, exercising it's joint venture audit rights contained in the joint agreements that govern the joint ventures. The information sharing process has been improved in the year with regular OCMs taking place and enhancements made to financial and operating information shared between partners.	(2) Year-on-year growth of reserves and resources by category (3) Operating cost per boe (4) Production volume (5) EBITDAX
In February 2018, the revolving credit facility provided by Mercuria on completion of the 2017 combination transaction was refinanced with US$100 million of the original facility converted into share capital of the group and an additional US$100 million committed which, together with US$60 million of the original facility, comprises a new convertible revolving credit facility. The facility has subsequently been amended to include a Tranche B under which a further US$75 million has been advanced to the company to fund evaluation activities. Further details on the group's funding arrangements are included in note 23 to the financial statements. As the group moves towards the development of the Puesto Rojas folded Agrio and the Vaca Muerta formation at Mata Mora, the capital requirements of the group will increase substantially. The group expects to secure suitable funding either through existing arrangements, farm-in at the asset level or through the issuance of equity to fund its development plans. The inability to secure funding could significantly impact the valuation of the group.	(3) Operating cost per boe (4) Production volume (5) EBITDAX
The group has an established anti-bribery and corruption policy that requires all new hires to confirm that they have read and understood the contents and personal requirements of the policy. The group ensures that our third-party contractors and advisers follow our procedure and policy. In 2018 and as a result of several high profile corruption cases at the national and provincial government level, the Macri administration has pursued a zero-tolerance approach to corruption that had resulted in the arrest and imprisonment of senior figures within the government and previous administrations. This increase in profile of the zero-tolerance policy at the government level together with the increase in the number of prosecutions has drawn attention to the issue of corruption in Argentina and raised awareness of the implication of being found guilty of such behaviour.	n/a

Key to our KPIs

1. Number of reportable HSE incidents
2. Year-on-year growth of reserves and resources by category
3. Operating cost per boe
4. Production volume increase/decrease
5. EBITDAX — earnings before interest, taxation, depreciation, amortisation and exploration expense
6. Personal/group project delivery and milestone targets

Risks we cannot influence	Risk appetite	Link to strategy

8 Commodity prices

A material decline in oil and gas prices adversely affects the group's operations and financial position.

Potential impact High ←→
Potential likelihood High ↗

Considerable exposure to commodity price risk is inherent in the business. We will seek to mitigate this risk through hedging where appropriate, particularly when doing so provides firm support for near-term capital expenditure budgets.

Control and consolidate

Explore and develop

Profitable production

Realise value

9 Competition

The group operates in a competitive environment. Competition exists in relation to the acquisition of acreage, securing oil and gas services and attracting the right talent and experience to the group.

Potential impact Medium ←→
Potential likelihood Medium ←→

The unconventional oil and gas industry in Argentina has emerged rapidly, with significant investment commitments being made by a number of major international oil companies and national oil companies. In the US, the unconventional oil and gas industry developed quickly over a relatively short space of time driven by continual innovation and technical developments that provided the cost efficiencies required for economic production.

The relatively early stage of the unconventional oil and gas industry in Argentina and the opportunity to establish the group as a leading operator translates to a high appetite for this risk.

We cannot influence demand by others but can ensure we have the right relationships with suppliers and contractors.

Control and consolidate

Explore and develop

10 Fiscal and political

Argentina has a history of political instability and economic uncertainty that has been characterised by high inflation and significant currency devaluation.

Potential impact High ←→
Potential likelihood Medium ←→

In December 2015, the current administration was elected into government. This has resulted in a significant and marked shift in policy direction that is now firmly pro-business and pro-investment. The reintegration of Argentina into the international community is central to the current political agenda. The government has made many changes in the past two years, including fiscal, tax, capital markets and labour reforms.

Given the nature and location of its operations, this country specific risk is intrinsic to the group.

Control and consolidate

Key – change in risk

←→ No change
↙ Reduced risk
↗ Increased risk

Mitigation

Relevant KPI by priority/significance

Argentina moved away from regulated pricing and towards market-based pricing for commodities in late 2017. Contracts for crude moved to a Brent-minus basis in early 2018, with the discount applied relating to quality and location differentials.

The group monitors oil price sensitivity relative to its capital commitments and in January 2018 implemented a policy that allows hedging. The group hedged approximately 1.2 million barrels for 2018 through a swap contract that was priced at US$65.97 per barrel.

In May 2018 and in response to rising Brent crude prices, the government introduced price caps on crude sales which impacted May, June and July deliveries. This was done in an attempt to mitigate the impact of rising Brent prices on the end consumer of refined products.

While the price caps expired at the end of July 2018, their use has brought some uncertainty to the market. In addition the zero-deficit budget for 2019 required, as a condition for the IMF advancing a standby loan package, a 10% export tax to be introduced in 2019. This tax applies to all exports, including oil, and has resulted in a further discount being applied to domestic crude prices based on export-parity.

These two interventions by the government in 2018 have broken the confidence in the relationship between domestic crude prices and Brent and have reduced our hedging options for Argentina crude production to the selling of dated put contracts. Due to the volatility in the market however such contracts carry significant premiums.

Until there is more clarity on Brent-minus pricing, the board has elected not to enter any further hedging relationships.

(5) EBITDAX

The group has a substantial acreage position with a focus on operatorship of its key assets. Key assets are characterised as assets where the group holds multiple contiguous licences that provide exposure to unconventional prospects and those that are proximate to existing successful unconventional development assets and areas.

The group maintains good relations with oil and gas service providers that have unconventional expertise and crews based in Argentina. The group constantly keeps the market under review.

n/a

The group employs appropriately qualified and experienced staff across all disciplines (operational, commercial and administrative) in Argentina and works with reputable and high quality advisors in order to anticipate and comply with changes in the legislative or fiscal environment.

We participate in appropriate industry groups and maintain dialogue with national and provincial government.

Fiscal and political risk will be heightened in 2019 following a turbulent year for Argentina's economy in 2018 and the upcoming presidential and gubernatorial elections in November 2019.

n/a

Key to our KPIs

1. Number of reportable HSE incidents
2. Year-on-year growth of reserves and resources by category
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4. Production volume increase/decrease
5. EBITDAX — earnings before interest, taxation, depreciation, amortisation and exploration expense
6. Personal/group project delivery and milestone targets

VIABILITY STATEMENT

In accordance with the UK Corporate Governance Code, the board has addressed the prospects and viability of Phoenix. The directors have assessed the viability of the group over a three-year period to April 2022. This assessment has considered the group's financial position at March 2019, the future operating and financial projections together with the principal risks and uncertainties facing the company.

Assessment of prospects

The company has built a significant portfolio of licence interests in Argentina that is specifically focused on the country's nascent unconventional oil and gas sector. The licence areas held by the company cover more than 560,000 acres of land and contain multiple unconventional oil and gas appraisal opportunities.

The assessment of contingent and prospective resources associated with these evaluation interests is an indicator of the ultimate production potential of the licence areas, should the company be successful in its efforts to develop the prospects it holds. At 31 December 2018 the company has reported contingent resources of 426 MMboe and prospective resources of 2,888 MMboe. While these resources relate to a subset of the overall evaluation prospects, it should be noted that the transition of resources to reserves is not barrel-for-barrel. If the company is successful in the development of its core assets then it will yield substantially fewer reserve barrels due, amongst other matters, to the application of economic assumptions and the determination of likelihood of production to the technical resource volumes when assessing the viability of each individual play.

This development risk is mitigated by the number of opportunities present within each of the company's licence areas and the number of licences that the company holds that are prospective for unconventional oil and gas. As already announced, the results of initial drilling have been in line with expectation and the wells drilled have provided the information and data that the company was seeking to obtain from them in terms of the nature and characteristics of the formations tested. This information is used to inform the evaluation of the licence areas and informs the budget, forecast and business planning activities of the company.

The company's strategy and business model are set out on pages 22 to 25 of this annual report.

Timeframe

The company has an established budgeting and forecasting process that is undertaken annually in Q4 and looks to forecasting of the following year's operational and financial performance as well as capital expenditure needs. The budget for a given year is updated or re-forecast periodically through the performance year as circumstances dictate.

The company also maintains a five-year plan that is updated annually in the budgeting cycle. The five-year plan seeks to forecast the performance of the business and its capital requirements over a five-year timeframe. Because exploration and evaluation activities are speculative in nature, the forecast results and planned operational activities will be more specific in the first two to three years of the five-year plan. In addition, the nature of exploration and evaluation means that activities planned in the latter portion of the five-year plan are often contingent on the results of activities in the near-term portion.

In addition, the planned development cycle for the unconventional opportunities included in the five-year plan typically contemplates individual projects becoming cash positive from operations and after capital expenditure over a period of three to four years from the start of development.

Taking these factors into account, the board believes that the viability of the business should be assessed over a three-year period. This is based on the expectation that individual development projects initiated at the start of the plan period will be cash generative overall on or shortly after the third anniversary of the commencement of development.

Assessing viability

Oil and gas exploration, evaluation and development activity is capital intensive and requires significant investment in the early stages of the asset lifecycle before yielding production returns and, ultimately, cash from operations. The planned capital expenditure in 2019 – 2021 totals more than US$1.0 billion with a funding requirement of more than US$750.0 million. If the company is unable to source funding to meet the development expenditure requirements, then it may not be able to ensure that the various unconventional opportunities it is targeting will move to development and production and ultimately yield net cash from operations after taking account of capital expenditure.

The company is evaluating its funding strategy with the major shareholder. The statement of going concern is made based on a letter of support received from Mercuria Energy Group Limited while that funding strategy is finalised.

Principal risks

The board's assessment of the principal risks and uncertainties facing the group are discussed on pages 42 to 49 of this annual report.

The board considers the key factors that could impact the delivery of the company's operational and financial targets to be as follows:

- A significant period of sustained low commodity prices
- Delays in or significant changes to the unconventional oil and gas permitting processes in the provinces that the company operates in
- Failure to secure the services of appropriately experienced and qualified contractors
- Cost overruns on capital projects
- An inability to gain sufficient access to key pipelines or other infrastructure to evacuate production

The directors' assessment of viability

For the reasons articulated in this viability statement, the directors consider it appropriate to assess the viability of the company over a three-year period.

The directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the next three years. This expectation is based on the company's ability to continue to secure financing to fund its activities over this period.

Investing to maintain our competitive advantage

Our people

Phoenix has a responsibility and a duty of care to the people who work for us and the contractors and suppliers who work alongside us in our operations. We are responsible for the health, wellbeing and personal safety of our people when they are with us and for our contractors and others who work alongside us to deliver our complex operational projects.

We are responsible for the personal and professional development of our people in the roles that they perform for us. Developing our people is a cornerstone to the growth of our business and we are committed to supporting and developing talent while promoting a collaborative and rewarding working environment. Our objective is to create a working environment that supports our people while challenging them to deliver their best and to develop their own skills and experiences.

The success and wellbeing of our people and their own personal and professional development is the foundation of all that we do.

We recognise the importance of diversity to our business. Diversity may relate to gender, nationality, faith, personal background or any other factor.

We understand and value how diversity benefits our business and how the individual experiences of our people contribute to a positive environment in our company.

We are committed to promoting an environment where our people learn and develop in a collaborative manner regardless of who they are.

Modern slavery

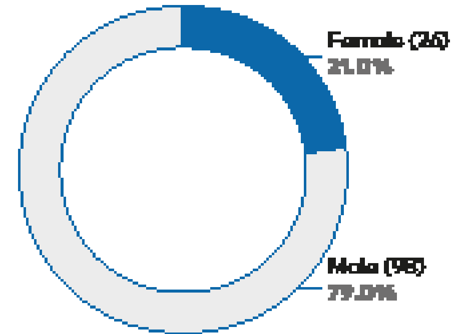
Personal freedom is a fundamental human right. The UK Modern Slavery Act was brought into law in 2015 and Phoenix fully supports the principles it promotes and the personal rights and freedoms it protects. We have zero tolerance for any form of slavery or any practices that could constitute or be perceived as slavery, whether they be in our own business or those of our suppliers, partners or consultants.

OUR KEY STAKEHOLDERS

We define our key stakeholders as:

- **> Our people**
- **> The communities where we work**
- **> The provinces we work with**

Gender diversity (total group[1])



1 Including directors

Anti-bribery and corruption (ABC)

We have zero tolerance for bribery, corruption or unethical conduct in our business. Our policies require compliance across our businesses with all applicable ABC laws, in particular, the UK Bribery Act, the US Foreign Corrupt Practices Act and the Argentine Foreign Corrupt Practices Act.

Substantially all of our operations and people are based in Argentina. In 2018, Transparency International's corruption perception index (CPI) ranked Argentina 85 out of 180 participating countries worldwide. This ranking was the same as in the prior year however the country's CPI score has improved from 39 to 40. To give context within our own operations, this compares to the UK ranked at 11 with a score of 80 and the USA ranked at 22 with a score of 71.

The CPI assesses corruption in the public sector when ranking different countries. In 2018, both the UK and the US slipped in terms of their ranking and their CPI scores. The potential for public sector corruption increases where democratic institutions are weakened. In recent periods there has been a rise globally in the number of political candidates running on populist platforms who seek to undermine public institutions. Candidates and campaigns often focus on public disillusionment and corruption scandals to advance their agenda.

The issue of corruption has been firmly on the agenda in Argentina throughout 2018. The widely publicised 'notebook scandal' has dominated headlines and has led to a number of high-profile arrests that have resulted in charges made against individuals and, in many cases, the imprisonment of offenders.

As a business, Phoenix operates in a competitive market and faces competition in securing and maintaining licence interests with the provinces, attracting and retaining the best service providers and in dealing with unions to secure and retain the right people for our business. We are very aware of the pressures and challenges that we face. However, we are committed to upholding the highest levels of corporate and operational behaviour and our objective is to develop our business responsibly and with integrity at all levels.

We have a system of documented ABC policies and procedures that provide a consistent policy framework across the group and help to ensure appropriate governance of ABC matters.

Our documented policies and supporting procedures are maintained in both Spanish and English and cover:

- anti-bribery and corruption
- gifts and entertainment
- third-party representatives
- whistle blowing

We also maintain training in Spanish and English. The reporting processes, most importantly in respect of whistle blowing, are also dual language, and we provide our staff the opportunity to report concerns or potential non-compliant behaviour through our external legal counsel as an alternative to reporting internally.

The policy documents are issued to each member of staff by the relevant department head or supervisor and a system of positive confirmation, that everyone within the company has read and understood the policies, has been implemented that is updated and reconfirmed at least annually.

Tendering and supply chain

Our focus on our tendering process and supplier management will increase as our evaluation and development activity increases. We have an established tendering process and strive to select the best service providers to work with us on delivering our capital projects. Drilling and completions activity is capital intensive and it is important to us and for shareholder value that we execute those operations with partners who are capable and whose objectives are aligned with our own.

We place contracts with local suppliers where possible and where we can be sure that the quality of service and delivery meets our standards – as with any supplier we work with.

In 2019, we are focusing on our procurement processes and controls ahead of the expected increase in operational activity, with a focus on the pre-approval of a selection of preferred suppliers who will be asked to tender for contracts/work as we develop our assets.

Environment

We are very conscious of the natural environment that we operate in and work hard to minimise our impact on that environment. Phoenix is committed to the responsible stewardship of the environment and, on the conclusion of our operations, to return our sites to the condition in which we found them.

Most of our exploration and production operations are in high-altitude desert areas. Site preparation mainly consists of clearance of scrub and levelling off the ground to allow safe access. We seek to operate from compact drill sites in order to minimise disruption to the natural habitat and plan multiple drill pads at single locations, thereby reducing the number of locations that we prepare.

Water usage

Unconventional oil and gas operations can also use significant amounts of water. We have developed a fracture fluid system that uses produced water that is a natural by-product when we produce oil and gas. This produced water is separated out and stored in tanks for use in operations. This system has helped us to minimise the use of fresh water in our operations.

Phoenix is also subject to strict operating procedures imposed on us by the provinces in which we work and related to our in-field pipeline networks and river crossings. We are required to maintain a system of pressure gauges to monitor pressure across the pipeline network because a drop in pressure is one of the main indicators that a line may have been breached. We have installed automatic shut-off or line break valves at points where our lines cross rivers that automatically and immediately shut off the line when a drop in pressure is detected. For our more mature fields, we have been actively fulfilling all remediation activity required by the provinces where we operate, including remediation related to activity prior to our ownership or operatorship.

Health and safety

The health and safety of our employees, contractors and visitors to our sites is paramount. Anyone working at, or visiting, a Phoenix operational site is provided with

Acting with transparency and integrity while investing in our people and the communities we work in are fundamental to the success of our operations

personal protective equipment appropriate to the location and will also be allocated to a supervisor or guide who is responsible for their safety while on site. When there are active operations taking place, such as drilling operations or facility upgrades, we establish clear boundaries to limit access to operational areas.

We have also established a system for the regular monitoring of noxious or flammable gases at our gathering or loading facilities and at our operational sites and regularly check lines and transmission networks for leaks.

Our objective is for zero lost-time injuries or incidents and zero spills or leaks. In 2018 we achieved a lost-time incident rate of 0.6.

Taxation

Phoenix is a responsible operator and corporate citizen and is committed to adhering to all relevant tax laws in all our jurisdictions. This includes compliance at the national, provincial or municipal level. Our operations in Argentina are subject to a complex fiscal system that includes corporate income taxes, royalties, sales taxes, VAT, payroll taxes and certain banking taxes amongst others. In addition, we are required to deduct and remit withholding taxes in respect of contractor payments direct to the Argentine tax authorities.

In 2018, we have implemented a new accounting system across our business that will improve the timeliness and accuracy of our management reporting and, importantly, that has been specifically tailored to the unique taxation system in Argentina.

Compliance with tax laws and regulations is fundamental to our licence to operate and is an obligation that we take seriously.

In 2018, we paid approximately US$30 million in cash taxes in Argentina with approximately US$25 million paid at the provincial level and the balance at the federal level.

The strategic report from pages 1 to 53 was approved by the board and signed on its behalf by Kevin Dennehy, chief financial officer, on 2 May 2019.

CASE STUDY

Protecting the environment that we work in

The company has worked closely with the water authorities in Mendoza province during the year to make sure that we take every step required to meet their environmental requirements. In 2018, we have undertaken a significant water project together with the authorities in order that we can monitor any impact that our operations could have on the environment and on the water resources nearby where we work.

A major part of this work relates to monitoring water quality in aquifers that are situated underneath the company's concessions. The work we are required to do involves drilling water monitoring wells into the aquifer structures prior to starting unconventional operations. This allows us to define the water quality baseline before the commencement of operations. This work confirmed that the quality of the aquifers has not changed following the unconventional operations already performed.

The water monitoring wells will be used to continually test water quality as our work progresses. In addition, besides the water monitoring program that the company has in place, representatives of the provincial water authority take their own readings every other second month as well as supervising our sampling process.

We are committed to the highest environmental standards in the work that we do and are committed to work closely with the provinces and their various agencies to make sure that we are satisfying environmental and other regulations as we undertake our work.

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Governance

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Good governance is the foundation of our business

Sir Michael Rake
Non-executive chairman

I am pleased to present our 2018 corporate governance report to our shareholders. The year has been one of consolidation and re-evaluation around the key tenets of our governance arrangements. We have made a number of changes and refinements to make sure that our governance keeps pace with the development of our activities both in nature and scope.

In 2018, we have added significant assets to our operated portfolio and have commenced appraisal work in key areas of the operated asset portfolio, most notably related to unconventional opportunities at Puesto Rojas and Mata Mora. We have also been working more closely with our partners across our non-operated portfolio as investment and development decisions are made at Chachahuen with YPF and at Santa Cruz Sur with ROCH S.A.

These development opportunities bring with them the need to ensure that robust governance procedures are in place as we begin to invest significant financial capital and dedicate resource to the business.

As our business, asset base and activities have evolved through 2018, our governance priorities have been focused on:

- consolidating our financial and non-financial reporting systems and processes;
- ensuring that your board and senior management teams have an appropriate balance of skills for the stage of development of our business; and
- working closely with our external stakeholders as we set the strategy for the development of our substantial unconventional asset base in Argentina.

We are committed to the highest levels of corporate governance and have continued to measure ourselves against the UK Corporate Governance Code. In 2018, AIM companies were required to adopt a recognised corporate governance code. Where we previously made a commitment to substantially comply and measure ourselves against the Code, we have now formally adopted it.

The Code was updated in 2018 and a revised version published that is focused on an updated set of principles and an increased focus on stakeholder engagement. This new Code was formally issued in July 2018 and is effective from 1 January 2019. We will undertake an evaluation of our compliance with the revised principles and may make further changes to our governance procedures as a result. We will report our compliance with the principles of the revised 2018 code in our 2019 annual report.

Sir Michael Rake
2 May 2019

Leadership and effectiveness

We have continued to assess the performance of the board and the skills that are represented on the board related to the stage of development and the strategic objectives of the group. In recognition of the deferral of the originally planned move to the main market we re-evaluated the CFO role. Philip Wolfe who joined the group given his significant experience of raising finance for oil and gas companies stepped down from the board. Philip is succeeded as CFO by Kevin Dennehy who has more than 30 years' experience of running international operational finance organisations with BP.

In November 2018, Tim Harrington joined the Board adding significant operational experience in unconventional oil and gas exploration and development. In his role, Tim will bring challenge, oversight and support to the executive management team and adds to the industry insight of the board.

Accountability

The directors have consistently made a clear and explicit statement of the group's commitment to the highest standards of corporate governance. On the formation of Phoenix, we made a pledge to substantially comply with and measure ourselves against the requirements of the UK Corporate Governance Code despite the fact that doing so was not required by the AIM Rules for Companies at that time.

In 2018, AIM Rule 26 was revised and now requires the application of a recognised governance framework. Companies must also state the framework that has been applied. We have elected to apply the UK Corporate Governance Code and fully explain any areas of non-compliance. Whilst we could have elected to adopt an alternate governance framework, the directors determined that adopting the UK Corporate Governance Code in full was the most appropriate action given our stated commitment to the highest standards of governance.

Stakeholder engagement

Our licence to operate depends on the communities and the provinces in which we operate in. In 2018, we have consulted with the Province of Mendoza as it has established its regulations for unconventional oil and gas activities in the province together with drafting the associated permitting procedures. This is fundamental to our business. We are committed to being a responsible operator and working with the province to produce oil and gas in a safe and efficient manner that respects the environment and creates jobs.

Protecting the environment is a core value of the group. During 2018, we worked with the water authorities in Mendoza on a significant water quality project to establish that the aquifers nearby our Puesto Rojas operations were not contaminated and contained only clean potable water. Our commitment to the environment underpins our ability to continue to work in the areas that we do.

Requirement	Board response	Where to find out more
Compliance with the UK Corporate Governance code	In accordance with the revised AIM rules, the company has elected to comply with the requirements of the UK Corporate Governance Code	Corporate governance report
Going concern statement	The directors have conducted their assessment of going concern and have made a positive statement	Directors' report
Viability statement	The directors have considered the viability of the group and have made a statement related to the period that they consider the business to be viable	Strategic report
Statement of directors' responsibilities	The directors have acknowledged their responsibilities as they relate to the annual report and accounts	Statement of directors' responsibilities
Independence	Excluding the shareholder representatives and the chairman, the board consists of just less than 50% independent directors	Corporate governance report
Experience	The board is comprised of individuals with varied and relevant experience. Specific appointments have been made in the year to enhance the experience of the board related to key aspects of our operational and financial activities	Board of directors
Accountability and board roles	The roles of the directors are clearly defined and documented	Corporate governance report
Composition of committees	The composition of each of the committees of the board is in compliance with the requirements of the code	Committee reports
Attendance	The attendance of each of the board members at board and committees is at an acceptable level for each meeting	Committee reports
Relationship agreement	A relationship agreement is in place between the company and Mercuria Energy Trading Group to protect the interests of the minority shareholders	Corporate governance report
Internal audit	The board does not consider it appropriate to have a dedicated internal audit function at this time. Specific reviews will be commissioned as determined appropriate	Audit and risk committee report
Remuneration and reward	Our remuneration policy has been designed to incentivise and motivate the executive team to achieve the group's operational and financial strategy as laid out in this report	Directors' remuneration policy report

BOARD OF DIRECTORS

The right balance of skills and expertise

Committee membership

- (A) Audit and risk committee
- (N) Nomination committee
- (R) Remuneration committee
- ◯ Chair
- ● Observer

GOVERNANCE

Sir Michael Rake (age 71) (A) (N) (R)

Non-executive chairman

First appointed 19 September 2016

Skills and experience
Sir Michael Rake is the former Chairman of BT Group plc as well as Chairman of payment processing firm Worldpay Group plc, a director of S&P Global and chairman of Majid Al Futtaim Holdings LLC.

Sir Michael was President of the CBI from 2013 to 2015; a member of the Prime Minister's Business Advisory Group from 2010 to 2015; non-executive director of Barclays plc from 2008, becoming Deputy Chairman from 2012 to 2015; Chairman of the private equity oversight group, the Guidelines Monitoring Committee, from 2008 to 2013; Chairman of EasyJet plc from 2010 to 2013 and the first Chairman of the UK Commission for Employment and Skills from 2007 to 2010. He was a director of the Financial Reporting Council from 2004 to 2007.

From May 2002 to September 2007, Sir Michael was International Chairman of KPMG. Prior to his appointment as International Chairman, he was Chairman of KPMG in Europe and Senior Partner of KPMG in the UK.

Sir Michael was knighted in 2007. In 2011 he received the British American Business UK Transatlantic Business Award in recognition of outstanding business leadership. In 2013, he received the Channing Award for Corporate Citizenship, was voted the FTSE 100 non-executive director of the year and received the ICAEW outstanding achievement award.

External appointments

- Chairman, WorldpayGroup plc.
- Director, S&P Global
- Chairman, Majid Al Futtaim Holdings LLC
- Director, British Argentine Chamber of Commerce

Qualifications
Chartered accountant

Tim Harrington (age 60) (A) (R)

Non-executive director

First appointed 14 November 2018

Skills and experience
Tim Harrington has over 37 years of oil and gas experience and spent 31 years with BP PLC in various commercial, financial, and operating leadership positions around the globe including postings in Houston, Anchorage, London, and Bogota. In his final two roles with BP, he served as CFO and then later as President of BP America Production Company, BP's Lower 48 onshore E&P business focused on unconventional resources.

Since leaving BP, he has been working with private equity and various start-ups in the US and currently serves as a Senior Energy Advisor to Trilantic Capital Partners, Mercuria Energy Trading, and Bayswater Exploration & Production.

Additionally, Tim sits on the board of directors for three privately funded oil and gas industry related start-ups operating in the onshore US.

He is also a member of the National Association of Corporate Directors (NACD) in the US and was a past director and executive committee member for the Texas Oil and Gas Association (TXOGA).

External appointments

- Director, DJR Energy LLC
- Director, TRP Energy LLC
- Director, EnergyFlo Chemical Applications LLC

Qualifications
BSc, Accounting, Miami University (Ohio)

MBA, Xavier University

Certified Public Accountant, Texas (inactive)

Kevin Dennehy (age 60)
Chief financial officer

First appointed 1 October 2018

Skills and experience
Kevin has over 38 years' experience in the oil and gas industry and was appointed as the CFO and to the board on 1 October, 2018.

Kevin, who is based in our Buenos Aires office, has had a 35 year career in the oil industry with BP. Between 2016 and 2018, Kevin was CFO of Pan American Energy, BP's Argentine JV and between 2013 and 2015 he was Country Manager BP Iraq. He has held senior Finance roles at BP in Iraq, Colombia, Russia, Angola, Kuwait, the UK and the USA. Prior to BP, Kevin worked for El Paso Natural Gas Company.

His experience includes exposure to the full lifecycle of upstream operations from new business access and exploration success to project developments and mature operations.

External appointments
> None

Qualifications
B.S. Accounting (Hons) Thomas College

MBA Houston Baptist University

Certified Public Accountant, Texas

John Bentley (age 71) N R
Independent non-executive director
Senior independent director

First appointed 10 August 2017

Skills and experience
John has over 40 years' experience in the natural resources sector. He is an experienced board member being a past managing director of Gencor's Brazilian mining company, Sao Bento Mineracao and chief executive of Engen's exploration and production division.

In 1996, John was instrumental in floating Energy Africa Ltd on the Johannesburg stock exchange and was chief executive for the following five years. More recently, he was chairman of Faroe Petroleum plc, executive chairman of First Africa Oil plc and served on the boards of Rift Oil plc, Adastra Minerals Ltd, Caracal Energy Inc and Scotgold Resources Limited.

He is currently on the board of a number of E&P companies acting as senior independent director of Wentworth Resources Ltd and non-executive director of Africa Energy Corp.

External appointments
> Senior independent director, Wentworth Resources Ltd
> Non-executive director, Africa Energy Corp.

Qualifications
B.Tech (Hons) Metallurgy, Brunel University

Garrett Soden (age 44) A R
Independent non-executive director

First appointed 10 August 2017

Skills and experience
Garrett has extensive experience as a senior executive and board member of various public companies in the natural resources sector. He has worked with the Lundin Group for over a decade.

He is currently President and CEO of Africa Energy Corp., a Canadian oil and gas company with exploration assets in Africa. He is also a non-executive director of Etrion Corporation, Gulf Keystone Petroleum Ltd. and Panoro Energy ASA.

Previously, he was chairman and CEO of RusForest AB, CFO of Etrion and PetroFalcon Corporation and a non-executive director of PA Resources AB and Petropavlosk plc. Prior to joining the Lundin Group, Garrett worked at Lehman Brothers in equity research and at Salomon Brothers in mergers and acquisitions. He also previously served as senior policy advisor to the U.S. Secretary of Energy.

External appointments
> President and CEO, Africa Energy Corp.
> Non-executive director, Etrion Corporation
> Non-executive director, Gulf Keystone Petroleum Ltd.
> Non-executive director, Panoro Energy ASA

Qualifications
BSc (Hons), London School of Economics

MBA, Columbia Business School

David Jackson (age 70) A R
Independent non-executive director

First appointed 17 July 2012

Skills and experience
David has more than 30 years' experience in international banking and finance having held senior positions in investment banking and investment management in Standard Chartered Bank from 1990–2008, where he was a managing director in London and Hong Kong, Scandinavian Bank from 1977–1990 in London, Bahrain, Singapore and Hong Kong, where he was an executive director and a member of the bank's general management committee.

David served as senior legal adviser to Finance for Industry, now 3i, from 1973–1977.

External appointments
- Director, Burges Grove Management Company Limited
- Chairman, Emergex Vaccines Holding Limited

Qualifications
LL.B, (Hons), Leeds University

Barrister

Javier Alvarez (age 47) A N
Independent non-executive director

First appointed 17 July 2012

Skills and experience
Javier is an Agricultural Engineer and holds a master's degree in Environmental Politics and Globalisation from King's College, University of London. Javier's career, which is based on his skills on building projects with diverse stakeholders and on his experience in fundraising, was developed in the private sector in London; he was Executive Director of the British Argentine Chamber of Commerce BACC from 2007 to 2011 (he is currently Overseas Director and Member of the Board of the BACC) and he was Business Development Director at a family office in Cambridge dealing with investments in the primary sector.

External appointments
- Overseas Director, British Argentine Chamber of Commerce
- Member of the Board, British Argentine Chamber of Commerce

Qualifications
Masters, Environmental Politics and Globalisation, King's College

Nominated shareholder representative directors

Daniel Jaeggi (age 58)
Non-executive director

First appointed 14 November 2018

Skills and experience
Daniel is co-founder and President of Mercuria Energy Group Limited.

Daniel is the nominated majority shareholder representative to the Board.

Nicolás Mallo Huergo (age 49) N R
Non-executive director

First appointed 2 October 2007

Skills and experience
Nicolás was Chairman of Andes Energia plc until August 2017 and is a director of both Integra Investment S.A. and Integra Capital S.A.

Nicolás is the nominated minority shareholder representative to the Board.

Corporate governance and the UK Corporate Governance Code ('the Code')

The directors of the company are committed to the highest standards of corporate governance and have evaluated the group's corporate governance arrangements by reference to the Code since the formation of Phoenix. In 2018, the AIM rules were amended to require companies to state which recognised code of governance they will apply. The directors have elected to apply the requirements of the Code.

The directors consider that the company has been in compliance with the Code throughout the period other than in respect of the following:

> **Code provision B.1.2.:** Excluding the chairman, four of the nine directors have been determined to be independent, representing just less than 50% of the board. Notwithstanding, a relationship agreement is in place between the company and its major shareholder that governs how the major shareholder representatives to the board participate in certain matters, thereby increasing the influence of the non-executive directors.
> We will continue to reassess the independence of the board through 2019.

> **Code provision B.6.1.:** The performance of the board and of the individual directors has not been formally assessed during the year. Changes to the board composition have been made with the involvement of the nominations committee. These changes were made to address a perceived gap in experience of unconventional oil and gas among the non-executive directors and to bring operational oil and gas finance experience to the board.
> We will continue to assess the performance of individual directors throughout 2019.

Enhancements to governance made in the year

> **Code provision A.4.4.:** John Bentley has been appointed as the Senior Independent Director.

We have presented this governance report using the Code as a framework to articulate our activities in the year and to frame our focus for the coming year.

The structure of this report follows the structure and key principles of the Code which are:

> Leadership and effectiveness
> Accountability
> Stakeholder engagement and relationship

1. Leadership and effectiveness

The role of the board

Phoenix is led and controlled by the board which is collectively responsible for the long-term and sustainable performance of Phoenix. The roles of the Chairman and CEO are separate and clearly defined, with the division of responsibilities between and amongst the board set out below.

The responsibilities of the board

Role	Principal responsibilities	
Chairman	> Manages and provides leadership to the board > Acts as a direct liaison between the board and management, working with the CEO to assist the flow of information > Ensures that the directors have sufficient information to enable them to make informed judgements	> The chairman develops and sets the agendas for board meetings working with the CEO and the company secretary > Recommends an annual schedule of board and committee meetings > Ensures effective communication with shareholders and other stakeholders
Chief executive officer	> Responsible for the day-to-day management of Phoenix > Together with the executive committee, is responsible for executing strategy once it has been approved by the board > Creates a framework that optimises resource allocation to deliver strategic objectives over varying timelines	> Oversees delivery against plan and other key business objectives, allocating decision making responsibilities accordingly > Together with the executive committee, identifies and executes new business opportunities and assesses potential acquisitions and disposals
Senior independent director	> An independent non-executive director > Provides a sounding board for the chairman and the CEO	> Serves as an intermediary for the other directors as necessary > Is available to shareholders should they have concerns
Non-executive directors	> Provide constructive challenge to the executive directors > Help develop proposals on strategy > Scrutinise management's performance in meeting agreed goals and objectives > Monitor performance reports	> Satisfy themselves on the integrity of financial information and that controls and risk management systems are robust and defensible > Determine appropriate levels of remuneration for the executive directors > Appoint and remove executive directors as required and review succession planning
Chief financial officer	> Overall management of the financial risks of the group > Responsible for financial planning and record keeping as well as financial reporting to the board and shareholders	> Ensures effective financial compliance and control, while responding to regulatory developments, including financial reporting, capital requirements and corporate responsibility

Provision of information to directors

Board and committee agendas are distributed to board members by the company secretary in advance of meetings. Any supporting information or analysis related to agenda items is distributed at the same time.

The directors are able to request that management prepares any additional analysis that they believe is required for the assessment of issues or risks facing the group or to support board discussion related to specific topics.

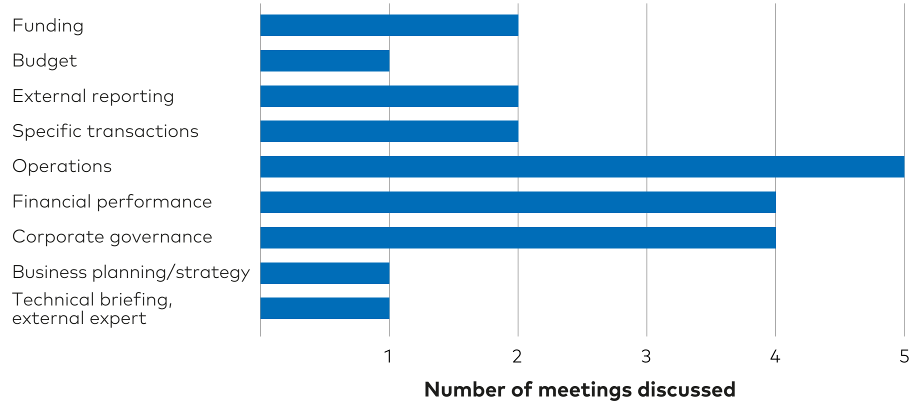
The board receives a monthly operational and financial update that includes key metrics related to business performance, production and sales and financial performance, including liquidity. This report includes a discursive summary of the activities of the operations and finance team for the month, together with key items or activities upcoming.

Appointment of directors

All directors were initially appointed for a period of three years however, in accordance with the revised Code, all directors will be put forward for re-election annually at the AGM. The independence and objectivity of the independent directors will be formally assessed on an annual basis following the fifth anniversary of their original appointment. The independence and objectivity of the board is monitored on an ongoing basis.

What we focused on in 2018

In 2018 the board considered, assessed and debated a wide range of matters including:



Training and access to advice

New directors receive an induction to the group on appointment to the board. The induction covers the activities and operations of the group and the key business and financial risks faced. New directors have the opportunity to meet privately with existing directors, members of the senior management team and the company's advisors prior to appointment.

The company provides additional specific training to directors on topics considered to be relevant to the discharge of their duties as directors. In addition he company will from time-to-time provide the directors specific information sessions related to the assets and operations of the business or the legal, legislative, fiscal and political environment in which it operates.

Specific informational sessions

During 2018, specific sessions were included in the board agenda related to the fundamentals of unconventional oil and gas operations and how they differ from conventional operations. The session was supported by a comprehensive slide-pack that provided illustrations and examples.

Access to external experts and site visits

In addition, a key advisor who is widely recognised as a subsurface expert in the unconventional industry was invited to present to the board at a meeting held in Mendoza. As part of the same field visit members of the board were invited to visit both the Puesto Rojas and Mata Mora assets. The Mata Mora trip included a visit to the drill site where the initial horizontal well into the Vaca Muerta formation was being drilled.

Access to advice

All directors have access to the advice and services of the company secretary who is responsible to the board for ensuring compliance with laws and regulations applicable to the company. The company secretary is also responsible for ensuring that board procedures are followed.

The directors, collectively or individually, are able to take independent professional advice if they believe such advice is required in the furtherance of their duties. Where such advice is taken, it is at the company's expense.

Directors' other commitments

The chairman and non-executive directors have other third-party commitments, including directorships of other companies as disclosed in the individual director biographies. The company is satisfied that these other commitments have no measurable impact on the ability of directors to discharge their responsibilities to Phoenix effectively.

Directors' and officers' liability insurance

The company has directors' and officers' liability insurance in place that provides coverage for costs incurred by the directors and officers individually in the event of a legal or regulatory claim being made against the company or the directors.

2. Accountability

Committees of the board

Three permanent committees of the board have been organised to discharge the board's delegated responsibilities in relation to director nomination, remuneration and audit and risk matters. Each committee reports to the board though the respective committee chair. The workings of these committees, their activities in the year and details of their membership are included in each of the separate committee reports on pages 65 to 71.

Responsibility for the annual report

The board charged the audit and risk committee with the responsibility for reviewing the contents of the 2018 annual report to assess, when taken as a whole, whether it is fair balanced and understandable. The audit and risk committee also considers if the annual report provides all the necessary information for shareholders and other stakeholders to assess the financial position of the group and its performance in the context of the business model and strategy that is articulated in that annual report.

The audit and risk committee report on pages 67 to 69 discusses the focus of that review together with details of matters discussed with the auditor.

The board has responsibility for the overall system of internal control and for reviewing its effectiveness. In assessing effectiveness the board has carried out a robust review of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks facing the group are detailed on pages 42 to 49 together with their potential impact and mitigation.

BOARD SITE VISIT

The company held its November 2018 board meeting at its Mendoza office in Argentina. The meeting focused on examining the results of the unconventional campaign undertaken at Puesto Rojas and the implications of both that work and the work planned at Mata Mora on the operational and financial planning process for 2019.

At the meeting the board also received a presentation from a key technical advisor to the company. The presentation focused on the subsurface properties of the plays at both Puesto Rojas and Mata Mora and how the work planned at these locations was based on the geological analysis done.

During the visit, the members of the board were able to visit the Mata Mora well site at the concession in Neuquén province where drilling of the company's inaugural horizontal well was underway. In addition, a smaller delegation of the board also visited Puesto Rojas.

In 2018 the group has implemented a common integrated financial reporting system across the group. Other than the change in system, there have been no changes to the internal control or risk management frameworks during the period since listing and up to the date of approval of the annual report. It should be noted that the systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and therefore they can only provide reasonable, and not absolute, assurance against material errors, losses, fraud or breaches of law and regulations.

3. Stakeholder relationships and engagement

We define our key stakeholders in the sustainability review section on pages 51–53.

Protecting minority shareholders rights

The Phoenix board recognises our obligation to minority shareholders and we consider that the protection of minority shareholders' rights is fundamental to responsible corporate governance. A relationship agreement is in place with Mercuria that regulates the influence that Mercuria can exercise over the company. By implementing such a relationship agreement, Phoenix is in line with the UK Financial Conduct Authority's requirements for premium listed companies where a majority shareholder exists.

The agreement governs matters relating to the proposal and appointment of nominee directors, the composition of the board, involvement in the day to day running of the group and transactions between the group and Mercuria that are to be undertaken on an arm's length basis.

Stock market communications

Phoenix is committed to ongoing market communications plan that includes comprehensive quarterly operational updates. The objective of the communications plan is to keep all shareholders informed and engaged.

Shareholder and other stakeholder relations

Communications with stakeholders are given high priority by the board. Phoenix responds promptly to correspondence from stakeholders and the group's website contains a range of information on the group and its operations, including a dedicated investor relations section where readers can access historical financial reports and presentations as well as RNS announcements issued by the company.

The group issues its results promptly and also publishes them in full on its website (www.phoenixglobalresources.com). The board uses the annual general meeting to communicate with private and institutional shareholders and welcomes their participation.

4. Remuneration

The remuneration report is presented on pages 81 to 88.

Meeting frequency and attendance

The board is responsible to the shareholders for the proper management of the group. The board sets the strategy of the group and is responsible for ensuring appropriate funding and financing arrangements are in place to support that strategy. The board reviews and approves the business plan and annual budgets that are compiled by the executive board members, together with the senior management team, and in doing so provides robust challenge.

Members of the senior management team are invited to attend specific board meetings where technical or operational matters that affect the delivery of the group strategy are being discussed. Such invitation is made to give the board the opportunity to discuss operational plans directly with those responsible for assisting in formulating and, ultimately, executing those plans.

The board meets regularly to review trading performance, monitor strategy, approve annual budgets and major capital expenditure projects, monitor changes to the business environment and the risks facing the group and to examine other significant financing matters. The board reports to the shareholders on these matters as required or where appropriate to provide the shareholders with additional information on the group and its operations.

The board delegates authority for the day-to-day business to management under a defined set of delegated authorities that cover routine operational matters, financial authority limits, contract approval procedures, purchasing procedures, banking mandates and the hiring of full time and temporary staff and consultants.

	Role	Meetings attended
Sir Michael Rake	Non-executive chairman	6/6
Anuj Sharma	Chief executive officer	6/6
Philip Wolfe*	Chief financial officer	5/5
Kevin Dennehy**	Chief financial officer	1/1
John Bentley	Independent non-executive director	6/6
Garret Soden	Independent non-executive director	6/6
Javier Alvarez	Independent non-executive director	6/6
David Jackson	Independent non-executive director	6/6
Nicolas Mallo Huergo	Non-executive director	6/6
Matthieu Milandri***	Non-executive director	5/6
Guillaume Vermersch*	Non-executive director	2/5
Daniel Jaeggi**	Non-executive director	1/1
Tim Harrington**	Non-executive director	1/1

* Resigned in the period
** Appointed in the period
*** Resigned 31 January 2018

Ensuring a high quality board with the right mix of skills

Sir Michael Rake
Chairman
Nomination committee

Phoenix recognises that the role of its nomination committee, working together with the board as a whole, is key to promoting effective board succession and the alignment of board composition with the company's culture, values and strategy.

The nomination committee meets at least twice a year, and more frequently as necessary, and reports on its activities to the full board.

Purpose

The nomination committee is formed with the purpose of monitoring the balance of skills, knowledge, experience, independence and diversity of the board and its committees. Consideration of diversity includes gender diversity as well as diversity of nationality, background, skills and experience. The committee is charged with ensuring that there is a formal, rigorous and transparent procedure for the nomination and appointment of new directors and that appropriate procedures are in place for their nomination, selection and training of directors.

Membership

The nomination committee comprises three non-executive directors, two of whom are required to be independent. The committee is chaired by Sir Michael Rake, who is also chairman of the board of directors. The terms of reference of the committee state that it can be chaired by either the group chair or by an independent non-executive director. Where the chair of the committee is also the chair of the board, he or she is required to absent themselves from the discussion or selection of potential successors to the chair of the board to avoid any potential conflict of interest. Similarly, individual members are excused from discussion related to their own appointment as chair of board committees.

MEMBERSHIP

Members	Date appointed	Quorum
Sir Michael Rake (chair)	Aug 2017	2 members
Javier Alvarez	Aug 2017	
John Bentley	Aug 2017	
Nicolás Mallo Huergo	Aug 2017	(observer)

DIVERSITY

Gender	Male	Female
Board	10	–
Senior management team	9	1
Group	92	25

Nationality	Argentina	United Kingdom	United States	France
Board	2	4	2	2
Senior management team	8	1	1	–

Status	Independent	Non-independent	Executive	Total
Number	4	4	2	10
%	40%	40%	20%	100%

Board skills and experience	O&G/ Technical	Financial	Argentina	Strategy/ leadership
Number	4	4	2	10

Responsibilities

The principal responsibilities of the nomination committee are to:

- review the structure, size and composition of the board, taking account of the group's strategic objectives, and make recommendations in regard to any changes required;
- plan for the succession of directors and other senior executives;
- identify, and nominate for board approval, candidates to fill board vacancies as they arise;
- annually review the time commitment required of non-executive directors together with the number and type of external appointments held by those directors;
- make recommendations to the board in regard to the membership of both the audit and risk committee and the remuneration committee in consultation with the relevant committee chair; and
- assist the board with its periodic evaluation of the performance of individual directors and of the board as a whole.

An experienced international Board of Directors

Diversity

When considering board composition, the group policy continues to be that the group recruits the best candidate available for any position based on merit and against objective criteria in order to achieve the most effective board. The application of this policy is delegated to the nomination committee and applied throughout the group. The experience of the board is very diverse in terms of experience and expertise that covers not only a wealth of oil and gas operational experience, but also extensive technical, operational, financial, governance, legal and commercial expertise.

The board recognises the strength that comes with diversity and the different viewpoints and innovative thinking that can come from a combination of diverse life experiences. We are committed to continue to work hard to ensure that we recruit the very best candidates throughout our business regardless of gender, nationality or background.

Activity in 2018

The board was formed on the completion of the combination transaction in August 2017. At the time of its formation no senior independent director was appointed. The reasoning being that with, a number of new appointees joining concurrently, it was considered prudent to allow the board to operate before nominating the senior independent director. In July 2018, following an evaluation period John Bentley was appointed as the senior independent director.

The committee also evaluated the performance of the board and its competencies during the year. The evaluation was informal but highlighted the need to introduce more technical oil and gas capability – and especially hands on operational experience of developing shale and other unconventional oil and gas assets. Together with administrative support from the major shareholder a search process was initiated and culminated with the appointment of Tim Harrington to the board of directors. Tim has had a long career in oil and gas and, latterly, was responsible for BP's unconventional operations in the United States.

The appointment of Tim provides the board with the ability to more effectively challenge and also support operational management in the development of the company's asset portfolio.

Priorities for the coming year

In 2019, the committee will continue to assess the skills present on, and the effectiveness of, the Board and will make additional appointments and changes to board composition as determined appropriate.

Over-boarding

We are aware of, and have considered, recent guidance recommending that shareholders vote against the re-election of directors where shareholders consider that a director is attempting to undertake too many roles in addition to the responsibilities that come with being a member of the company's board. While we are satisfied that the members of the board do have sufficient time to fulfil their duties, we recognise that some directors currently hold a number of external appointments. We will continue to monitor the workload and external commitments of our board members as the group's activities and the level of its operations grow and develop in order to make sure that each member of our board is able to commit sufficient time to fulfil their responsibility to the shareholders and to their fellow directors in an effective manner.

Conflicts of interest

The board operates a policy to identify and, where appropriate, manage conflicts or potential conflicts with the group's interests. In accordance with the directors' interest provisions in the Companies Act 2006, all of the directors are required to submit details to the company secretary of any situations that might give rise to a conflict or potential conflict of interest. The board monitors and reviews potential conflicts of interest on a regular basis.

Sir Michael Rake
Chairman, nomination committee
2 May 2019

AUDIT AND RISK COMMITTEE REPORT

Ensuring the integrity and clarity of financial reporting

Garrett Soden
Chairman
Audit and risk committee

MEMBERSHIP

Members	Date appointed	Quorum	Meetings attended 2017 audit cycle
Garrett Soden (chair)	Aug 2017	2 members	4/4
Sir Michael Rake	Aug 2017		4/4
Javier Alvarez	Aug 2017		3/4
David Jackson	Aug 2017		4/4

MEETING FREQUENCY

	Jan 2018	May 2018	Jul 2018	Sep 2018	Mar 2019
2017 audit update	✓	–	–	–	–
Review status of financial system implementation – Argentina and integration update	✓	–	–	–	–
Update on key judgements related to the audit and 2017 annual report and accounts	–	✓	–	–	–
Review and approve 2017 annual report and accounts	–	✓	–	–	–
Review proposed 2018 external audit fees	–	–	–	✓	–
Interim review planning	–	–	✓	–	
Discussion of key risks and uncertainties for the interim financial statements including areas of judgment	–	–	✓	–	–
Approval of interim financial statements	–	–	✓	–	
Presentation of 2018 draft audit plan including update on key risks and uncertainties and preliminary financial statement materiality	–	–	–	✓	–
Approval of external audit fees for 2018	–	–	–	✓	–
Review and approve 2018 annual report and accounts including discussion of significant accounting issues, key judgments and narrative disclosures	–	–	–	–	✓
Update to assessment of financial statement materiality	–	–	–	–	✓
Consideration of appropriateness of going concern assumption	–	–	–	–	✓
Presentation of external auditor's report	–	–	–	–	✓

Purpose

The main function of the audit and risk committee is to assist the board in fulfilling its financial oversight responsibilities by reviewing and monitoring the integrity of the financial information provided to shareholders and the group's system of internal control and risk management. These systems have been established for the purpose of providing relevant, accurate and timely information for both external reporting and internal management purposes. As part of this role, the committee is also responsible for the internal and external audit processes and the group's compliance with laws, regulations and other ethical codes of practice.

Membership

As required by the UK Corporate Governance Code, the audit and risk committee consists exclusively of non-executive directors. The terms of reference for the committee require that it has at least three members, the majority of whom are independent. The members are all appointed by the board on the recommendation of the nomination committee and in consultation with the committee chair. The chair of the board may be a member of the committee, though only where he or she is considered independent on appointment as chair of the board, but cannot chair the committee. Sir Michael Rake currently sits on the audit and risk committee.

In accordance with Code provision C.3.1, at least one member of the committee is required to have recent and relevant financial experience. The board is satisfied that Garrett Soden fulfils this requirement.

Meetings are normally attended by the chief financial officer and key members of the finance team as appropriate and at the invitation of the committee. In addition, representatives of the external auditor are invited to attend meetings. The committee chair maintains an ongoing dialogue with key individuals involved in the company's governance, including the external auditor. The chair also meets privately with the external auditor at least once per year, but will meet more frequently as circumstances dictate.

Responsibilities

The principal responsibilities of the audit and risk committee are:

- to monitor the integrity of the financial statements, including the annual and interim financial statement reporting required by both the London and Buenos Aires stock exchanges, together with any other formal or informal reporting regarding financial reporting, such as analyst and investor presentations, annual results presentations and financial information contained in press releases and other communications;
- to report to the board on financial reporting issues and significant judgments, including matters discussed with the external auditor;
- to provide oversight of the work of the external auditor and make recommendations to the board in relation to their appointment or reappointment, including related to the re-tendering or termination of the external audit contract;
- to provide oversight of the relationship with the external auditor, including agreeing terms of reference, scope and remuneration (including both audit and non-audit fees);
- to maintain internal controls and risk management systems together with arrangements for internal audit; and
- to monitor policies and procedures related to ethics, fraud and whistle-blowing.

Embedding high quality systems and processes

Meeting frequency

The committee will meet at least four times per year with the calendar of meetings specifically designed around the key phases of the external financial reporting cycle, including audit planning, interim results, full year results and the conclusion of the annual financial statement audit.

In relation to the 2018 reporting cycle, the committee has met four times. A summary of the items discussed at each meeting is set out on page 67.

Internal audit

The group does not currently have an internal audit function and no internal audit reviews were undertaken in 2018.

The board did not commission any specific internal audit reviews in 2018. This was to allow group management to focus on integrating the accounting system that was implemented in Argentina in 2017 across all group locations. Management was also focused on developing and enhancing internal financial reporting and control procedures.

In late 2018, the finance team in Argentina initiated joint venture reviews over partner-operated assets with a focus on cost allocation to the joint account. Such charges are levied on Phoenix through periodic joint interest billings. These reviews were conducted by members of the group finance team and were undertaken under our partner audit rights embedded within the joint venture contracts.

The group remains relatively small in terms of finance and administration and the number of projects being undertaken concurrently is low and also focused on initial evaluation drilling and related activity. The development and production operations are not extensive at this time. It is therefore likely that any operational or financial internal audits determined appropriate during 2019 will be undertaken using a specialist external provider of audit services.

External audit

The group has elected to comply with the provisions of the UK Corporate Governance Code that require FTSE 350 companies to put the external audit contract out to tender at least every ten years. The committee's terms of reference require the group to consider whether to put the audit out to tender after five years and annually thereafter. PwC was first appointed as external auditor for the year ended 31 December 2012 and their appointment was reconsidered in light of the tendering requirements after both the 2016 and 2017 audits and will be considered again on conclusion of the 2018 audit.

Non-audit services

The audit and risk committee has established a policy for the provision of non-audit services by the external auditor to ensure that these services do not impair the auditor's independence or objectivity. The policy identifies those services that the auditor may provide, services that are precluded in normal circumstances and sets guidance around the level of non-audit fees that the committee considers to be acceptable depending on the type of service being proposed and the circumstances related to the provision of that service.

Non-audit work undertaken by the auditor in 2018 primarily related to an intercompany transfer pricing study in Argentina with fees of less than US$5,000. In addition, two of the directors use PwC to prepare their personal US tax filings for which the fees are settled by the directors themselves.

In considering which services the external auditor can and cannot provide, the governing principles applied by the audit and risk committee are that the auditor cannot:

> audit its own work;
> perform management functions; or
> act as an advocate for the group.

Nevertheless, each piece of work proposed for the external auditor is formally assessed and approved by the committee prior to commencement. In addition, the scope of individual projects is monitored throughout their delivery to identify any potential conflicts as work progresses.

Garrett Soden
Chairman, audit and risk committee
2 May 2019

2018 year-end significant accounting issues

The significant issues considered by the audit and risk committee in 2018 in relation to the financial statements and how each of these were addressed are shown below.

Significant accounting issue	Consideration and conclusion
Liquidity and going concern	In preparing the financial statements management is required to assess the company's ability to continue as a going concern and to meet its obligations as they fall due. To date, funding for exploration and evaluation activity has been provided by the major shareholder. The company is currently evaluating the potential of three licence areas that are at varying stages of evaluation. The company is in the process of determining both the scale and pace of appraisal and development activity that would be required if the areas were to be developed consecutively, concurrently or individually. The determination of the preferred financing method for these options is dependent on the activity plan for the assets in the next several years. Mercuria Energy Group Limited has provided the company with a letter of support while the directors determine the appropriate method of financing for the next stage of activity. The committee reviewed the letter that has been provided and considered that it was sufficiently comprehensive and satisfied the requirement for the directors to be able to make a positive statement as to the company's ability to continue as a going concern. The committee also considered Mercuria's ability to honour the letter and, given the history of financing provided to the group by Mercuria, had no significant concerns in this regard.
Carrying value of long-lived assets and goodwill	The company has made significant investments in property plant and equipment and also in intangible licence interests. In addition, the assets acquired in the 2017 combination transaction were recorded at their fair values, which can often be higher than the historic cot of the asset acquired. In addition, goodwill recognised in respect of the combination was allocated to three of the prospective licences acquired in that transaction. The committee considered the recoverability of the long-lived assets and goodwill and in doing so considered the NPV10 valuation for 2P reserves from the year end reserves statement, the cash flow generated from producing assets, the oil price and outlook going forward and other factors related to the continued investment by others in unconventional opportunities in Argentina and specifically those proximate to the company's assets. No matters were identified by the committee that would indicate a potential impairment of the long-lived assets and goodwill. Specifically, the committee was satisfied that the carrying value of goodwill could be supported by the assets it had been allocated to.

John Bentley
Chairman
Remuneration committee

Dear Shareholder

As chairman of the remuneration committee, I am pleased to present the directors' remuneration report for Phoenix for the year ended 31 December 2018.

Although Phoenix is currently quoted on the London Stock Exchange's Alternative Investment Market (AIM), the board recognises the importance of shareholder transparency and standards of governance. In 2017, following the combination of Andes Energia plc and Trefoil Holdings B.V., the board decided to follow the principal provisions of the UK Corporate Governance Code ("the Code") on a comply or explain basis, commensurate with the standards expected by stakeholders of companies listed on the premium segment of the London Stock Exchange's Main Market.

Our report for 2018 covers the following matters:

> how the company's executive remuneration policy has been implemented in the year ended 31 December 2018; and
> the company's intended policy for 2019 and beyond.

Our approach to developing Phoenix's remuneration policy

Our aim is for executive remuneration at Phoenix to:

> attract, retain and motivate individuals of a high calibre and appropriate experience;
> align incentives with the company's strategic goals and business plans;
> deliver rewards for strong and sustainable business performance whilst avoiding rewarding for failure; and
> align the interests of the executive directors with those of shareholders.

The committee intends to keep its approach to remuneration under regular review for continued appropriateness and in light of market practice and regulatory requirements and corporate governance best-practice as applicable to the company over time. The committee also acknowledges the updated remuneration reporting regulations that were published in 2018 and take effect for financial years beginning 1 January 2019. We will be reviewing how to appropriately reflect these revised requirements in next year's remuneration report.

The directors' remuneration policy (set out on pages 72 to 80) has been developed to reinforce these objectives. The committee believes that its approach to remuneration will support the delivery of these aims while remaining appropriately flexible so as to evolve as the group establishes itself.

Key decisions and pay outcomes in 2018

Key items in 2018 were as follows:

> during the year Philip Wolfe the CFO stepped down from the board and was replaced by Kevin Dennehy. The committee applied the directors' remuneration policy and exit payment policy when determining joining and separation remuneration arrangements for these executives.
> the company has made significant progress during the year in developing a strong platform for the future. In particular, our work with the local provinces to address the environmental, social and operational issues associated with unconventional operations enabled us to start our unconventional activities in Mendoza. The company was also successful in renegotiating and acquiring additional assets in Mendoza and Neuquén, increasing our unconventional exposure to the Vaca Muerta.
> the 2018 annual bonuses are based on a combination of quantitative and subjective key performance indicators including corporate, operational (including HSE and growth in resources and reserves), financial and personal performance. Whilst the committee agree that generally performance targets should be set for each performance measure at the start of the year, given the company's stage of development the committee did not feel this was appropriate for 2018, with awards determined predominantly on a discretionary basis.

> awards were granted under the company's long-term incentive plan as detailed in the remuneration report.

Post balance sheet event

On 23 April 2019, Anuj Sharma served a notice on the company, which the company is treating as a notice terminating his employment in accordance with the terms of his service agreement and resigning from his position as chief executive officer and a director of the company with immediate effect. The information contained in this report is based on the terms of Anuj Sharma's service agreement prevailing at the date of his resignation.

Looking ahead to 2019

Base salary

No increase in base salaries is recommended in 2019.

	Annual Base salary		
Executive director	2019 (US$)	2018 (US$)	% increase
CEO	**620,000**	620,000	0%
CFO	**400,000**	400,000	0%

Annual bonus

For 2019, the executive directors have a maximum bonus opportunity of 100% of salary. The on-target bonus opportunity is 50% of the maximum for the CEO and 75% of the maximum for the CFO. Two-thirds of any bonus earned will be paid in cash, with the remainder being paid in deferred Phoenix shares over a further three-year period, vesting pro-rata annually.

> Consistent with 2018, given the Company's stage of development, whilst the annual bonus for 2019 will be based on a combination of quantitative and subjective key performance indicators including corporate, operational (including HSE and growth in resources and reserves), financial and personal performance, performance targets for each performance measure will not be set at the start of the year, with awards predominantly determined on a discretionary basis.

Long-Term Incentive Plan (LTIP)

In 2019, the executive directors will receive conditional awards of shares under the Phoenix LTIP, with a face value of 200% of salary for the CEO and 112.5% of salary for the CFO.

The 2019 LTIP will vest after three years, subject to the company's three-year relative and absolute TSR performance as detailed on page 88.

Relative TSR has been selected by the committee to closely align executive interests with those of shareholders. Phoenix TSR performance will be measured over the three-year period beginning on the date of grant and compared to a peer group of sector comparators (see page 88 for details of the peer group) on the basis of TSR rank.

Absolute TSR has been selected by the committee to align LTIP outcomes directly with long-term shareholder returns. The performance target ranges have been set at stretching levels considered commensurate with the targets set for the relative TSR element of the LTIP (median to 75th percentile).

To provide further alignment with shareholders, LTIP awards will be subject to an additional post-vesting holding period. To the extent an award vests subject to three-year performance, net vested shares will be required to be held for a further two years (i.e. until the fifth anniversary of the date of grant).

In line with our policy, LTIP awards will also be subject to the group's malus and clawback provisions.

Non-executive director fees

No increase in annual fees is recommended in 2019. Daniel Jaeggi has waived his right to receive a fee in connection with his appointment as non-executive director of the company.

	Annual fees		
	2019 (US$)	2018 (US$)	% increase
NE chairman fee	**213,600**	213,600	0%
NED base fee	**66,750**	66,750	0%
Additional fees:			
Senior Independent Director	**13,350**	13,350	0%
Chairman of the Audit and Risk committee	**13,350**	13,350	0%
Chairman of the Remuneration committee	**13,350**	13,350	0%

Workforce remuneration

The committee's main focus is to ensure that the company's remuneration policy is implemented and applied in a such a way as to attract, retain and motivate the company's leadership to promote the long-term success of the company. However, when making decisions the committee takes into consideration the impact on the wider workforce. In 2019 the committee will be looking at ways of increasing and improving the committee's interaction with the wider workforce to facilitate this objective.

Use of discretion

The committee may apply its discretion (as set out in the report below) when agreeing remuneration outcomes, to help ensure that the implementation of our remuneration policy is consistent with the guiding principles for Phoenix remuneration. For the year ending 31 December 2018, the committee's discretion was used, in line with the company's exit payment policy, in determining the payment to be made to Philip Wolfe who stepped down from the board and was deemed a "good leaver". Furthermore, as appropriate for a company in its development phase, discretion was used in determining the 2018 bonus awards. Further details on the use of committee discretion are provided on pages 73 and 74.

Anuj Sharma's termination arrangements will be subject to and in accordance with the terms of his service agreement and LTIP and DBP plan rules. Details of any arrangements entered into will be disclosed in next year's remuneration report.

We trust that you find that this report sets out clearly our policy and how we intend to implement it, as well as the rationale for our decisions. The committee believes that the policy and the approach to its implementation in 2019 are in the best interests of all shareholders.

John Bentley
Chairman, remuneration committee
2 May 2019

Where applicable a rate of exchange of US$/£1.335 has been used for 2018 and 2019 and a rate of exchange of US$/£1.290 for 2017. Where salaries and fees are denominated in £, changes in annual fees reported in US$ may partly be due to changes in the rate of exchange.

Although the company (being AIM quoted) is not subject to the Directors' Remuneration Regulations 2008 (the "Regulations"), the committee recognises the importance of transparency and standards of governance. This report has therefore been prepared largely in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013, as though the company were listed on the main market of the London Stock Exchange.

This section of the report sets out the remuneration policy for the directors that has been developed to reflect our remuneration principles.

Remuneration policy for the executive directors

Purpose and link to strategy	Operation	Opportunity	Performance measures
Base salary			
To attract and retain talented executive directors to deliver the group's strategy by ensuring base salaries and the implied total package are competitive in relevant talent markets, while not overpaying.	Base salaries will be reviewed by the committee annually and benchmarked periodically against comparable roles at international exploration & production peers, as well as UK-listed companies of similar size and complexity. In deciding base salary levels, the committee considers personal performance including the individual's contribution to the achievement of the group's strategic objectives. The committee will also consider employment conditions and salary levels across the group and prevailing market conditions.	Salaries are set on a case-by-case basis to reflect the role and the experience and qualifications of the individual. Base salary increases for the executive directors will not normally exceed the average increase awarded to the wider workforce, other than in exceptional circumstances such as a material change in responsibilities, size or complexity of the role, or if a director was intentionally appointed on a below-market salary. Base salaries are disclosed in the annual report on remuneration.	n/a
Pension			
To provide an appropriate structure and level of post-retirement benefit for executive directors in a cost-efficient manner that reflects local market norms in the relevant jurisdiction.	Executive directors may receive a contribution to a personal pension plan, a cash allowance in lieu, or a combination thereof. Salary is the only element of remuneration that is pensionable.	Executive directors are eligible for a company contribution from the group of up to 10% of base salary and to participate in the 401k plan offered to US based employees. Details of the pension contributions made to executive directors during the year are disclosed in the annual report on remuneration.	n/a

Purpose and link to strategy	Operation	Opportunity	Performance measures
Other benefits To provide non-cash benefits which are competitive in the market in which the executive director is employed.	The group may provide benefits in kind including, but not limited to, a company car or car allowance, private medical insurance (or allowance in lieu for the executive directors and their family), permanent health insurance and life insurance. Executive directors may also be provided certain other benefits to take account of individual circumstances such as, but not limited to, payment of tax, financial and/or legal adviser fees, expatriate allowance, relocation expenses, housing allowance and tax equalisation (including associated interest, penalties or fees plus, in certain circumstances or where the committee consider it appropriate, any tax incurred on such benefits). Executive directors may also be offered any other future benefits made available either to all senior employees globally or in the region in which the executive director is employed.	Benefits for executive directors are set at a level which the committee considers appropriate compared to wider employee benefits, as well as competitive practices in relevant markets. It is not anticipated that the costs of benefits provided will increase significantly in the financial years over which this policy will apply, although the committee retains discretion to approve non-material increases in cost. In addition, the committee retains discretion to approve a higher cost in exceptional circumstances (e.g. to facilitate recruitment, relocation, expatriation, etc.) or in circumstances where factors outside the group's control have changed (e.g. market increases in insurance costs). Benefits in respect of the year under review are disclosed in the annual report on remuneration.	n/a
Annual bonus To incentivise executive directors to deliver strong financial and operational performance on an annual basis and reward the delivery of the group's strategic aims that will underpin the longer-term health and growth of the business. Deferral into shares enhances alignment with shareholders.	Performance measures, targets and weightings are set by the committee at the start of the year. After the end of the financial year, the committee determines the level of bonus to be paid, taking into account the extent to which these targets have been achieved. To the extent that the performance criteria have been met, one-third of the annual bonus earned will normally be compulsorily deferred into shares under the Deferred Bonus Plan. Deferred shares vest pro-rata annually over three years. The remainder of the bonus will be paid in cash. Dividends may accrue on deferred bonus shares over the deferral period and, if so, will be paid (in cash or additional shares) on deferred shares that vest at the time these are released to the executive director. Malus provisions apply to the deferred bonus in certain circumstances (as set out in the notes to the policy table).	The maximum annual bonus opportunity is 100% of base salary. The pay-out for on-target performance is normally 50% of maximum; threshold performance results in zero pay out.	Bonuses will be based primarily on a combination of stretching annual business and individual objectives. Business objectives (whether financial, operational or non-financial/strategic) will be selected to reflect the group's short-term KPIs, financial goals and strategic drivers. The weighting of measures will be determined by the committee but will always include a strong focus on business performance. The committee may adjust the formulaic annual bonus outcomes (including to zero) to avoid unintended outcomes, align pay outcomes with underlying group performance and ensure fairness to shareholders and participants. Further details will be disclosed in the relevant annual report on remuneration. Performance targets set for each year will be disclosed retrospectively (to the extent they are considered not to be commercially sensitive), usually in the annual report on remuneration in respect of the year to which such performance targets relate.

Purpose and link to strategy	Operation	Opportunity	Performance measures
Long-Term Incentive Plan (LTIP)			
To align the interests of executive directors and shareholders in growing the value of the group over the long term.	Executive directors are eligible to receive annual awards over Phoenix shares under the LTIP either in the form of conditional share awards or nil cost options. Awards granted under the LTIP to executive directors will have a performance period of at least three years. If no entitlement has been earned at the end of the relevant performance period, awards will not vest. Shares received as a result of an award vesting (net of those sold to cover tax liabilities arising on vesting) will normally be subject to an additional two-year holding period. Dividends may accrue on LTIP awards over the vesting period and, if so, will be paid (in additional shares or in cash) on shares that vest at the end of the vesting period. LTIP awards granted to executive directors will be subject to malus and clawback provisions, as set out in the notes to the policy table.	The maximum annual LTIP opportunity is 200% of base salary. In exceptional circumstances, the remuneration committee has discretion to make awards of up to 300% of base salary. 25% of an award will vest if performance against each performance condition is at threshold and 100% if it is at maximum, with straight-line vesting in between. Further details of the LTIP awards granted to each of the executive directors will be disclosed in the relevant annual report on remuneration.	Vesting of the LTIP is subject to continued employment during the performance period and the achievement of performance conditions aligned with the group's strategic plan and shareholder value creation. The performance conditions may include market-based measures, such as total shareholder return and internal measures of financial or operational performance. Performance measures will be selected by the remuneration committee at the start of each cycle. The committee may adjust the formulaic LTIP outcome to ensure it takes account of any major changes to the group (e.g. as a result of merger and acquisitions activity) and is a fair reflection of the underlying financial performance of the group over the performance period. Further details, including the performance targets attached to the LTIP in respect of each year will be disclosed in the relevant annual report on remuneration (subject to these being considered not to be commercially sensitive).

Notes to the policy table

Malus and clawback policy
Malus and clawback may be applied to the deferred bonus share element of the annual bonus and LTIP awards in cases of gross misconduct by the executive director or material financial misstatement in the audited financial results of the group. Deferred bonus shares will be subject to malus over the deferral period and LTIP awards will be subject to malus over the vesting period and clawback from the vesting date to the second anniversary of the relevant vesting date.

Share ownership guidelines
The committee recognises the importance of aligning executive directors' and shareholders' interests through significant shareholdings in the group. The group's policy (as published in the admission document) is to require the CEO to build up a shareholding of 200% of base salary (150% of salary for other executive directors) and to retain these shares until retirement from the board of directors. 50% of any net vested share awards (i.e. after sales to meet tax liabilities) must be retained until the minimum shareholding requirements are met.

Use of discretion
The committee may apply its discretion (as set out below) when agreeing remuneration outcomes, to help ensure that the implementation of our remuneration policy is consistent with the guiding principles for Phoenix remuneration.

Payments from outstanding awards

The committee reserves the right in certain circumstances to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) where the terms of the payment were agreed before the policy came into effect; or at a time when the relevant individual was not a director of the group provided, that in the opinion of the committee, the payment was not agreed in consideration of the individual becoming a director of the group. For these purposes, payments include the satisfaction of variable remuneration awards previously granted, but not vested, to an individual.

Minor changes to policy

The committee retains discretion to make minor, non-significant changes to the policy set out above (for reasons including, but not limited to, regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without reverting to shareholders for approval for that amendment, where seeking such shareholder approval would be disproportionate to the discretion being exercised.

LTIP awards

The committee may exercise its discretion as provided for in the LTIP rules. The committee may also adjust the number of shares comprising an LTIP award (or the exercise price if the award comprises options) in the event of a variation of share capital, demerger, special dividend, distribution or any other corporate event which may affect the current or future value of an award. It is intended that any adjustment will be made on a neutral basis, i.e. to not be to the benefit or detriment of participants.

Remuneration policy for the wider workforce

The remuneration policy for other employees is based on principles that are broadly consistent with those applied to executive director remuneration, with a common objective of driving financial performance and the achievement of strategic objectives and contributing to the long-term success of the group. Remuneration supports our ability to attract, motivate and retain skilled and dedicated individuals, whose contribution continues to be a key factor in the group's success.

Annual salary reviews take into account group performance, local pay and market conditions and salary levels for similar roles in comparable companies. Pension entitlements and other benefits vary according to jurisdiction, to ensure these remain appropriately competitive for the local market. Some employees below executive level are eligible to participate in annual bonus schemes; opportunities and performance measures vary by organisational level, geographical region and an individual's role.

Employee ownership of Phoenix shares is promoted across the group. Senior executives are eligible for LTIP awards on similar terms as the executive directors, although award opportunities are lower and vary by organisational level. Other executives are eligible for restricted share awards on a discretionary basis. Phoenix is considering offering all employees the opportunity to participate in a share purchase plan, to be reviewed in 2019.

Approach to target setting and performance measure selection

The committee considers carefully the selection of performance measures at the start of each performance cycle, taking into consideration the group's strategic objectives and the macroeconomic environment.

Annual bonus measures are selected to align with the group's short-term KPIs. LTIP performance measures are selected to ensure they align with the group's strategy and long-term shareholder value creation. Measures may change from cycle to cycle (subject to the remuneration policy) and details of the bonus and LTIP measures selected will therefore be disclosed in the relevant annual report on remuneration.

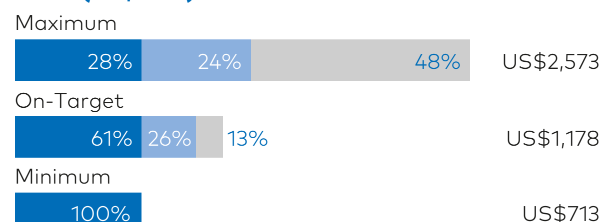
Targets are set to be stretching but achievable over the performance period, taking account of multiple relevant reference points, including typical performance ranges for those measures at other industry peers and FTSE-listed companies of comparable size and complexity.

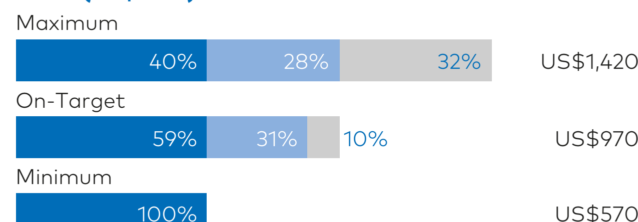
Pay-for-performance: scenario analysis

The charts overleaf provide an estimate of the potential future reward opportunities for the executive directors and the potential split between the different elements of remuneration under three different performance scenarios: 'Maximum', 'On-target' and 'Minimum'.

Potential reward opportunities are based on the forward-looking policy, applied to 2019 base salaries and incentive opportunities. Note that the LTIP awards granted in a year will not normally vest until the third anniversary of the date of grant and the projected values exclude the impact of share price movement.

Pay scenarios





Assumptions:

'Maximum': fixed remuneration (salary plus pension contribution and other benefits), plus maximum bonus (100% of salary) and full vesting of LTIP awards (200% of salary for the CEO; 112.5% of salary for the CFO).

'On-target': fixed remuneration as above, plus target bonus (50% of maximum for CEO; 75% of maximum for CFO) and threshold LTIP vesting (25% of maximum).

'Minimum': fixed remuneration only, being the only element of executive directors' remuneration not linked to performance.

Executive Director service contracts

In accordance with general market practice, each of the executive directors has a rolling service contract. The resigning CEO's service contract was terminable on 12 months' notice from the group and 12 months' notice from the executive director. The resigning CFO's service contract was terminable on 12 months' notice from the group and 12 months' notice from the executive director and the newly appointed CFO's service contract is terminable on 6 months' notice from the group and 6 months' notice from the executive director. These contracts are subject to the company serving an immediate termination notice, in specified circumstances for constructive dismissal. Copies of the service contracts are available to view at the group's registered office. The following table shows the date of the service contract for each executive director that served during the year:

Executive director	Position	Date of appointment	Date of service agreement
Anuj Sharma[1]	CEO	10 August 2017	24 July 2017
Philip Wolfe[2]	CFO	10 August 2017	24 July 2017
Kevin Dennehy[3]	CFO	1 October 2018	8 August 2018

1 Resigned 23 April 2019
2 Resigned 1 October 2018
3 Start date 15 August 2018 but date of appointment to the board 1 October 2018

Exit payments policy

The group's policy on termination payments is to consider the circumstances on a case-by-case basis, taking into account the relevant contractual terms in the executive's service contract and the circumstances of termination. Executive directors' contracts provide for the payment of a pre-determined sum in the event of termination of employment in certain circumstances (but excluding circumstances where the group is entitled to dismiss without compensation), comprising base salary in respect of the unexpired portion of the notice period. Termination payments may take the form of payments in lieu of notice. Payments would normally be made on a phased basis and subject to mitigation.

In addition to contractual provisions, the table below summarises how awards under each discretionary incentive plan are typically treated in specific circumstances, with the final treatment remaining subject to the committee's discretion as provided under the rules of the plan. In the event of termination, any outstanding shares or option granted under all-employee schemes will be treated in accordance with the rules of the scheme, which typically do not include discretion.

Treatment of awards on cessation of employment

Reason for cessation	Calculation of vesting/payment	Timing of vesting/payment
Annual bonus		
Injury, disability, ill-health, death, redundancy, retirement, or other such event as the committee determines.	The committee may determine that a bonus is payable on cessation of employment (normally pro-rated for the proportion of the performance year worked) and the committee retains discretion to determine that the bonus should be paid wholly in cash. The bonus payable will be determined based on the performance of the group and of the individual over the relevant period and the circumstances of the director's loss of office.	Following the end of the relevant financial year.
All other reasons (including voluntary resignation).	No bonus will be paid for the financial year.	Not applicable.
Deferred bonus shares		
Resignation or dismissal for cause	Awards normally lapse.	Not applicable.
All other reasons (e.g. injury, disability, ill-health, death, redundancy, retirement, or other such event as the committee determines).	Awards will normally vest in full (i.e. not pro-rated for time) unless the committee determines that time pro-rating should apply.	At the normal vesting date, unless the committee decides that awards should vest earlier (e.g. in the event of death).
Change of control.	Awards will normally be pro-rated for time (unless the committee exercises discretion to disapply time pro-rating). Awards may alternatively be exchanged for equivalent replacement awards, where appropriate.	On change of control.
LTIP awards		
Resignation or dismissal for cause.	Awards normally lapse.	Not applicable.
All other reasons (e.g. injury, disability, ill-health, death, redundancy, retirement, or other such event as the committee determines).	Awards will normally be pro-rated for time (unless the committee exercises discretion to disapply time pro-rating) and will vest based on performance over the original performance period (unless the committee decides to measure performance to the date of cessation).	At the normal vesting date, unless the committee decides that awards should vest earlier (e.g. in the event of death). Awards subject to a holding period remain subject to this holding period after leaving.
Change of control.	LTIP awards will normally be pro-rated for time (unless the committee exercises discretion to disapply time pro-rating) and will vest subject to performance over the period to the change of control. LTIP awards may alternatively be exchanged for equivalent replacement awards, where appropriate.	On change of control.

Approach to remuneration on recruitment

External appointments

In cases of hiring or appointing a new executive director from outside the group, the committee may make use of all existing components of remuneration set out in the policy table, up to the disclosed maximum opportunities (where applicable).

When determining the remuneration package for a new executive director, the committee will take into account all relevant factors based on the circumstances at that time to ensure that arrangements are in the best interests of the group and its shareholders. This may include factors such as the experience and skills of the individual, internal comparisons and relevant market data.

The committee may also make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer, i.e. over and above the maximum limits on incentive opportunities set out in the policy table. In doing so, the committee will consider relevant factors, including any performance conditions attached to these awards, the likelihood of those conditions being met and the time over which they would have vested. The intention is that the expected value of any buy-out award would be no higher than the expected value of the forfeited arrangements and that the structure will replicate (as far as reasonably possible) that of the awards being forfeited. The committee may consider it appropriate to structure 'buy-out' awards differently from the structure described in the policy table, exercising its discretion under the LTIP rules to structure awards in other forms (including market value options, restricted shares, forfeitable shares or phantom awards) as the remuneration committee may determine in this context.

Internal promotion

Where a new executive director is appointed by way of internal promotion, the policy will be consistent with that for external appointees, as detailed above (other than in relation to 'buy-out' awards). Any commitments made prior to an individual's promotion will continue to be honoured even if they would not otherwise be consistent with the policy prevailing when the commitment is fulfilled, although the group may, where appropriate, seek to revise an individual's existing service contract on promotion to ensure it aligns with other executive directors and good practice.

Disclosure on the remuneration structure of any new executive director, including details of any 'buy-out' awards, will be disclosed in the annual report on remuneration for the year in which recruitment occurred.

External appointments held by executive directors

Executive directors may not accept any external appointment without the consent of the board, there being no conflicts of interest and the appointment not leading to deterioration in the individual's performance. Executive directors may retain the fees paid for such roles. Details of external appointments will be included in the annual report on remuneration.

Consideration of conditions elsewhere in the group

The committee seeks to promote and maintain good relations with employees as part of its broader employee engagement strategy, considers pay practices across the group and is mindful of the salary increases applying across the rest of the business in relevant markets when considering any increases to salaries for executive directors. However, whilst the committee does not currently consult with employees on its executive remuneration policy, in 2019 the committee will be looking at ways of increasing and improving the committee's interaction with the wider workforce, in relation to the company's remuneration policy.

Consideration of shareholder views

The committee will take into consideration all shareholder views received during the year and at the annual general meeting each year, as well as guidance from shareholder representative bodies more broadly, in shaping the group's implementation of its remuneration policy, as well as any future changes to policy.

Remuneration policy for the non-executive directors

Details of the policy on fees paid to our non-executive directors are set out in the table below:

Purpose and link to strategy	Operation	Opportunity	Performance measures
Non-executive director fees To attract and retain non-executive directors of the highest calibre with broad commercial and other experience relevant to the group.	The fees of the non-executive chairman are determined by the committee. The fees paid to non-executive directors are determined by the non-executive chairman and executive directors. Additional fees may be payable for acting as senior independent director and for chairing or being a member of the audit and risk committee, the remuneration committee and any other board committees. Fee levels are reviewed annually taking into account external advice on best practice and competitive levels, in particular at other FTSE companies of comparable size and complexity. Time commitment and responsibility are also taken into account when reviewing fees. The non-executive chairman and non-executive director fees are paid in cash. The committee reimburses the non-executive chairman and non executive directors for reasonable expenses in performing their duties and may settle any tax incurred in relation to these expenses. Non-executive directors will be reimbursed by the group for expenses (including travel and accommodation) as required to fulfil their non-executive duties. The fees paid to the non-executive chairman and non-executive directors are disclosed in the annual report on remuneration.	Fee increases will be applied taking into account the outcome of the annual review. The maximum aggregate annual fee for all non-executive directors (including the non-executive chairman) as provided in the group's articles of association is £750,000.	Not applicable

Non-executive directors are not eligible to join the group's pension, incentives or share schemes or to participate in any of the group's other benefit arrangements.

In recruiting a new non-executive director, the committee will use the policy set out above.

Non-executive director letters of appointment

None of the non-executive directors has a service contract with the group. They do have letters of appointment and will be submitted for re-election annually. The dates relating to the appointments of the non-executive chairman and non-executive directors who served during year are as follows:

Director	Role	Date of appointment	Date of letter of appointment
Sir Michael Rake	Non-executive chairman	19 September 2016	24 July 2017
John Bentley	Independent non-executive director	10 August 2017	24 July 2017
Garrett Soden	Independent non-executive director	10 August 2017	24 July 2017
Javier Alvarez	Independent non-executive director	16 July 2012	24 July 2017
David Jackson	Independent non-executive director	16 July 2012	24 July 2017
Nicolás Mallo Huergo	Non-executive director	2 October 2007	24 July 2017
Daniel Jaeggi	Non-executive director	14 November 2018	14 November 2018
Tim Harrington	Non-executive director	14 November 2018	14 November 2018
Matthieu Milandri[1]	Non-executive director	21 August 2013	24 July 2017
Guillaume Vermersch[2]	Non-executive director	10 August 2017	24 July 2017

1 Resigned 31 January 2019
2 Resigned 14 November 2018

This section of the remuneration report provides details of how our remuneration policy was implemented during the year ending 31 December 2018 and how it will be implemented during the year ending 31 December 2019.

Committee membership in 2018

The committee is currently composed of four non-executive directors:

John Bentley Committee chairman (independent)
Sir Michael Rake Non-executive chairman
Garrett Soden Non-executive director (independent)
David Jackson Non-executive director (independent)

The company secretary acts as secretary to the committee.

The committee met formally on four occasions during the year ending 31 December 2018. The attendance of members of the committee during the year is set out below.

Member	Meetings attended
John Bentley (Chair)	4/4
Sir Michael Rake	4/4
Garrett Soden	4/4
David Jackson	4/4

The committee operates within agreed terms of reference, which are available on our website at www.phoenixglobalresources.com. The committee is responsible for determining the remuneration policy and packages for the executive directors and other selected senior executives. The committee is also responsible for agreeing the fees for the non-executive chairman.

The CEO and CFO attend meetings of the committee by invitation. The members of the committee and any person attending its meetings do not participate in any discussion or decision on their own remuneration.

Advisers

The committee formally appointed Mercer as its independent advisor to support the group on remuneration-related matters. Mercer reports to the committee chairman. Mercer is a member of the Remuneration Consultants' Group and as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK (www.remunerationconsultantsgroup.com). Mercer does not have any other connection with the group and is considered to be independent by the committee. Fees paid to Mercer are determined on a time and materials basis and totalled US$24,234 (excluding expenses and VAT) for the year ending 31 December 2018, in their capacity as advisers to the committee.

Single total figure of remuneration for executive directors

The table below sets out a single figure for the total remuneration received by each executive director. Anuj Sharma and Philip Wolfe were appointed as executive directors of Phoenix on 10 August 2017. Kevin Dennehy was appointed as an executive director on 1 October 2018. Philip Wolfe resigned as an executive director on 1 October 2018 and Anuj Sharma resigned as an executive director on 23 April 2019. The values of each element of remuneration are based on the actual value delivered, where known.

Director		Base salary[1] US$'000	Taxable benefits[2] US$'000	Annual Bonus[3] US$'000	LTIP US$'000	Pension benefit[4] US$'000	Other[5] US$'000	Total US$'000
Anuj Sharma[6]	2018	**620**	**26**	**TBC**	**–**	**81**	**–**	**TBC**
	2017	247	10	–	–	25	–	282
Philip Wolfe[7]	2018	**300**	**19**	**200**	**–**	**30**	**–**	**549**
	2017	152	6	165	–	15	52	390
Kevin Dennehy	2018	**100**	**8**	**100**	**–**	**17**	**25**	**250**

1 The salaries of our executive directors were set in the context of salaries for comparable roles at other international E&P companies and FTSE-listed companies of comparable size to Phoenix. For 2017, Anuj Sharma's base salary figure reflects his annualised salary of US$620,000, pro-rata for the period from 10 August 2017 (his date of appointment) to the year-end. For 2017, Philip Wolfe's base salary figure reflects his annualised salary of £300,000, pro-rata for the period from 10 August 2017 (his date of appointment) to the year-end. For 2018, Philip Wolfe's salary figure reflects his annualised salary of £300,000, pro-rata for the period from the beginning of the year to 1 October (his date of resignation). For 2018, Kevin Dennehy's base salary figure reflects his annualised salary of US$400,000, pro-rata for the period from 1 October 2018 (his date of appointment) to the year-end.
2 Consists primarily of private medical insurance, life assurance and permanent health insurance.
3 Payment for performance during the year, pro-rated for the period where applicable. Two-thirds paid in cash and one-third deferred as an award under the terms of the company's Deferred Bonus Plan. See below and overleaf for further details.
4 Pension benefits in the year, equivalent to 10% of base salary paid in that year and the company's matching contribution to the company's 401k plan where applicable.
5 For 2017, Philip Wolfe received a sign on bonus in August 2017. Kevin Dennehy received an annual foreign living and service allowance of USD$70,000, pro-rata for the period from 1 October 2018 (his date of appointment) to the year-end.
6 Anuj Sharma resigned as CEO on 23 April 2019. His annualised base salary at the time of his resignation as CEO was $620,000 and he received a pension benefit equivalent to 10% of his salary.
7 Philip Wolfe resigned as CFO on 1 October 2018. His annualised base salary at the time of his resignation as CFO was £300,000 and he received a pension benefit equivalent to 10% of his salary.

Single total figure of remuneration for non-executive directors

The table below sets out a single figure for the total remuneration received by each non-executive director. The 2017 figures reflect the fees paid from 10 August 2017 (the date of admission) to 31 December 2017. As appointees of the group's substantial shareholder, Matthieu Milandri, Guillaume Vermersch and Daniel Jaeggi have waived their right to receive fees in connection with their appointments.

Director		Basic fees US$'000	Additional fees US$'000	Total US$'000
Sir Michael Rake	2018	**214**	**–**	**214**
	2017	81	–	81
John Bentley[1]	2018	**67**	**19**	**86**
	2017	25	5	30
Garret Soden[2]	2018	**67**	**13**	**80**
	2017	26	5	31
Javier Alvarez	2018	**67**	**–**	**67**
	2017	25	–	25
David Jackson	2018	**67**	**–**	**67**
	2017	25	–	25
Nicolas Mallo Huergo	2018	**67**	**–**	**67**
	2017	25	–	25
Matthieu Milandri[6]	2018	**–**	**–**	**–**
	2017	–	–	–
Guillaume Vermersch[3,6]	2018	**–**	**–**	**–**
	2017	–	–	–
Daniel Jaeggi[4,6]	2018	**–**	**–**	**–**
	2017	–	–	–
Tim Harrington[5]	2018	**9**	**–**	**9**
	2017	–	–	–

1 Additional fees paid for his appointment as the Senior Independent Director and Chairman of the Remuneration Committee.
2 Additional fees paid for his appointment as the Chairman of the Audit Committee.
3 Resigned 14 November 2018.
4 Appointed 14 November 2018.
5 Appointed 14 November 2018.
6 Waived rights to fees.

Incentive outcomes for the year ended 31 December 2018

Annual bonus in respect of performance in the 2018 financial year

Whilst 2018 annual bonuses are based on a combination of quantitative and subjective key performance indicators including corporate, operational (including HSE and growth in resources and reserves), financial and personal performance, given the company's stage of development, explicit performance targets were not set for each performance measure with the awards predominantly determined on a discretionary basis by the committee taking into account performance against the indicators during the year. One-third of the award will be deferred as an award over shares that will vest pro-rata annually over three years. The balance of the award will be paid in cash.

The CEO had a maximum opportunity of 100% of salary and on-target opportunity of 50% of maximum. The maximum opportunity for the CFO is 100% of salary, the on-target opportunity was 50% of maximum for Philip Wolfe and 75% of maximum for Kevin Dennehy.

The table below summarises the annual bonus payments for the executive directors and includes the cash element of the bonus and the value of any deferred element that was granted during the year:

Director	Maximum opportunity	Bonus outcome (% of maximum)	Salary earned for the year to 31 December 2018 US$'000	Cash element of bonus for the year to 31 December 2018 US$'000	Deferred element of bonus for the year to 31 December 2018[3] US$'000
Anuj Sharma	100% of salary	TBC	620	TBC	TBC
Philip Wolfe[1]	100% of salary	50%	400	133	67
Kevin Dennehy[2]	100% of salary	100%	100	67	33

1 Philip Wolfe's salary reflects his annual salary for the year even though he resigned from the board on 1 October 2018. Further details of Mr Wolfe's treatment as a good leaver are included on page 86.
2 Kevin Dennehy's salary reflects his annual salary of US$400,000 paid by the group from 1 October 2018 (his date of appointment to the board).
3 The value has been calculated using the market price of the shares at the date of grant.

LTIP awards granted in 2018

Delayed 2017 LTIP

On the 27 June 2018, the committee made the first grant of awards under the company's LTIP. The performance period for this award starts on 10 August 2017, being the date of admission following the business combination with Trefoil:

Director	Year of grant	Type of award	Basis of award	Face value of award[1] US$'000	Number of awards No.	End of performance period[2] US$'000	Exercise price US$'000	Performance conditions
Anuj Sharma[3]	2018	Nil cost	200% of salary	1,251,247	4,260,290	9 August 2020	0.00	See below
Philip Wolfe[4]	2018	Nil cost	200% of salary	801,000	2,727,273	9 August 2020	0.00	See below

1 Calculated as the number of awards granted multiplied by the mid-closing price preceding the date of grant of 22 pence.
2 Any awards that vest at the end of the performance period will be required to be held for an additional two-year holding period, subject to the rules of the plan.
3 The terms of Anuj Sharma's entitlements under the terms of the LTIP will be determined in accordance with the LTIP rules.
4 The committee determined Philip Wolfe to be a 'good leaver', therefore shares awarded to Philip under the LTIP will continue to be capable of vesting on the normal vesting dates, subject to the performance conditions and the LTIP rules.

Vesting of the awards will be based on two equally weighted performance conditions, as set out in the following table:

Performance threshold	Vesting level (% of maximum Opportunity at grant[1]	Relative TSR (50% weighting)[2]	Absolute TSR (50% weighting)
Below target	0%	Below median	Below 8% per annum
Target	25%	Median	8% per annum
At or above stretch	100%	Upper quartile	16% per annum

1 Vesting will be calculated on a straight-line basis between each vesting level.
2 Comparator group:

Company	Country of listing	Company	Country of listing
Amerisur Resource PLC	United Kingdom	Nostrum Oil & Gas PLC	United Kingdom
Cairn Energy PLC	United Kingdom	Ophir Energy PLC	United Kingdom
Canacol Energy Ltd	Canada	Parex resources Inc	Canada
EnQuest PLC	United Kingdom	Premier Oil PLC	United Kingdom
Faroe Petroleum PLC	United Kingdom	SOCO International PLC	United Kingdom
Frontera Energy Corp	Canada	Sound Energy PLC	United Kingdom
Gran Tierra Energy Inc	United States	Tullow Oil PLC	United Kingdom
Hurricane Energy PLC	United Kingdom		

2018 LTIP

On the 24 September 2018, the committee made a grant of awards outside the company's LTIP but on terms identical to the plan. The awards were made to address a timing conflict that arose as a result of the delay in the grant of the first awards due to the company being in a close period at the time they were due to be awarded.

Director	Year of grant	Type of award	Basis of award	Face value of award[1] US$'000	Number of awards No.	End of performance period[2] US$'000	Exercise price US$'000	Performance conditions
Anuj Sharma[3]	2018	Nil cost	200% of salary	1,266,763	4,037,814	23 September 2021	0.00	See below
Philip Wolfe[4]	2018	Nil cost	200% of salary	89,000	283,687	23 September 2021	0.00	See below
Kevin Dennehy	2018	Nil cost	112.5% of salary	459,712	1,465,335	23 September 2021	0.00	See below

1 Calculated as the number of awards granted multiplied by the mid-closing price preceding the date of grant of 23.5 pence.
2 Any awards that vest at the end of the performance period will be required to be held for an additional two-year holding period, subject to the rules of the LTIP.
3 The terms of Anuj Sharma's entitlements under the terms of the LTIP will be determined in accordance with the LTIP rules.
4 Adjusted pro-rata. The committee determined Philip Wolfe to be a 'good leaver', therefore shares awarded to Philip under the LTIP will continue to be capable of vesting on the normal vesting dates, subject to the performance conditions and the LTIP rules.

Vesting of the awards will be based on two equally weighted performance conditions, as set out in the following table:

Performance threshold	Vesting level (% of maximum Opportunity at grant[1]	Relative TSR (50% weighting)[2]	Absolute TSR (50% weighting)
Below target	0%	Below median	Below 8% per annum
Target	25%	Median	8% per annum
At or above stretch	100%	Upper quartile	16% per annum

1 Vesting will be calculated on a straight-line basis between each vesting level.
2 Comparator Group:

Company	Country of listing	Company	Country of listing
Amerisur Resource PLC	United Kingdom	Nostrum Oil & Gas PLC	United Kingdom
Cairn Energy PLC	United Kingdom	Ophir Energy PLC	United Kingdom
Canacol Energy Ltd	Canada	Parex resources Inc	Canada
EnQuest PLC	United Kingdom	Premier Oil PLC	United Kingdom
Faroe Petroleum PLC	United Kingdom	SOCO International PLC	United Kingdom
Frontera Energy Corp	Canada	Sound Energy PLC	United Kingdom
Gran Tierra Energy Inc	United States	Tullow Oil PLC	United Kingdom
Hurricane Energy PLC	United Kingdom		

Statement of shareholdings and share interests of directors who served during the year

Share interests as at 30 April 2019 are set out below:

Director	Number of beneficially owned shares[1] No.	DBP awards subject to vesting No.	LTP awards subject to conditions No.	Warrants (see note 15)[2] No.	Total interests held as at 30 April 2019 No.	Total interests held as at 31 December 2018 No.
Sir Michael Rake	330,000	–	–	–	330,000	128,003
Anuj Sharma[3]	42,000	–	8,298,104	–	8,340,104	8,340,104
Kevin Dennehy	40,000	–	1,465,335	–	1,505,335	1,505,335
John Bentley	42,000	–	–	–	42,000	42,000
Garrett Soden	–	–	–	–	–	–
Javier Alvarez	–	–	–	–	–	–
David Jackson	1,221,575	–	–	–	1,221,575	1,221,575
Nicolas Mallo Huergo	966,323	–	–	606,000	1,572,323	1,572,323
Matthieu Milandri	–	–	–	–	–	–
Daniel Jaeggi[4]	–	–	–	–	–	–
Tim Harrington	–	–	–	–	–	–
Guillaume Vermersch	–	–	–	–	–	–
Philip Wolfe	41,666	193,637	3,010,960	–	3,246,263	3,246,263

1 Beneficial interest include shares held directly or indirectly by connected persons.
2 Company financial statements.
3 The terms of Anuj Sharma's entitlements under the terms of the LTIP will be determined in accordance with the LTIP rules.
4 Daniel Jaeggi has an indirect interest in the company via Mercuria Energy Group Holding Limited, which holds approximately 84.4% of the company's share capital.

Relative importance of spend on pay

There were no dividends paid or share buybacks implemented or other significant distributions, payments or other uses of profit or cash flow in the 2018 financial year which the directors consider relevant in assisting an understanding of the relative importance of spend on pay.

Payments to past directors and payments for loss of office

The committee's approach when exercising its discretion under the company's remuneration policy, is to be mindful of the particular circumstances of the departure and the contribution the individual made to the group.

Philip Wolfe

Philip Wolfe stepped down as CFO and a board director with effect from 1 October 2018. His remuneration arrangements were in line with the provisions in his service contract, which entitles him to a payment of lieu of notice for a 12 month period, subject to mitigation. The remuneration policy and the remuneration he received as an executive director is set out in the 2018 single figure table. The committee determined Philip a "good leaver" and in recognition of his contribution to the company, his 2018 bonus will pay out £150,000 at the "on target" level. Shares awarded in 2018 under the LTIP were subject to a time pro-rating. Shares awarded under the LTIP and DBP will continue to be capable of vesting on the normal vesting dates, subject to any applicable performance conditions and the respective LTIP and DBP rules and remain subject to malus and clawback provisions.

Anuj Sharma

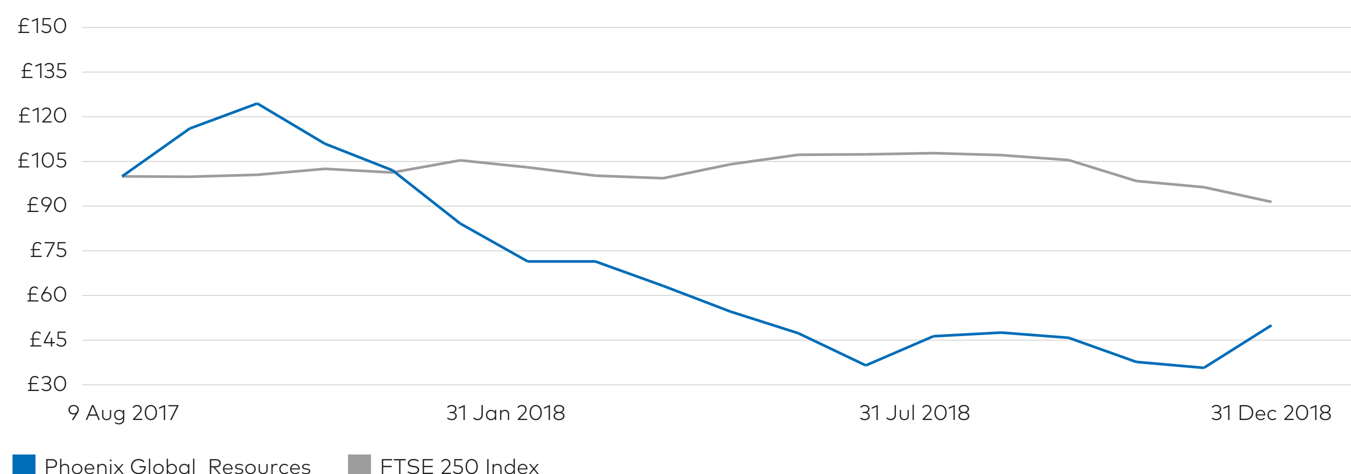
On 23 April 2019, Anuj Sharma served a notice on the company, which the company is treating as a notice terminating his employment in accordance with his service agreement and resigning from his position as chief executive officer and a director of the company with immediate effect. Anuj Sharma's termination arrangements will be subject to and in accordance with his service agreement and LTIP and DBP plan rules. Details of any arrangements entered into will be disclosed in next year's remuneration report.

External appointments

The executive directors do not currently hold any external appointments.

Review of past performance and CEO remuneration

This graph shows the group's total shareholder return (TSR) compared to the FTSE 250 Index as if the group was listed on the main market. Performance, in line with the requirements of the reporting regulations, is measured by TSR over the period from admission (10 August 2017) to 31 December 2018, rebased to £100 on admission.



The table below details the CEO's single total figure of remuneration and incentive outcomes over the same period:

	2017	2018
CEO	Anuj Sharma[1]	Anuj Sharma[2]
CEO single figure (US$'000)	282	TBC
Annual bonus (% max)	n/a	TBC
LTIP vesting (% max)	n/a	TBC

1 Period from 1 August 2017 to the end of the year.
2 Anuj Sharma's termination arrangements will be subject to and in accordance with his service agreement and the LTIP and DBP rules.

Percentage change in CEO remuneration

This section is not applicable as the CEO was only appointed on 10 August 2017; no full prior year comparison can be made.

Implementation of director remuneration policy for 2019

Executive Directors' base salaries

Following a review of executive directors' salary levels the committee do not recommend an increase in the executive directors' salaries in 2019. The salaries for 2019 are as follows:

Director	Base salary US$'000
CEO	620
CFO	400

Executive Directors' pensions

Both executive directors will continue to receive a cash allowance of 10% of base salary in lieu of a contribution to a 401k scheme (US pension scheme) and are eligible to participate in the 401k plan offered to all US employees.

Non-executive Directors' fees

Following a review of non-executive directors' fees the committee do not recommend an increase in the non-executive chairman's fee in 2019. Separately, the non-executive chairman and executive directors do not recommend an increase to the non-executive director fees. The fees for 2019 are as follows:

Director	Base fee US$'000
Sir Michael Rake	214
John Bentley	93
Garret Soden	80
Javier Alvarez	67
David Jackson	67
Nicolas Mallo Huergo	67
Daniel Jaeggi	–
Tim Harrington	67

Annual bonus

For 2019, the executive directors will each have a maximum bonus opportunity of 100% of salary. The on-target bonus opportunity is 50% of maximum for the CEO and 75% for the CFO. Two-thirds of any bonus earned will be paid in cash, with the remainder deferred into Phoenix shares for a further three-year period, vesting pro-rata annually.

Consistent with 2018, given the company's stage of development, whilst the annual bonus for 2019 will be based on a combination of quantitative and subjective key performance indicators including corporate, operational (including HSE and growth in resources and reserves), financial and personal performance, performance targets for each performance measure will not be set at the start of the year, with awards predominantly determined on a discretionary basis. In line with our policy, deferred bonuses in respect of the 2019 financial year will be subject to the group's malus provisions (see page 74 for further details).

Long-Term Incentive Plan (LTIP)

In 2019, the executive directors will each receive conditional awards of shares under the Phoenix LTIP, with face values of 200% of salary for the CEO and 112.5% of salary for the CFO, subject to the committee using its discretion to make awards of up to 300% of base salary in exceptional circumstances.

The 2019 LTIP will vest after three years, subject to the following performance measures and targets:

Measure	Weighting	Threshold (25% vesting)	Maximum
3-year relative TSR	50%	Median	75th percentile
3-year absolute TSR	50%	8% p.a.	16% p.a.

Phoenix's TSR performance will be measured over the three-year period commencing on the date of grant and compared to the following companies on the basis of TSR rank:

Company	Country of listing	Company	Country of listing
Amerisur Resources plc	United Kingdom	Ophir Energy plc	United Kingdom
Cairn Energy PLC	United Kingdom	Parex Resources Inc	Canada
Canacol Energy Ltd	Canada	Premier Oil plc	United Kingdom
EnQuest plc	United Kingdom	President Energy	United Kingdom
Frontera Energy Corp	Canada	SOCO International plc	United Kingdom
Geo Park	United States	Sound Energy plc	United Kingdom
Gran Tierra Energy Inc	United States	Tullow Oil plc	United Kingdom
Hurricane Energy plc	United Kingdom	Vista Oil & Gas	Mexico
Nostrum Oil & Gas PLC	United Kingdom		

To provide further alignment with shareholders, LTIP awards will be subject to an additional post-vesting holding period. To the extent an award vests subject to three-year performance, shares will be required to be held for a further two years (i.e. until the fifth anniversary of the date of grant).

In line with our policy, LTIP awards will also be subject to the group's malus and clawback provisions.

The directors' remuneration report has been approved by the board and signed on its behalf by:

John Bentley
Chairman, remuneration committee
2 May 2019

Where applicable a rate of exchange of US$/£1.335 has been used for 2018 and 2019 and a rate of exchange of US$/£1.290 for 2017. Where salaries and fees are denominated in £ changes in annual fees reported in US$, may partly be due to changes in the rate of exchange.

Group directors' report for the year ended 31 December 2018

The directors of Phoenix Global Resources plc present their Annual Report and audited financial statements of the group for the year ended 31 December 2018. These will be laid before the shareholders at the AGM to be held on 25 June 2019.

General information

The company is a public limited company incorporated in England and Wales under the Companies Act 2006 (Registered no. 05083946). The company operates two overseas branches, one each in Mendoza (Argentina) and in Bogota (Colombia).

Mercuria Energy Group Limited is the ultimate majority shareholder of the group.

Share capital

The company's share capital during the year consisted of ordinary shares of £0.10 each (ordinary shares). Each ordinary share carries one vote. At 1 January 2018 there were 2,537,178,226 ordinary shares in issue.

Placement of shares

On 16 February 2018, the company announced the conversion of US$100.0 million of the previously existing bridging and working capital facility from Mercuria Energy Trading S.A. to new ordinary shares at £0.37 per share. As a result, 194,387,299 additional shares were issued to Mercuria Asset Holdings (Hong Kong) Limited, a subsidiary of Mercuria Energy Group Limited ("Mercuria Group").

A further 15,679,597 shares were issued during the year following the exercise of warrants and options held by both Upstream Capital Partners VI Limited and Mercuria Asset Holdings (Hong Kong) Limited.

On 27 June 2018, 7,156,625 shares were issued to Integra Capital S.A. at a subscription price of £0.58 per share and in satisfaction of the second instalment due under the transaction fee services agreement that was associated with the 10 August 2017 combination transaction. The sale and purchase agreement related to the original combination transaction included provision that for each share issued to a third party where the issue related to an agreement, option, warrant or other instrument outstanding at the time of the transaction then Upstream Capital Partners VI would be entitled to receive a number of new shares such as to give effect to the original exchange ratio applied in the combination transaction being 3.06147 new ordinary shares being issued to Mercuria for each share issued to a third party.

In respect of the shares issued to Integra Capital S.A. the right to receive shares in accordance with the original exchange ratio was voluntarily limited by Upstream Capital Partners such that only one share was received by it received for each share issued to Integra Capital S.A.. As a result 7,156, 625 shares were also issued to Upstream Capital Partners VI Limited.

A further 535,714 shares were issued on exercise of outstanding options during the year. Finally, 86,337 shares were issued to Sir Michael Rake at a subscription price of £0.30 per share. These shares were in compensation for fees accrued pursuant to the terms of his appointment as a non-executive director for the period up to the completion of the August 2017 combination transaction with Trefoil Holdings B.V.

On 19 September 2018, the company reached an agreement with Integra Oil & Gas S.A. to settle the remaining amount due in respect of the Mata Mora and Corralera exploration concessions through the issue of 25,000,000 new ordinary shares at a subscription price of £0.45 each.

At 31 March 2019, a total of 2,786,644,709 ordinary shares were in issue.

Substantial and significant interests in shares

Name	Number of ordinary shares[3]	As a % of the issued ordinary shares
Mercuria Energy Group Limited[1]	2,322,950,277	83.36%
José Luis Manzano and family[2]	111,446,170	4.0%

1 Mercuria Energy Group holds the above shares in the company through its subsidiaries Upstream Capital Partners VI Limited (1,924,634,982 shares), Mercuria Asset Holdings (Hong Kong) Limited (334,126,990 shares) and Mercuria Energy Asset Management B.V. (64,188,305 shares)

2 These shares in the company are held through Vetalir International S.A. (established as a trust, the beneficiaries of which are the family of José Luis Manzano) (79,328,285 shares), Integra Capital USA LLC (12,162,250 shares), Integra Capital S.A. (7,156,625) and directly by José Luis Manzano (12,799,010 shares)

3 At 22 January 2019

In addition to ordinary shares of the company, Upstream Capital Partners VI Limited also received 179,838,924 warrants to subscribe for ordinary shares of the company. The number of warrants issued to Upstream Capital Partners VI Limited was calculated by reference to the original exchange ratio in order to allow it the option to maintain its post-combination shareholding percentage in Phoenix in the event that holders of warrants that existed prior to the combination elected to exercise their warrants. The warrants held by Upstream Capital Partners VI Limited following the combination transaction are exercisable pro-rata and conditional on the exercise of a previously existing warrant and have exercise prices reflecting the exercise price of those warrants.

At 31 May 2018, Upstream Capital Partners VI Limited has exercised 10,228,089 of the warrants received by it as part of the combination transaction.

Majority shareholder

Mercuria Energy Group Limited is the ultimate majority shareholder of the group. A relationship agreement is in place between and amongst the company and Mercuria Energy Group companies. This relationship agreement restricts shareholder rights with respect to board composition, voting on director appointments and removal and the day to day running of the business by the executive directors. The board of directors is composed of a majority of independent directors.

Matters related to governance are discussed further in the corporate governance report on pages 61 to 64.

Contracts of significance

At 1 January 2018, the company was participant to a bridging and working capital agreement advanced by Mercuria Energy Group with aggregate value of US$160.0 million. Funds received under the agreement were used to redeem approximately US$87.0 million of existing credit facilities outstanding at the date of the August 2017 combination transaction with the remainder being made available for general and working capital purposes.

On 16 February 2018, US$100.0 million of this facility was converted into 194,387,299 ordinary shares of the company at a price of £0.37 per share. The remaining US$60.0 million was refinanced as part of a new convertible revolving credit facility from Mercuria, details of which are included in note 23 to the consolidated financial statements.

On 22 January 2018, the company entered a commodity price swap agreement with Mercuria Energy Trading S.A. under which the company fixed the price it received per barrel for a portion of oil sales over an 11-month period effective 15 January 2018. The contract was priced by reference to a Brent benchmark of US$65.97 per barrel and was in place in respect of 1,215,954 barrels in total. The contract expired on 14 December 2018.

Significant contracts with related parties are discussed in note 29 to the consolidated financial statements.

Dividends

The directors do not recommend the payment of a dividend for the year.

Directors

Details of the directors who have served the company during the year including their dates of their appointment and, where relevant, their resignation are as follows:

	Board role	First appointed	Resigned
Nicolás Mallo Huergo	Non-executive	2 October 2007	n/a
Javier Alvarez	Non-executive (independent)	17 July 2012	n/a
David Jackson	Non-executive (independent)	17 July 2012	n/a
Matthieu Milandri	Non-executive	21 August 2013	31 January 2019
Sir Michael Rake	Non-executive chairman	19 September 2016	n/a
John Bentley	Non-executive (independent)	10 August 2017	n/a
Anuj Sharma	Chief executive officer	10 August 2017	23 April 2019
Garrett Soden	Non-executive (independent)	10 August 2017	n/a
Guillaume Vermersch	Non-executive	10 August 2017	14 November2018
Philip Wolfe	Chief financial officer	10 August 2017	1 October 2018
Kevin Dennehy	Chief financial officer	1 October 2018	n/a
Daniel Jaeggi	Non-executive	14 November 2018	n/a
Tim Harrington	Non-executive	14 November 2018	n/a

The current directors were appointed to the board with a three-year service term and will not be proposed for re-election at AGM prior to the expiration of that term. The directors who joined the board in August 2017 were appointed at a meeting of the board of directors of the company. Accordingly, resolutions to reappoint these directors will be proposed at the upcoming AGM.

Directors' interests in share capital

The directors' interests in the share capital of the company are shown in the annual report on remuneration on page 85.

Directors' indemnities

As permitted by the articles of association of the company, the directors have been given the benefit of an indemnity, which is a qualifying third-party indemnity provision as defined in section 234 of the Companies Act 2006. The indemnity was in place throughout the year and continues to be so.

The company has directors' and officer's liability insurance in place that provides insurance cover to the directors in the event of a claim or legal action. This insurance was also in place throughout the year and remains in place.

Political and charitable donations

No political or charitable donations were made, nor was any political expenditure incurred by any group company in the year ended 31 December 2017 (2016: nil).

Auditors and disclosure of relevant audit information

As far as each director is aware, there is no relevant audit information of which the company's auditor is unaware. In addition, each director has taken all the steps that ought to have been taken in order to make themselves aware of any relevant audit information and to establish that PwC, the company's auditor in the period, is aware of that information.

Following a review of both the independence and the effectiveness of the auditor; and the indication from PricewaterhouseCoopers LLP of its willingness to continue in office, a resolution that PwC be reappointed will be proposed at the annual general meeting.

Corporate governance

The company's statement on corporate governance can be found in the corporate governance report on pages 61 to 64 of this annual report. The corporate governance report forms part of this directors' report and is incorporated by reference here.

Annual general meeting

The company's AGM will be held at Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG on 25 June 2019. Formal notice of the AGM, including details of special business, is set out in the notice of AGM which accompanies this annual report and is available on the company's website at www.phoenixglobalresources.com.

Going concern

The group's business activities, together with a description of the factors likely to affect its future development are set out in the group strategic report. The financial position of the group, its cash flows and liquidity position and borrowing facilities are described in the financial review set out in this annual report. Details of the group's commitments are set out in note 28 to the group financial statements. In addition, note 24 to the group financial statements includes details of the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of financial instruments held; and its exposure to credit and liquidity risk.

The group principally generates cash from its existing conventional oil and gas production operations. Nevertheless, Phoenix was formed with the stated intention of undertaking a significant exploration, evaluation and development programme focused on the group's unconventional oil and gas assets in Argentina, including the Vaca Muerta formation.

In order to appraise and develop its significant unconventional asset portfolio and generate shareholder value however, the company will need to invest significant amounts of capital over the next several years. The group's business plan and exploration programme for 2019 contemplates further evaluation work related to unconventional prospects with the objective of progressing at least one prospect towards the development stage. This work will require funding. In addition, the company has payment obligations related to the wells drilled at Mata Mora in late 2018 and early 2019. These wells are currently awaiting completion.

To date, the funding required to support the activities of the group has been provided by subsidiaries Mercuria Energy Group. The company is currently assessing funding options to finance the next stage of its operations. While that funding assessment is ongoing Mercuria Energy Group Limited has provided the company with a letter of support that states Mercuria's intention to make funds available to the company for a period of not less than twelve months from the date of this annual report or until such time as sufficient funding to support the business plan for 2019 and into 2020 has been secured.

The directors therefore have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Consequently the directors continue to adopt the going concern basis of accounting in preparing the financial statements. The financial statements do not include any adjustments that would be required if the group was unable to continue as a going concern.

The application of the going concern basis of preparation of the financial statements included in this annual report is based on the letter of support that has been received.

Further disclosures

Further disclosure requirements as required by the Companies Act 2006, Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the FCA's Listing Rules and Disclosure and Transparency Rules are found on the following pages of the company's annual report and are incorporated into the directors' report by reference:

Disclosure	Page number
Future developments	2–7
Acquisitions and disposals	127–128
Anti-slavery disclosure	51
Corporate governance statement	61–64
Gender diversity	51
Financial risk and financial instruments	134–138
Important events subsequent to the year end	144

On behalf of the board

Kevin Dennehy
Chief financial officer
2 May 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 and company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and 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 company and of the profit or loss of the company for that period. In preparing these 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 group and company financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and the group 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

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 company's position and performance, business model and strategy.

In the case of each director in office at the date the directors' report is approved:

> so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
> they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.

On behalf of the board

Kevin Dennehy
Chief financial officer
2 May 2019

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PHOENIX GLOBAL RESOURCES PLC

Report on the audit of the financial statements

Opinion

In our opinion, Phoenix Global Resources plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2018 (the 'Annual Report'), which comprise: the consolidated and company statements of financial position as at 31 December 2018; the consolidated income statement and consolidated statement of comprehensive income, the consolidated and company statements of cash flows and the consolidated and company statements 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.

Our audit approach

Overview

Materiality

- Overall group materiality: $3.4 million (2017: $1.6 million), based on 1% of net assets.
- Overall company materiality: $1.1 million (2017: £0.8 million), based on 1% of net assets.

Audit scope

- We conducted a full scope audit at four significant components based on their size and risk characteristics; three operating entities in Argentina and the parent company in London. Our scope enabled us to obtain 94% coverage of consolidated revenue, 89% of consolidated total assets and 82% of consolidated net assets for the group.
- Senior members of the audit team visited Argentina during the year end audit in order to have sufficient oversight of the work of our component auditors in Argentina.

Key audit matters

- Going concern (group and parent).
- Impairment of long term assets and goodwill (group).
- Impairment of investments (parent).

The scope of our audit

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Going Concern (group and parent) As explained in note 2 on page 107, oil and gas exploration, evaluation and development activity is capital intensive and requires significant investment in the early stages of the asset lifecycle before yielding production returns and, ultimately, cash from operations. The planned capex for the group over the next 12 months requires further future funding and therefore securing funding is a key area of focus for management. The group is dependent on the willingness of the lender, who is the major shareholder of the group, to continue their support of the group by providing access to additional financing in future periods to enable the group to realise its business plan and exploration programme and satisfy the capital requirements which underpin this. Due to the level of funding requirements needed in the next 12 months to appraise the contingent and prospective resources, the controlling shareholder, Mercuria Energy Group Limited, has committed to provide financial support, for a period of not less than twelve months from the date of these financial statements to support the business plan for 2019 and into 2020. If the company is unable to access funding from its major shareholder, or from alternative sources, to meet the development capex requirements, then it may not be able to ensure that the various unconventional opportunities it is targeting will move to development and production and ultimately yield net cash from operations after capex.	We obtained management's five year plan including the cash flow forecast for 2019 and 2020, which supports their use of the going concern basis of accounting for the group's and the company's financial statements. We tested the integrity of the forecast, including mathematical accuracy. The model includes a number of key assumptions such as sales revenues, operating costs and capital expenditure as well as successful exploration results transforming into production. We have held extensive discussions with management and reviewed the key assumptions and have also considered the historical accuracy of management's forecasting and performed sensitivity testing for reasonable possible changes in the key assumptions. Management has been provided with a letter of support from Mercuria Energy Group Limited for the next 12 months. As part of our evaluation of management's going concern assessment, we have considered the ability of Mercuria Energy Group Limited to support the group.
Impairment of long term assets and goodwill (group) Impairment assessments require significant judgement and there is the risk that the valuation of the assets may be incorrect and any potential impairment charge or reversal miscalculated. As such, this was a key focus for our audit due to the material nature of the balance. As disclosed in note 13 and note 14, the group has property, plant and equipment of US$366.2 million and exploration and evaluation assets of US$225.2 million as at 31 December 2018. The group also has goodwill of US$35.8 million which arose as part of the RTO in 2017. This goodwill was allocated between the Chachahuen, Mata Mora and Corralera cash generating units ("CGUs") and is required to be tested for impairment on an annual basis. Management has determined that the recoverable amount of the goodwill balance exceeded the carrying value and no impairment has been recognised. In addition, management has performed an impairment trigger assessment for the other CGUs and intangible assets. The carrying values of the group's assets are supported by value in use calculations, which are based on future cash flow forecasts. New reserve estimates have been obtained for all CGUs and have been used by management as part of their impairment assessment providing further support for the carrying values. Management has determined that there were no triggers for impairment in any of the CGUs, having considered factors such as long term prices, interest rates, reserves and production.	For the Chachahuen CGU, which has goodwill allocated to it, we assessed the reasonableness of management's future forecasts of capital and operating expenses, included in the cash flow forecasts, in light of the historical accuracy of such forecasts and the current operational results. As Mata Mora and Corralera are non-producing CGUs, we have assessed the expected well economics in the business plan based on drilling results to date as well as comparable transactions on a per acre basis and consider these to support the recoverable amount of the CGUs. In assessing the valuation of the other CGUs, we challenged management's impairment trigger analysis and in particular considered changes in key assumptions such as commodity prices, reserves and discount rates. We obtained management's third party reserve reports to confirm there have been no significant downgrades in reserve volumes and therefore confirmed the carrying values were recoverable. We assessed the competence and objectivity of the experts by considering factors including professional qualifications and experience. We held discussions with the experts regarding the key judgements and estimates taken during the preparation of the reserve estimates. We concur with management's view that there were no triggers identified and with their sensitivity disclosure included in note 13.

Key audit matter	How our audit addressed the key audit matter
Impairment of investments (parent) Impairment assessments require significant judgement and there is the risk that the valuation of the assets may be incorrect and any potential impairment charge or reversal miscalculated. As such, this was a key focus for our audit due to the material nature of the balance. As disclosed in note 4 to the company financial statements, the company has investments of US$1.1 billion after current year impairment charges of US$32.3 million as at 31 December 2018. Management has considered the recoverability of the investments in subsidiaries held in the company financial statements through determining the recoverable amount of each investment using the assumptions consistent with the group impairment analysis. An impairment charge of US$21.5 million has been recognised in respect of the sale of Andes Energia Argentina S.A. representing the difference between the carrying value of the investment and the consideration received. A further impairment charge of US$10.8 million has been recognised in relation to Grecoil y Cia. S.A. as the underlying assets do not support the carrying value of the investment.	We challenged management's assessment of the carrying value of the investments in the company and compared each investment to its fair value. We considered this assessment to be consistent with the approach taken for the group impairment assessment and therefore reasonable. We concur with management's treatment of the impairment in the investment in Andes Energia Argentina S.A. and Grecoil y Cia. S.A. which are discussed further in note 4 to the company financial statements. Based on our analysis of management's assessment of the recoverable amount of each investment, we concur that the remaining investments are recoverable. We consider management's impairment conclusions, the impairment charges recognised and the associated disclosures to be appropriate.

How we tailored the audit scope

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

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the statutory reporting unit level by us, as the group audit team, or through involvement of our component auditors in Argentina. The group's assets and operations are primarily located within three oil and gas basins in Argentina. Financial reporting is undertaken in offices in London, Buenos Aires, Mendoza and Houston.

Where work was performed by our component auditors in Argentina, we determined the level of involvement we needed to have in the audit work for each reporting unit to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. As part of our year end audit, the group team's involvement comprised of site visits, conference calls, review of component auditor work papers, attendance at component audit clearance meetings and other forms of communication as considered necessary.

The group audit team directly performed the work over the parent company, the intermediate holding companies as well as the consolidation.

We identified four units which, in our view, required an audit of their complete financial information, either due to their size or risk characteristics. This included the three main operating subsidiaries in Argentina, as well as the parent company in the United Kingdom. The above gave us coverage of 94% over consolidated revenue, 89% of consolidated total assets and 82% of consolidated net assets. This, 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:

	Group financial statements	Company financial statements
Overall materiality	$3.4 million (2017: $1.6 million).	$1.1 million (2017: £0.8 million).
How we determined it	1% of net assets.	1% of net assets.
Rationale for benchmark applied	We have concluded that net assets are the most appropriate benchmark, given the size and nature of the current operations and the fact that the group is largely in an investment stage. In these circumstances a profit based measure, such as EBITDA, would not be an appropriate benchmark to use.	We have assessed that the most appropriate benchmark for the company, which is primarily a holding company, is net assets.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between $1.1 million and $3.2 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the audit committee that we would report to them misstatements identified during our audit above $167,570 (Group audit) (2017: $100,000) and $53,300 (company audit) (2017: £44,100) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

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, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the strategic report and directors' report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the 'Code'), we are required to report to you if we have anything material to add or draw attention to regarding:

> The directors' confirmation on page 43 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.

> The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

> The directors' explanation on page 50 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

> The statement given by the directors, on page 93, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.

> The section of the Annual Report on page 67 to 69 describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities set out on page 93, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the 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 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 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 company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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

2 May 2019

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 US$'000	2017 US$'000
Revenue	7	**176,972**	141,799
Cost of sales	8	**(155,638)**	(133,387)
Gross profit		**21,334**	8,412
Exploration expenses		**(9,359)**	(931)
Impairment charge	13, 14	**–**	(232,407)
Selling and distribution expenses		**(5,758)**	(5,036)
Administrative expenses	9	**(24,561)**	(39,978)
Other operating expenses	10	**(16,568)**	(5,040)
Operating loss		**(34,912)**	(274,980)
Presented as:			
Adjusted EBITDAX		**39,173**	40,555
Non-recurring expenses		**–**	(32,900)
EBITDAX		**39,173**	7,655
Impairment charge		**–**	(232,407)
Depreciation, depletion and amortisation		**(64,726)**	(49,297)
Exploration costs written off		**(9,359)**	(931)
Operating loss		**(34,912)**	(274,980)
Finance income	17	**4,098**	1,976
Finance costs	17	**(30,702)**	(13,726)
Loss before taxation		**(61,516)**	(286,730)
Taxation	18	**(16,797)**	16,635
Loss for the year		**(78,313)**	(270,095)
Loss per ordinary share		**US$**	**US$**
Basic and diluted loss per share	30	**(0.03)**	(0.19)

The above consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 US$'000	2017 US$'000
Loss for the year	**(78,313)**	(270,095)
Translation differences	**(361)**	546
Total comprehensive loss for the year	**(78,674)**	(269,549)

The above items will not be subsequently reclassified to profit and loss. There are no impairment losses on revalued assets recognised directly in equity.

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

	Note	2018 US$'000	2017 US$'000
Non-current assets			
Property, plant and equipment	13	**366,191**	354,245
Intangible assets and goodwill	14	**261,010**	207,231
Other receivables	20	**5,085**	8,322
Deferred tax assets	25	**9,001**	11,629
Total non-current assets		**641,287**	581,427
Current assets			
Inventories	26	**17,279**	14,375
Trade and other receivables	20	**30,407**	44,925
Cash and cash equivalents	21	**21,085**	23,696
Total current assets		**68,771**	82,996
Total assets		**710,058**	664,423
Non-current liabilities			
Trade and other payables	22	**3,256**	7,168
Borrowings	23	**135,919**	162,502
Deferred tax liabilities	25	**99,374**	81,714
Provisions	27	**16,236**	17,215
Total non-current liabilities		**254,785**	268,599
Current liabilities			
Trade and other payables	22	**51,410**	82,355
Income tax liability		**1,595**	654
Borrowings	23	**64,365**	29,974
Provisions	27	**1,733**	367
Total current liabilities		**119,103**	113,350
Total liabilities		**373,888**	381,949
Net assets		**336,170**	282,474
Equity			
Share capital and share premium		**457,198**	329,877
Other reserves		**(112,150)**	(116,299)
Retained (deficit)/ earnings		**(8,878)**	68,896
Total equity		**336,170**	282,474

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The financial statements on pages 102 to 144 were approved by the board of directors and authorised for issue on 2 May 2019 and were signed on its behalf by:

Kevin Dennehy
Chief financial officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

Capital and reserves	Called up share capital US$'000	Share premium account US$'000	Retained (deficit)/ earnings US$'000	Other reserves US$'000	Total equity US$'000
At 1 January 2017	**98,414**	**52,467**	**(3,376)**	**(21,961)**	**125,544**
Loss for the year	–	–	(270,095)	–	(270,095)
Other comprehensive income	–	–	–	546	546
Total comprehensive (loss)/profit for the year	–	–	(270,095)	546	(269,549)
Effect of change of functional currency	(19,699)	(9,162)	–	28,861	–
Acquisition of subsidiary	248,803	–	–	136,255	385,058
Capital reduction	–	(50,549)	310,549	(260,000)	–
Transaction with owners	–	–	31,713	–	31,713
Fair value of share based payments	–	–	105	–	105
Issue of ordinary shares	2,359	7,244	–	–	9,603
At 31 December 2017	**329,877**	**–**	**68,896**	**(116,299)**	**282,474**
Loss for the year	–	–	(78,313)	–	(78,313)
Other comprehensive income	–	–	–	(361)	(361)
Total comprehensive loss for the year	–	–	(78,313)	(361)	(78,674)
Fair value of share based payments	–	–	305	–	305
Issue of ordinary shares	7,271	20,050	–	4,510	31,831
Fair value of warrants	–	–	234	–	234
Debt to equity conversion	27,027	72,973	–	–	100,000
At 31 December 2018	**364,175**	**93,023**	**(8,878)**	**(112,150)**	**336,170**

Other reserves	Merger reserve US$'000	Warrant reserve US$'000	Translation reserve US$'000	Deferred consideration US$'000	Total other reserves US$'000
At 1 January 2017	**(26,099)**	**2,105**	**(2,440)**	**4,473**	**(21,961)**
Translation differences	–	–	546	–	546
Effect of change of functional currency	29,446	–	–	(585)	28,861
Acquisition of subsidiary	140,143	–	–	(3,888)	136,255
Capital reduction	(260,000)	–	–	–	(260,000)
At 31 December 2017	**(116,510)**	**2,105**	**(1,894)**	**–**	**(116,299)**
Translation differences	–	–	(361)	–	(361)
Issue of ordinary shares	4,510	–	–	–	4,510
At 31 December 2018	**(112,000)**	**2,105**	**(2,255)**	**–**	**(112,150)**

The above statement of consolidated changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2018

	Note	2018 US$'000	2017 US$'000
Cash flows from operating activities			
Cash generated from operations	31	**21,014**	9,042
Income taxes paid		**(842)**	(2,006)
Net cash inflow from operating activities		**20,172**	7,036
Cash flows from investing activities			
Payments for property, plant and equipment		**(80,531)**	(79,539)
Payments for intangibles		**(43,188)**	(3,148)
Proceeds from sale of non current assets		**39**	–
Recovery of restricted cash		**377**	–
Net cash acquired from acquisition of subsidiary	15	**–**	1,062
Net cash outflow from investing activities		**(123,303)**	(81,625)
Cash flows from financing activities			
Proceeds from issues of shares and other equity instruments		**4,925**	9,603
Proceeds from borrowings		**116,210**	178,607
Repayment of borrowings		**(7,556)**	(89,875)
Interest paid		**(8,852)**	(4,215)
Net cash inflow from financing activities		**104,727**	94,120
Net increase in cash and cash equivalents		**1,596**	19,531
Cash and cash equivalents at the beginning of the financial year		**23,696**	5,243
Effects of exchange rates on cash and cash equivalents		**(4,207)**	(1,078)
Cash and cash equivalents at end of year	21	**21,085**	23,696

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. General information

The company is a Public Limited Company ('plc') incorporated in England and Wales and is domiciled in the United Kingdom. The Registered Office address is 6th Floor, King's House, 10 Haymarket, London SW1Y 4BP. The company is listed on the AIM market of the London Stock Exchange and maintains a secondary listing on the Buenos Aires Stock Exchange.

The principal activities of the company and its subsidiaries (together 'the group') are the exploration for and the development and production of oil and gas in Argentina.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, the associated interpretations issued by the IFRS Interpretations Committee (together 'IFRS') and the Companies Act 2006.

The significant accounting policies applied in preparing these consolidated financial statements are set out below. These policies have been consistently applied throughout the period and to each subsidiary of the group.

The financial statements have been prepared under the historical cost convention except as where stated.

Going concern

The group principally generates cash from its existing conventional oil and gas production operations. Nevertheless, it was formed with the stated intention of undertaking a significant exploration, evaluation and development programme focused on the group's unconventional oil and gas assets in Argentina, including the Vaca Muerta formation.

In order to appraise and develop its significant unconventional asset portfolio and generate shareholder value, the company will need to invest significant amounts of capital over the next several years. The group's business plan and exploration programme for 2019 contemplates further evaluation work related to unconventional prospects with the objective of progressing at least one prospect towards the development stage. This work will require funding. In addition, the company has payment obligations related to the wells drilled at Mata Mora in late 2018 and early 2019 that are currently awaiting completion.

To date, the funding required to support the activities of the group has been provided by subsidiaries of Mercuria Energy Group. The group is currently assessing funding options to finance the next stage of its operations. While that funding assessment is ongoing, a letter of support has been received from Mercuria Energy Group Limited that states its intention to make funds available to the group for a period of not less than twelve months from the date of these financial statements or until such time as sufficient funding to support the business plan for 2019 and into 2020 has been secured.

The going concern basis of preparation of these financial statements is based on the letter of support that has been received as the directors have a reasonable expectation that the group has access to adequate resources to continue in operational existence for the foreseeable future. Consequently the directors continue to adopt the going concern basis of accounting in preparing the financial statements. The financial statements do not include any adjustments that would be required if the group was unable to continue as a going concern.

Foreign currency

Functional currency – items included in the financial information of the individual companies that comprise the group are measured using the currency of the primary economic environment in which the entity operates (its functional currency). The primary economic environment is often related to the country of operations and, in many cases, the functional currency of an entity will be the same as the currency of the country in which it operates. There is no concept of a group functional currency and therefore individual entities within a group may have functional currencies that are different to each other. In some circumstances the functional currency may be different to the currency of the country in which an entity operates. This can happen when significant contracts (sales, services, funding, etc.) are denominated in or by reference to a currency that is different to that of the country of operation. For instance, in the oil and gas industry many sales and service contracts are denominated in or priced by reference to the US Dollar given that the benchmark prices for crude oil (Brent, WTI, etc.) are quoted in US Dollars and hence pricing is often referenced to the US Dollar.

Presentation currency – the consolidated financial statements are presented in US Dollars rounded to the nearest thousand (US$'000), except where otherwise indicated.

Foreign currency transactions – transactions in currencies other than an entity's functional currency (foreign currencies) are translated using the exchange rate on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income within either finance income (gains) or finance costs (losses).

2. Basis of preparation continued

Consolidation

The consolidated financial statements include the financial information of Phoenix Global Resources plc as well as its subsidiary undertakings.

Non-controlling interests

There is no non-controlling interest at either 31 December 2018 or 2017.

Subsidiaries

Subsidiaries are all entities over which the company has control. The company controls an entity when it is exposed to, or has rights over, variable returns from its involvement with the entity and has the ability to affect those returns through its ability to exercise control over the entity. Subsidiaries are consolidated in the group financial statements from the date at which control is transferred to the company. They are deconsolidated from the date that control ceases.

Joint arrangements

Oil and gas operations are often conducted by the group as co-licencees in unincorporated joint operations with other companies. The group's financial statements reflect the relevant proportion of production, assets, liabilities, income and expenses of the joint operation applicable to the group's interests. The group's current interests in joint operations are detailed in the operating review on pages 28 to 37 and typically represent a percentage-based working interest in the joint operation.

Acquisitions

The group allocates the purchase consideration relating to the acquisition of a subsidiary to the assets and liabilities acquired on the basis of fair value at the date of acquisition. Any excess of the cost of the acquisition over the fair value of assets and liabilities is recognised as goodwill. Goodwill is recognised as an asset and is subject to annual review for impairment. Goodwill is written off where circumstances indicate that the recoverable value of the underlying cash generating unit (CGU) including the asset may no longer support the carrying value of goodwill. Any such impairment loss is recognised in the income statement for the year. Impairment losses relating to goodwill cannot be reversed in future years.

Comparative financial information

On 10 August 2017, the company completed a business combination transaction with the Trefoil Holdings B.V. group of companies (Trefoil) whereby the company issued new ordinary shares to the shareholders of Trefoil in return for 100% of the issued share capital of Trefoil Holdings B.V. As a result of this transaction the former shareholders of the Trefoil group hold the majority of the issued share capital of the company and accordingly the combination transaction represents a reverse takeover for accounting purposes.

When a business combination is determined to be a reverse takeover for accounting purposes, the company that is acquired (the legal acquiree) is determined to be the accounting acquirer. Conversely the legal parent, the company that issued the purchase consideration, is determined to be the acquired company for accounting purposes.

The comparative financial information that is presented in these group financial statements is the comparative financial information of the Trefoil group up to the date of the combination as it is the Trefoil group that was the acquiring entity for accounting purposes. The former Andes Energia plc group is determined to be the acquired party and therefore its assets, liabilities, revenues, costs and cash flows are consolidated in these group financial statements from the date of acquisition, being 10 August 2017.

3. Significant accounting policies

3.1 New standards, amendments and interpretations adopted in 2018

IFRS 9: Financial Instruments (IFRS 9)

Overview

IFRS 9 became effective for accounting periods that started on or after 1 January 2018 and deals with the classification and measurement of financial instruments and has been adopted by the group. Financial instruments include loans receivable/payable, derivative financial instruments and accounts payable and receivable balances.

Measurement principles remained broadly consistent with previous guidance with the main options being to recognise financial assets and liabilities at fair value or amortised cost. Where financial assets and liabilities are carried at fair value, the standard provides guidance on where to recognise periodic changes in fair value with the primary options being through the income statement or directly to reserves. The standard also provides guidance on hedge accounting where a company elects to apply hedge accounting.

The most significant change in the new standard that impacted the group relates to the measurement of credit risk and the recognition of that risk through adjusting the carrying value of the underlying instrument. The standard requires the assessment of the '12-month expected credit losses' on inception of a financial instrument (generally an asset) and to recognise those expected losses in the income statement by way of an allowance. Where the expected credit risk increases significantly and is not considered to be low, the full credit loss that is expected over the lifetime of the asset is recorded.

3. Significant accounting policies continued

3.1 New standards, amendments and interpretations adopted in 2018 continued

IFRS 9: Financial Instruments (IFRS 9) (continued)

How the standard applies to Phoenix Global Resources plc

The table below summarises the principal financial instruments that the group is party to together with an assessment of the impact of the provisions of IFRS 9 on the consolidated financial statements.

Type of instrument	Previous accounting model	IFRS 9 impact assessment	Impact of adoption
Loans payable.	Amortised cost.	The primary loans payable relate to the convertible revolving credit facility with Mercuria. The assessed credit risk of Mercuria is low and the group intends to hold the loans to maturity.	No impact. Continue to record at amortised cost.
Loans receivable.	Amortised cost/capital contribution.	Financing advanced to Argentinian subsidiaries by the company is treated as capital contributions. Intra-group credit risk is assessed as low as the majority of subsidiaries are 100% owned.	No impact. Continue to record at amortised cost/capital contribution. Refer to the notes to the company only financial statements for further detail on the impact of the standard on subsidiary loan accounting.
Trade accounts receivable.	Amortised cost.	Oil sales are typically invoiced monthly with 20–30 day payment terms. There is no significant history of default. Gas sales are invoiced monthly on payment terms of 70–90 days with no significant history of default. Where a customer enters a default position, its account is moved to a prepayment basis with cargoes paid in full before delivery.	No impact. Some provision may be required based on facts and circumstances but the impact on the financial statements is not material, if any adjustment is required at all. The Group has assessed its actual credit losses in 2016 – 2018 to be 0.3% of total sales over those periods. The experiences of credit losses related to sales to independent companies that the group no longer deals with. The group has not adjusted 2018 revenue for expected credit losses due to the change in the customer profile whereby it no longer sells oil and gas to independent companies together with the materiality of actual recent credit losses.
Trade accounts payable.	Amortised cost.	Trade accounts payable balances are made on normal credit terms.	No impact.

IFRS 15: Revenue from Contracts with Customers (IFRS 15)

Overview

IFRS 15 became effective for accounting periods that started on or after 1 January 2018 and seeks to provide more meaningful information regarding revenue to users of financial statements. The standard describes a five-step approach to be taken to the assessment of revenue that requires companies to:

1. identify the customer party to each contract;
2. understand the performance obligations in the contract;
3. determine the transaction price;
4. allocate that price to the identifiable performance obligations; and
5. recognise revenue when (or as) a performance obligation is met.

The standard could result in a change in the pattern of revenue recognition for certain types of contract that (typically) contain multiple performance elements and are delivered over a period of time.

3. Significant accounting policies continued

3.1 New standards, amendments and interpretations adopted in 2018 continued

IFRS 15: Revenue from Contracts with Customers (IFRS 15) continued

How the standard applies to Phoenix Global Resources plc

There is no difference to revenue recognition for the group under the new standard. Consistent with industry practice the group makes sales of crude oil and natural gas which are commodity products. Contracts define a specific delivery point where physical custody is transferred and title passes.

There is a single performance obligation being physical delivery at a specified point. The group receives revenue that is calculated by multiplying actual delivery volume by the market price of the specific commodity on the day of delivery.

Conclusion

The implementation of IFRS 15 had no effect on revenue recognition (timing or quantum) for oil and gas sales.

3.2 New accounting standards issued but not yet effective

The only new accounting standard relevant to the group that has been issued but is not yet effective at the date of these group financial statements is IFRS 16, 'Leases' (IFRS 16). This is the only new standard that the group reasonably expects to be applicable to the financial statements in the future. No discussion is included in respect of those standards or interpretations that the directors consider will not be relevant to the group.

IFRS 16: Leases (IFRS 16)

The IASB published IFRS 16 in January 2016. The standard is effective for accounting periods starting on or after 1 January 2019 and therefore will be adopted by the group in the interim financial information and the annual financial statements for the year ended 31 December 2019.

The standard seeks to clarify the accounting treatment for leased assets that are accounted for under the current leasing standard as either finance leases or operating leases. Under the current accounting rules for finance leases, leased assets and corresponding lease obligations are capitalised in the statement of financial position and amortised over the life of the lease contract. Operating leases are accounted for on an income statement model with the monthly rental cost for using an asset charged to the income statement, typically on a straight line basis.

The criteria for classifying a lease as either a finance lease or an operating lease are very specific and involve the application of a number of 'bright line' rules that determine the final treatment. This specificity can result in the opportunity to specifically design contracts for rental which, while substantially similar, can result in different classification of the underlying asset.

IFRS 16 seeks to examine the commercial substance of arrangements and, on application, it is anticipated that many more lease contracts or similar arrangements will result in balance sheet treatment under the new standard. This will likely result in more leased assets and lease obligations being capitalised in companies' statements of financial position.

The group is in the process of assessing its lease and rental arrangements. Arrangements where regular payments of consistent amounts are paid to a supplier of goods or services have also been assessed. As a result of these reviews, it has been determined that the group does not lease significant assets in either quantum or value. The principal lease agreements that the group is party to relate to office space in London, Houston and Buenos Aires and to minor items of office equipment such as photocopiers and map plotters. The group also rents certain low value operational items but such items are typically not covered by contracts and their use is committed to on a monthly basis through purchase orders. As a result, the impact of adopting the new standard is expected to have an immaterial effect on the financial statements of both the group and the company. It is not expected that the change in the accounting rules for leases will result in a different presentation in the statement of financial position or a different profile of charges in respect of leased assets in the income statement.

4. Critical accounting estimates and judgements

The preparation of the financial statements in conformity with generally accepted accounting practice requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements

Determination of functional currency

The determination of a company's functional currency can require significant judgement. There is no concept of a group-wide functional currency but rather functional currency is assessed on an entity-by-entity basis. A company's functional currency is defined as the currency of the primary economic environment in which the entity operates. In this regard the default assumption is that a company's functional currency will be that in which it is registered or that where the majority of its operations are located.

4. Critical accounting estimates and judgements continued

Critical judgements continued

Determination of functional currency continued

This assumption can be challenged or rebutted where it can be demonstrated that a currency other than that of the country of registration or operations can be shown to have a greater influence over the revenue, costs, assets and liabilities of a company. For instance, in the oil and gas industry contracts for the sale of production and for the provision of operational services are often priced in or by reference to the US Dollar. This is because the main international benchmark prices used for pricing crude cargoes, such as Brent and WTI, are quoted in US Dollars. With industry-wide revenues being heavily influenced by the US Dollar, service contracts, particularly those for services provided by international service companies, are often also denominated in priced by reference to the US Dollar.

Notwithstanding the above, and the fact that the group operates exclusively in the oil and gas industry, the assessment of functional currency is made on an entity-by-entity basis by examining the specific circumstances of each entity. Care must be taken when examining holding companies and intermediate holding companies to determine if their activity is an extension of that of their holding company or subsidiary or if the company operates independently in its own right.

The assessment of functional currency can be complex and requires the application of a number of criteria and indicators proscribed by IAS 21, 'The effects of changes in foreign exchange rates' (IAS 21). In certain circumstances the evaluation of the criteria in IAS 21 does not result in a clear answer one way or another and hence judgement is applied in determining the functional currency of an entity. The assessment of functional currency can have a significant effect on both the income statement and the statement of financial position of a company and of the group of which it is a member.

The impact of foreign exchange gains and losses on net income as calculated by reference to the functional currency of each company within the group is presented in the statement of comprehensive income as part of finance income and finance costs.

The functional currency of the company and its subsidiaries in Argentina was determined to be the US Dollar. The functional currency of the company's subsidiaries domiciled outside of Argentina is US Dollar, Euro or Swiss Francs and is assessed based on the main operating cash flows to which the subsidiary is exposed. The group presents its financial statements in US Dollars.

Determination of joint control

Judgement is required to determine when joint control exists over an arrangement or business activity. Such judgement requires the assessment of the relevant activities of the arrangement or of the business activity and when decisions in relation to those activities require unanimous consent. The requirement for unanimous consent means that each participant has an equal say in relation to the activities of the arrangement and, hence, joint control exists.

The group has determined that the relevant activities for its joint arrangements are those related to the operating and capital decisions of the arrangement. These will include the approval of the annual capital and operating expenditure work programme and budget for the joint arrangement. This will also relate to matters such as the approval of chosen service providers for major capital activity as required by the joint operating agreements that govern the joint arrangement. These considerations are similar to those necessary to determine control over subsidiaries.

Classifying an arrangement or business activity requires assessment of the rights and obligations arising from the arrangement and may include:

> the structure of the joint arrangement including whether or not a legal entity exists and the terms of a contractual arrangement;
> the rights and obligations arising from ownership;
> contractual rights and obligations; and
> other facts and circumstances on a case-by-case basis.

This assessment often requires significant judgement. A different conclusion about both joint control and whether an arrangement represents a joint venture or a joint operation may materially affect the accounting for a joint arrangement. For instance, the determination of an arrangement as a joint venture or joint operation results in a line-by-line inclusion of the group's proportionate interest in the assets, liabilities, revenues and costs of the arrangement. Conversely, where joint control is determined not to exist the group's interest in the net income and net assets of the arrangement are presented in a single line in each of the consolidated income statement and statement of financial position.

Critical estimates

Future oil and gas prices

The estimation of future oil and gas prices has a significant impact throughout the financial statements. Future prices for oil and gas have a direct impact on the estimation of the recoverable value of property, plant and equipment and intangible assets associated with oil and gas assets.

Details of the oil and gas prices achieved in the years ended 31 December 2018 and 2017 are included in the segment information (note 6).

4. Critical accounting estimates and judgements continued

Critical estimates continued

Estimation of oil and gas reserve volumes

Oil and gas reserves are the quantities of oil and gas that management considers are commercially recoverable in the future from known accumulations within the group's licence areas and under defined economic and operating conditions.

The estimation of reserve volumes is inherently imprecise, requires the application of judgement and is subject to future revision. Because the production of reserves is required to be commercially viable, variations in future sales prices, cost estimates or actual production volumes can affect the absolute quantity of estimated reserve volumes from one period to the next.

Commercial viability is assessed by reference to the point at which the cash cost to produce a barrel of oil (or equivalent) is greater than the sales price that can be achieved for that barrel. This point is generally referred to as the 'economic limit'. No reserves are recorded in respect of the period after which the economic limit is estimated to occur.

Decreases in sales prices, increases in cash operating costs or variations in the expected production profile for wells, as compared to the assumptions applied in the estimation of reserve volumes, can cause variation from those estimates. Variations can be positive or negative. Subsurface conditions and other engineering factors can also affect estimated reserve volumes.

An impairment may also exist where revisions to estimated reserve volumes result in a reduction to estimated reserves for a given field or licence area.

The prospective value of oil and gas reserves is not recorded in the statement of financial position. Intangible oil and gas assets and associated property plant and equipment included in the statement of financial position relate to the cost of acquisition of those properties together with cumulative exploration or development expenditure.

Oil and gas reserve volumes are estimated by management together with the in-house reservoir engineer and are subject to periodic independent estimation by external reservoir engineering experts as events or circumstances dictate.

The estimation of reserve volumes primarily influences the depreciation, depletion and amortisation charge for the year. This is included in the analysis of property, plant and equipment (note 13). Reserve volumes are also used to assess fair value in business combinations (below) and in calculating whether an impairment charge should be recorded where an impairment indicator exists.

Accounting for business combinations and fair value

Business combinations are accounted for at fair value. The assessment of fair value is subjective and depends on a number of assumptions.

These assumptions include assessment of discount rates, taxation rules, and both the amount and the timing of expected future cash flows from assets and liabilities. In addition, the selection of specific valuation methods for individual assets and liabilities requires judgement. The specific valuation methods applied will be driven by the nature of the asset or liability being assessed.

The consideration given to a seller for the purchase of a business or a company is accounted for at its fair value. When the consideration given includes elements that are not cash, such as shares, then the fair value of the consideration given is calculated by reference to the specific elements of the consideration given to the seller.

In business combinations fair value may need to be applied to items that are not recorded in financial statements under the historic cost convention. These items may include certain contingent liabilities, contracts that have terms that may be more or less beneficial compared to current market practice, warranties given by the seller or value that could be gained from inherent characteristics of the business being acquired. Where these items represent benefits they are recorded as intangible assets and separately identified. Items that could result in payments being made in the future are recorded as either long term or short term liabilities.

Goodwill is recognised where the fair value of the purchase consideration given to the seller is more than the fair value of the assets acquired and liabilities assumed. Determining what goodwill relates to requires judgement. Where the value of goodwill cannot be supported the goodwill is not recognised and a corresponding amount is recorded as an impairment loss in the income statement.

The company was party to a business combination in the year ended 31 December 2017 whereby it acquired 100% of the issued share capital of Trefoil Holdings B.V. The combination, which represented a reverse takeover under IFRS 3, 'Business Combinations', is discussed in note 15.

4. Critical accounting estimates and judgements continued

Critical estimates continued

Provision for asset retirement and decommissioning obligations

The group has an obligation to plug and abandon wells at the end of their productive life. In addition, the group is required to remove any surface field infrastructure and equipment and to remediate or re-cultivate land that has been affected by the group's activities and return it to its natural state.

Provision is made for such obligations at the time at which the obligation is incurred. This is normally as wells are drilled or infrastructure is put in place. Provisions are based on cost estimates of the remediation activity that will be needed. These estimates require judgment. Inflation is applied to cost estimates and these estimates are then discounted at a rate that reflects the time value of money. The application of both inflation and discount rates represent significant estimates.

Where licence terms do not require the group to remediate wells on rescission of a licence then no provision is made. This can occur when the relevant province that issued the licence considers that wells could be remediated or that they may be of geological interest to future licence holders.

Details of provisions held for asset retirement obligations together with movements recognised in the year are included in the analysis of provisions in note 27.

5. Accounting policies

5.1 Revenue

Revenue represents the proceeds, excluding VAT and sales taxes, earned from the sale of oil and gas.

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

Revenue is recognised to the extent that it is probable that sales proceeds will be received and the revenue can be reliably measured. Contracts for the sale of oil and gas are typically priced by reference to quoted benchmark prices. Revenue is recognised when the significant risks and rewards of ownership have been passed to the buyer. Contracts define a specific delivery point where physical custody is transferred and title passes. This is typically at the point at which the product passes into the customer's pipeline, truck or refinery.

There is a single performance obligation being physical delivery at a specified point. The group receives revenue that is calculated by multiplying actual delivery volume by the market price of the specific commodity on the day of delivery.

5.2 Finance costs and income

Finance income comprises interest income on cash invested, foreign currency gains and the unwind of discount on any assets held at amortised cost. Interest income is recognised as it accrues using the effective interest rate method.

Finance expense comprises interest expense on borrowings, foreign currency losses and the unwind of discount on any liabilities held at amortised cost, which is principally the unwind of the discount related to the asset retirement obligation.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as a part of that asset. This reduces the finance charge in the income statement and results in a corresponding increase to the asset cost. Capitalisation of borrowing costs stops when the asset is substantially ready for its intended use. The time at which an asset is substantially ready for its intended use may be earlier than the time at which it is actually put into use.

5.3 Employee benefits

Short-term benefits

Benefits given to employees that are short-term in nature are recognised as expenses in the statement of comprehensive income as the related service is provided. The principal short-term benefits are salaries, associated holiday pay and other periodic benefits such as healthcare and pension contributions made by the company for the benefit of the employee. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if there is either a present legal or constructive obligation to pay the amount and the amount can be reliably estimated.

5. Accounting policies continued

5.4 Share-based payments

The group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments, deferred share awards or options to subscribe for ordinary shares of the company. The fair value of the employee services received in exchange for the grant of the equity instruments, shares or options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement and the grant date.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When share awards vest or options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium. No proceeds are received by the company in respect of direct share awards or deferred share awards.

The grant by the company of equity instruments or options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

Any social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

5.5 Taxes

The total tax charge or credit recognised in the statement of comprehensive income is made up of both current and deferred taxes.

The current tax charge or credit is based on the taxable profit or loss for the year. Taxable profit or loss is different to the profit or loss reported in the statement of comprehensive income 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 nor deductible.

Deferred tax is the tax that is expected to be payable or recoverable on differences between the carrying value of assets and liabilities in the financial statements and the corresponding tax amounts for those assets and liabilities used to calculate taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences that exist only where it is probable that taxable profits will be generated against which the carrying value of the deferred tax asset can be recovered. Deductible temporary differences exist where there is a difference in the timing of the recognition of an item of income or expense between the income statement and the calculation of taxable profit or loss.

Deferred tax assets and liabilities are recognised using the liability method, for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint operations. Deferred tax liabilities are not recorded for these items where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset or liability is not recognised if a temporary difference arises on initial recognition of 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.

Current and deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

5. Accounting policies continued

5.5 Taxes continued

Minimum notional income tax – Argentina

Argentinian tax law requires companies to calculate tax on 'notional presumed income' at a rate equal to 1% of a company's assets at the balance sheet date. The company's tax obligation for each year will be the higher of the notional presumed income tax and the actual calculated tax charge for the period. Where the notional amount is greater than the calculated amount the excess of taxes paid can be used to offset future income tax in any of the next ten years.

5.6 Intangible assets

Goodwill

The group allocates the fair value of the purchase consideration on the acquisition of a subsidiary to the assets acquired and liabilities assumed based on an assessment of fair value at the acquisition date. Any excess of the purchase consideration (the 'cost' of the acquisition) over the fair value of those assets and liabilities is recognised as goodwill. Where goodwill is recognised, it is allocated to cash generating units in a systematic manner reflective of how the group expects to recover the value of the goodwill.

Any goodwill arising is recognised as an asset and is subject to annual review for impairment. Goodwill is written off or impaired where circumstances indicate that the recoverable amount of the underlying CGU including the asset may no longer support the carrying value of the goodwill. Any such impairment is recognised in the income statement for the period. Impairment losses related to goodwill are permanent and cannot be reversed in future periods.

In testing for impairment, goodwill arising on business combinations at the date of acquisition is allocated to the group of CGUs representing the lowest level at which it will be monitored. The group's policy is to monitor goodwill at an operating segment level before combining segments for reporting.

The recoverable amount of a CGU, or group of CGUs, within the segment is based on the higher of its fair value less costs of disposal or value in use. Value in use is calculated by reference to the expected future cash flows from the CGU after discounting to take account of the time value of money. Fair value less costs to sell can be based on a similar cash flow measure adjusted for disposal costs or can be estimated by reference to similar comparable reference transactions. Where cash flows are used they are risk weighted in order to reflect an assessment of future exploration success.

The key assumptions in assessing cash flows are the sensitivity to market fluctuations, such as commodity prices, and the success of future exploration drilling programmes. The most likely factor that will result in a material change to the recoverable amount of the cash-generating unit is the result of future exploration drilling, which will ultimately determine the licence area's future economic potential.

5.7 Exploration and appraisal assets

Capitalisation

The group follows an accounting policy for exploration and appraisal assets that is based on the successful-efforts accounting method.

Costs incurred prior to obtaining the legal right to explore an area are expensed as incurred in the income statement. This includes all costs that pre-date the award of a licence.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence-by-licence basis. Costs are held within intangible assets and are not depreciated until the exploration phase on the licence area is complete or commercial reserves have been discovered. Exploration and evaluation costs may include the costs of initial licence acquisition; geological and geophysical studies (such as seismic studies); and direct labour, equipment and service costs associated with drilling exploratory wells. Costs incurred are capitalised by well, field or exploration area based on the nature of the cost. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercial. Where the results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are written off to the income statement as exploration cost.

On conclusion of a successful evaluation phase where commercial reserves have been established, the associated exploration and evaluation costs are tested for impairment and their carrying value adjusted if necessary. The exploration and evaluation costs are then transferred to the property, plant and equipment category 'development and production assets' and are held within a single field cost centre.

5. Accounting policies continued

5.7 Exploration and appraisal assets continued

Impairment

Capitalised intangible exploration and evaluation costs are reviewed regularly for indicators of impairment and are tested for impairment where these indicators exist. Indicators of impairment for exploration and appraisal assets may include:

- exploration drilling has not resulted in the discovery of commercial volumes of hydrocarbons;
- changes in oil and gas prices or other market conditions that indicate the discoveries may not be commercial;
- the anticipated cost of development indicates that it is unlikely the carrying value of the exploration and evaluation asset will be recovered in full;
- there are no plans to conduct further exploration activities in the area; or
- the exploration licence period has expired or is due to expire.

Where an indicator of impairment has been identified, the intangible exploration and evaluation asset is allocated to a development asset within property, plant and equipment for the purpose of impairment testing. This allocation is made because the exploration and evaluation asset has no cash inflows of its own.

If there are no development assets within the CGU, the excess of the carrying amount of the exploration and evaluation over its recoverable amount is immediately written off in the income statement.

5.8 Property, plant and equipment – development and production assets

Capitalisation

The costs associated with determining the existence of commercial reserves are capitalised in accordance with the preceding policy and transferred to property, plant and equipment as development assets following impairment testing.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalised within development assets on a field-by-field basis. Subsequent expenditure is only capitalised where it either enhances the economic benefits of the development asset or replaces part of the existing development asset (where the remaining cost of the original part is expensed through the income statement).

Costs of borrowing related to the ongoing construction of development and production assets and facilities are capitalised during the construction phase. Capitalisation of interest ceases once an asset is ready for production.

Depreciation

Capitalised oil and gas assets are not subject to depreciation until commercial production starts. Depreciation is calculated on a unit-of-production basis in order to write off the cost of an asset as the reserves that it represents are produced and sold. Any periodic reassessment of reserves will affect the depreciation rate on a prospective basis.

The unit-of-production depreciation rate is calculated on a field-by-field basis using proved, developed reserves as the denominator and capitalised costs as the numerator. The numerator includes an estimate of the costs expected to be incurred to bring proved, developed, not-producing reserves into production.

Infrastructure that is common to a number of fields, such as gathering systems, treatment plants and pipelines is depreciated on a unit-of-production basis using an aggregate measure of reserves or on a straight line basis depending on the expected pattern of use of the underlying asset.

Impairment

The group assesses development and production assets for impairment where there is an indication that an impairment may exist. Indicators of impairment may include:

- a significant fall in realised prices for oil and gas;
- a significant downward movement in the forward curve for quoted oil price benchmarks such as Brent or West Texas Intermediate;
- an increase in cash operating costs;
- a significant downward revision to reserve volumes or values;
- an increase in rates calculated for depreciation, depletion and amortisation (DD&A); or
- unforeseen engineering subsurface problems that cannot be overcome satisfactorily.

An impairment indicator exists where revisions to estimated reserve volumes result in a reduction to those estimates for a given field or licence area. In addition, variations in reserve estimates cause changes to the unit-of-production depreciation rates applied to oil and gas properties. Depreciation rates for fields or licence areas are calculated using estimated reserve volumes as the denominator with capitalised costs as the numerator.

An impairment review of development and production assets is undertaken on an asset-by-asset basis, typically at the field or licence level, and involves comparing the carrying value of an asset with its recoverable amount. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and its value in use. Value in use is determined by reference to expected future net cash flows. Any impairment loss identified is recorded in the income statement.

5. Accounting policies continued

5.8 Property, plant and equipment – development and production assets continued

Impairment continued

The future cash flows are adjusted for risks specific to the cash generating unit and are discounted using a pre-tax discount rate. The discount rate is derived from the group's post-tax weighted average cost of capital.

The calculation of value in use is most sensitive to the following assumptions:

> production volumes and estimates of recoverable reserves;
> quoted commodity benchmark prices and realised sales prices;
> the level of fixed and/or variable operating costs;
> estimates of capital expenditure required to develop assets; and
> discount and inflation rates applied.

5.9 Decommissioning

The discounted cost of expected decommissioning activity is recorded when an obligation to rectify the environmental impact of the group's oil and gas activity exists. The obligation can arise from contractual licence arrangements, the laws and regulations of the country or province of operation or be constructive based on established practice.

The amount that is recognised as a provision for decommissioning activities is the present value of the estimated future remediation expenditure that is determined by reference to the nature of the asset, the group's operational policy in regard to decommissioning, local conditions and associated regulatory requirements. A corresponding decommissioning asset is recorded within property, plant and equipment at the same discounted value as the provision.

The costs recognised in the income statement in each period comprise two elements:

> depreciation of the decommissioning asset calculated on a unit-of-production basis consistent with the underlying asset to which it relates that is recorded in operating expenses; and
> the unwind of the discount on the decommissioning provision that is recorded as interest expense as time passes.

Any change in the present value of the estimated future decommissioning expenditure is reflected as an adjustment to the decommissioning provision and related decommissioning asset.

5.10 Other assets

Other assets are capitalised on the basis of purchase price or construction cost. Depreciation on other elements of property, plant and equipment is charged on a straight line basis at the following rates that reflect the expected useful life of each asset category:

> Fixtures and fittings	20% to 33%
> Vehicles	20%
> Other equipment	20% to 33%

5.11 Business combinations and goodwill

Acquired businesses are included in the financial statements from the transaction date which is defined as the date at which the company achieves control over the assets being acquired and liabilities assumed.

The cost of an acquisition is calculated as the fair value of the consideration given including equity instruments given, contingent or deferred elements of consideration and any liabilities assumed in connection with the transfer of control.

The cost of an acquisition is allocated to the identifiable assets acquired and liabilities assumed on the basis of their relative fair values at the acquisition date. If the acquisition cost at the time of the acquisition exceeds the fair value of the net assets acquired, goodwill is recognised. Conversely, if the fair value of the net assets acquired exceeds the consideration given, the difference is recognised as gain in the income statement on the acquisition date.

Goodwill is allocated to the cash generating units or groups of cash generating units that are expected to benefit from the business combination and is subject to annual impairment testing.

Goodwill may also be recognised as a result of the application of deferred tax accounting to the fair values of assets acquired. The fair value allocation process often results in an increase to the carrying value of depreciable assets. Given that the tax deductible value of such assets does not change, the difference between the book value and the tax value of the asset increases, which results in an additional deferred tax liability. The increased deferred tax liability is recorded in purchase accounting with a corresponding entry to goodwill. Goodwill arising on the action of deferred taxes is allocated to cash generating units and assessed for impairment accordingly.

5. Accounting policies continued

5.12 Inventories

The group's stocks of crude oil on hand that result from its production operations are carried at the lower of cost and net realisable value. Cost is calculated as the per-unit production cost for each barrel of oil held in inventory. Net realisable value is measured by reference to the market price for crude oil prevailing in Argentina plus or minus applicable quality and location premium or discount.

Operational inventory and spare parts are carried at the lower of cost or net realisable value where cost represents the weighted average unit cost for inventory items on a line by line basis.

5.13 Investments and other financial assets

Classification

Financial assets are initially recognised at fair value, usually being the transaction price. In the case of financial assets not at fair value through profit or loss, directly attributable transaction costs are also included. The subsequent measurement of financial assets depends on their classification. The group classifies its financial assets in the following categories:

- financial assets measured at amortised cost;
- financial assets measured at fair value through other comprehensive income; and
- financial assets measured at fair value through profit or loss.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at the end of each reporting period.

Recognition and derecognition

Regular-way purchases and sales of financial assets are recognised on the trade date, being the date on which the group 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 group has transferred substantially all the risks and rewards of ownership.

Measurement

Financial assets measured at amortised cost

Financial assets are classified and measured at amortised cost when the objective of the asset is to collect contractual cash flows and the contractual cash flows represent solely payments of principal and interest. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired and when interest is recognised using the effective interest method. This category of financial assets includes trade and other receivables.

Financial assets measured at fair value through other comprehensive income

Financial assets are classified and measured at fair value through other comprehensive income when the objective of holding the asset is both to collect contractual cash flows and sell the financial assets, and the contractual cash flows represent solely payments of principal and interest. The group does not have any financial assets classified in this category.

Financial assets measured at fair value through profit or loss

Financial assets are classified and measured at fair value through profit or loss when the asset does not meet the criteria to be measured at amortised cost or fair value through other comprehensive income. Such assets are carried on the balance sheet at fair value with gains or losses recognised in the income statement. Derivatives, other than those designated as effective hedging instruments, and equity instruments are included in this category.

Interest income from financial assets at fair value through profit or loss is included in net gains/(losses). Interest on assets held at amortised cost is calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations.

Impairment – general

Credit risk arises from the group's financial assets which are carried at amortised cost, at fair value through other comprehensive income ('FVOCI') and at fair value through profit or loss ('FVPL'), including cash and cash equivalents and outstanding receivables with oil and gas customers. The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired based on the credit loss model set out in IFRS 9.

5. Accounting policies continued

5.13 Investments and other financial assets continued

Impairment – assets carried at amortised cost

For loans and receivables, the group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. The expected loss rates are based on the payment profiles of sales over a period of 36 months prior to the reporting date. These historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle the receivables as they fall due.

Loans and receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy: Impairment – assets carried at amortised cost:

For loans and receivables, the amount of the 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 have 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 the loss is recognised in profit or loss. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be 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 profit or loss.

Impairment – other short term investments

All of the groups other short term investments are considered to have low credit risk, and the loss allowance recognised during the period is therefore limited to 12 months' expected losses. Any loss allowance determined for the period is recognised in profit or loss and reduces the fair value loss otherwise recognised in OCI.

Previous accounting policy: Impairment – assets classified as available for sale:

If there is objective evidence of impairment for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

5.14 Trade and other receivables

Trade receivables and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. The group applies the IFRS 9 simplified approach to measuring expected credit losses to calculate impairment, which uses a lifetime expected loss allowance based on a 36 month assessment period. Any resulting impairment loss is recognised immediately in the income statement.

Trade and other receivables are classified as current assets if receipt is due within one year or less. If not, they are presented as non-current assets.

5.15 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with financial institutions that can be called on demand together with other short-term, highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash. Cash equivalents also include restricted amounts pledged as securities for work commitments. Cash equivalents are classified as financial assets measured at amortised cost or fair value through profit or loss.

5. Accounting policies continued

5.16 Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accruals are recognised in respect of goods or services delivered but not yet invoiced.

5.17 Provisions

Provision is made for asset retirement obligations and legal claims when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be incurred in settling the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision as the discount unwinds due to the passage of time is recognised in the income statement as interest expense.

6. Segment information

The group's executive management team comprising the chief executive officer, the chief financial officer and the chief operating officer has been determined collectively as the chief operating decision maker for the group. The information reported to the group's executive management team for the purposes of resource allocation and assessment of segment performance is focused on the basins in which the group operates. The strategy of the group is focused on the development of the Vaca Muerta shale and other unconventional opportunities in the Neuquina basin while optimising conventional production from that basin. In addition, the group is present in the Austral basin in south Argentina where its operations with its partner, Roch S.A., are targeted at exploiting gas resources in the group's licence areas within the basin. The group also has production activities in the Cuyana basin. Segments that are not currently material to the operations or result of the group are aggregated within 'Corporate – unallocated'.

The Neuquina, Austral and Cuyana basins have been determined by the group to represent the reportable segments of the business based on the level of activity across these basins and the information provided to the executive management.

The group's executive management primarily uses a measure of earnings before interest, tax, depreciation and exploration expenses (EBITDAX) to assess the performance of the operating segments. However, the chief executive officer also receives information about segment revenue and capital expenditure on a monthly basis.

2018	Neuquina basin US$'000	Austral basin US$'000	Cuyana basin US$'000	Corporate – unallocated US$'000	Total US$'000
Revenue	**86,435**	**48,515**	**42,022**	**–**	**176,972**
Profit/(loss) for the year	**10,162**	**7**	**5,042**	**(93,524)**	**(78,313)**
Add: depreciation, depletion and amortisation	39,849	15,879	8,264	734	64,726
Add: exploration costs written off	5,613	3,377	–	369	9,359
Less: finance income	–	–	–	(4,098)	(4,098)
Add: finance costs	557	178	125	29,842	30,702
Add: taxation	–	–	–	16,797	16,797
EBITDAX	**56,181**	**19,441**	**13,431**	**(49,880)**	**39,173**
Oil revenues	**86,392**	**26,061**	**42,022**	**–**	**154,475**
bbls sold	1,486,470	422,152	698,133	–	2,606,755
Realised price (US$/bbl)	58.12	61.73	60.19	–	59.26
Gas revenues	**43**	**22,454**	**–**	**–**	**22,497**
MMcf sold	17	5,477	–	–	5,494
Realised price (US$/MMcf)	2.58	4.10	–	–	4.10
Capital expenditure					
Property, plant and equipment	67,377	9,445	3,752	918	81,492
Intangible exploration and evaluation assets	56,521	345	–	702	57,568
Total capital expenditure	**123,898**	**9,790**	**3,752**	**1,620**	**139,060**

6. Segment information continued

Exploration costs incurred in the Neuquina basin include US$4.8 million related to the write-off of an unsuccessful exploration well at the Laguna el Loro concession. The well satisfied the commitments associated with the licence which has now been relinquished. The remaining US$0.8 million exploration costs in the Neuquina basin are related to geological or geophysical work that is not related to a specific prospect or area and is general in nature.

Exploration costs incurred in the Austral basin of US$3.4 million related to the company's share of costs related to the unsuccessful Orkeke well drilled by the company's partner, ROCH S.A., during the year.

2017	Neuquina basin US$'000	Austral basin US$'000	Cuyana basin US$'000	Corporate – unallocated US$'000	Total US$'000
Revenue	66,331	41,608	33,860	–	141,799
Loss for the year	(222,801)	(7,716)	(9,146)	(30,432)	(270,095)
Add: depreciation, depletion and amortisation	30,399	8,645	8,791	1,462	49,297
Add: exploration costs written off	931	–	–	–	931
Add: impairment	224,169	–	8,238	–	232,407
Less: finance income	–	(248)	(948)	(780)	(1,976)
Add: finance costs	3,635	–	–	10,091	13,726
Less: taxation	–	–	–	(16,635)	(16,635)
EBITDAX	36,333	681	6,935	(36,294)	7,655
Add: non-recurring expenses	–	–	–	32,900	32,900
Adjusted EBITDAX	36,333	681	6,935	(3,394)	40,555
Oil revenues	66,293	16,878	33,860	–	117,031
bbls sold	1,332,289	327,633	659,262	–	2,319,184
Realised price (US$/bbl)	49.76	51.51	51.36	–	50.46
Gas revenues	38	24,730	–	–	24,768
MMcf sold	8	6,076	–	–	6,084
Realised price (US$/MMcf)	4.69	4.07	–	–	4.07
Capital expenditure					
Property, plant and equipment	62,037	9,312	9,574	1,882	82,805
Intangible exploration and evaluation assets	3,148	–	–	–	3,148
Total capital expenditure	65,185	9,312	9,574	1,882	85,953

In August 2017, the company relinquished its interest in the Puesto Pozo Cercado block. The accumulated capitalised costs associated with Puesto Pozo Cercado of US$8.2 million were expensed accordingly.

The impairment of US$224.2 million recognised in respect of the Neuquina segment related to goodwill that arose on the combination transaction as a function of the closing share price used to calculate the purchase consideration. The directors determined that the goodwill was not supportable and, accordingly, an impairment charge was recorded. All of the goodwill impairment is attributable to the Neuquina basin assets as all of the goodwill had been allocated to Neuquina basin assets.

Non-recurring expenses of US$32.9 million primarily related to costs incurred in relation to the reverse takeover transaction during 2017, non-recurring professional fees and severance payments made to former employees. The substantial majority of costs incurred related to legal and professional fees associated with the financial and legal diligence and costs related to the preparation of the AIM admission document required for the readmission of the enlarged group to trading on the AIM market. The non-recurring transaction expenses also included advisory fees related to structuring and Argentina market advice associated with the transaction.

There are no intersegment revenues in either period presented. All revenues represent sales to external customers and all sales are made in Argentina. The significant majority of oil and gas sales are made to the Argentinian state-owned oil company, YPF.

7. Total revenue

	2018 US$'000	2017 US$'000
Crude oil revenue	**154,475**	117,031
Gas revenue	**22,497**	24,768
Total revenue	**176,972**	141,799

The group makes all sales to external customers located within Argentina. Substantially all of its oil production is sold to the Argentina state-owned oil company, YPF. More than half of gas production is sold to Grupo Albanesi.

8. Cost of sales

	2018 US$'000	2017 US$'000
Production costs	**89,892**	82,806
Depreciation of oil and gas assets	**64,726**	49,291
Movements in crude inventory	**1,020**	1,290
Total cost of sales	**155,638**	133,387

9. Administrative expenses

	2018 US$'000	2017 US$'000
Staff costs	**13,413**	8,018
Depreciation	**–**	6
Professional fees	**5,181**	25,813
Other general and administrative expenses	**5,967**	6,141
Total administrative expenses	**24,561**	39,978

10. Other operating income and expenses

	2018 US$'000	2017 US$'000
Income		
Staff seconded to joint operations	**423**	839
Reversed provisions	**890**	–
Other income	**364**	–
Expense		
Hedging loss	**(7,632)**	–
Loss on disposal of assets	**(1,125)**	–
Share based payment	**(5,451)**	–
Impaired receivables	**–**	(5,355)
Argentine bank transaction taxes	**(2,487)**	–
Other expenses	**(1,550)**	(524)
Total other items of income or expense	**(16,568)**	(5,040)

Hedging loss

On 22 January 2018, the company entered a swap agreement with Mercuria Energy Trading S.A. (Mercuria) in order to fix the price received for a fixed amount of 2018 production at US$65.97/bbl. The swap agreement was entered to support the 2018 capital expenditure investment programme and was put in place over a defined amount of production to be derived from proved developed producing reserves, being the reserve category that is most certain of resulting in production.

Through much of 2017, Brent pricing had been soft and fluctuated between the US$40.00/bbl and US$60.00/bbl. In January 2018, as the Brent benchmark breached the US65.00/bbl level, the directors considered it appropriate to fix the price received for a portion of the company's production. The total volume under the contract was 1,215,954 barrels representing 47% of total 2018 production. The effective term of the agreement commenced on 15 January and expired on 14 December 2018. The total volume under the contract was subdivided in to monthly delivery volumes.

A loss was recognised in relation to the hedge agreement as the Brent benchmark price exceeded the US$65.97/bbl contract price for much of the year from the end of March 2018. In addition, in May 2018 the Argentine government imposed temporary caps on domestic crude prices in Argentina thereby breaking the relationship between domestic crude prices and the Brent benchmark. This had the effect that cash losses incurred on the swap agreement as Brent rose above the contracted swap price of US$65.97/bbl were not compensated by increased realisations in Argentina.

10. Other operating income and expenses continued

Loss on disposal of assets

On 8 November 2018 the company sold its 100% shareholding in Andes Energia Argentina S.A. to Ocean Energy Services LLC for consideration of US$2.6 million. The realised loss on sale was US$1.1 million. Details of the sale transaction are described in note 16.

Share-based payments

In June 2018, the company exercised its right to settle the second fee instalment due under the Transaction Fee Services Agreement (TFSA) between the company and Integra Capital S.A.('Integra') in ordinary shares. The TFSA was entered as part of the 2017 combination transaction and also provided that Mercuria was entitled to receive 3.06147 ordinary shares for each ordinary share issued to Integra under the agreement. Notwithstanding, Mercuria agreed for this transaction, for no consideration, to limit its entitlement to one ordinary share for each ordinary share issued to Integra.

This resulted in 7,156,625 new ordinary shares being issued to Mercuria, with a corresponding charge of US$5.5 million recognised in the income statement in the period.

11. Auditors' remuneration

	2018 US$'000	2017 US$'000
Fees payable to the company's auditor and its associates for the audit of the parent company and consolidated financial statements	**230**	194
Fees payable to the company's auditor and its associates for other services:		
The audit of the company's subsidiaries	**276**	191
Review of the interim financial statements	**61**	–
Audit related assurance services	**–**	49
Tax compliance services	**4**	182
Other taxation services	**8**	6
Corporate finance related services	**–**	2,016
Other services	**15**	174
Total auditors' remuneration	**594**	2,812

The group has a policy in place for the award of non-audit work to the auditors which requires audit committee approval (refer to the audit committee report on pages 67 to 69).

12. Staff costs and headcount

Staff costs	2018 US$'000	2017 US$'000
Wages and salaries	**16,555**	9,271
Social security costs	**2,495**	852
Other benefits	**810**	792
Share-based payments	**305**	105
	20,165	11,020

Average headcount	2018 No.	2017 No.
Argentina	**100**	97
United Kingdom	**4**	3
United States of America	**5**	2
	109	102

Key management compensation

	2018 US$'000	2017 US$'000
Short-term employee benefits	**2,356**	1,081
Total key management compensation	**2,356**	1,081

Detailed remuneration disclosures are provided in the remuneration report on pages 70 to 88.

13. Property, plant and equipment

Non-current assets	Fixtures, fittings, equipment and vehicles US$'000	Development and production assets US$'000	Assets under construction US$'000	Total US$'000
At 1 January 2017				
Cost	4,420	387,209	18,057	409,686
Accumulated amortisation	(4,356)	(217,440)	–	(221,796)
Net book amount	64	169,769	18,057	187,890
Year ended 31 December 2017				
Opening net book amount	64	169,769	18,057	187,890
Acquisition of subsidiaries	153	140,613	–	140,766
Transfers from intangible assets	–	319	–	319
Additions	2,747	79,874	184	82,805
Depreciation charge	(252)	(49,045)	–	(49,297)
Impairment charge	–	(8,238)	–	(8,238)
Closing net book amount	2,712	333,292	18,241	354,245
At 31 December 2017				
Cost	7,320	608,015	18,241	633,576
Accumulated depreciation and impairment	(4,608)	(274,723)	–	(279,331)
Net book amount	2,712	333,292	18,241	354,245

In August 2017, the company relinquished its interest in the Puesto Pozo Cercado block. Accordingly, the accumulated capitalised costs of US$8.2 million associated with Puesto Pozo Cercado were impaired.

Non-current assets	Fixtures, fittings, equipment and vehicles US$'000	Development and production assets US$'000	Assets under construction US$'000	Total US$'000
At 1 January 2018				
Cost	**7,320**	**608,015**	**18,241**	**633,576**
Accumulated depreciation	**(4,608)**	**(274,723)**	**–**	**(279,331)**
Net book amount	**2,712**	**333,292**	**18,241**	**354,245**
Year ended 31 December 2018				
Opening net book amount	**2,712**	**333,292**	**18,241**	**354,245**
Additions	**2,111**	**–**	**79,381**	**81,492**
Transfers	**–**	**91,552**	**(91,552)**	**–**
Transfers to intangible assets	**–**	**(1,413)**	**–**	**(1,413)**
Exploration costs written off	**–**	**(3,407)**	**–**	**(3,407)**
Depreciation charge	**(1,072)**	**(63,654)**	**–**	**(64,726)**
Closing net book amount	**3,751**	**356,370**	**6,070**	**366,191**
At 31 December 2018				
Cost	**9,431**	**694,747**	**6,070**	**710,248**
Accumulated depreciation and impairment	**(5,680)**	**(338,377)**	**–**	**(344,057)**
Net book amount	**3,751**	**356,370**	**6,070**	**366,191**

Additions to property, plant and equipment in the year ended 31 December 2018 include US$0.7 million of interest capitalised in respect of qualifying assets (2017: US$0.7 million). The total amount of interest capitalised within property, plant and equipment at 31 December 2018 is US$2.8million (2017: US$2.1 million).

Exploration costs written off in 2018 of US$3.4 million include the company's share of costs related to the unsuccessful Orkeke well drilled by the company's partner, ROCH S.A., in the Austral basin during the year.

13. Property, plant and equipment continued

The company has assessed its licence interests for potential impairment. The initial assessment is undertaken by comparing the book value of each asset to its respective NPV10 value that is independently assessed by the external reservoir engineers using the Petroleum Resources Management System guidance.

Where the NPV10 value is lower than the carrying value of an asset an impairment test is performed. Assets are tested for impairment by calculating their value-in-use using a discounted cash flow model or their fair value less costs of disposal, whichever is determined to be the higher.

The NPV10 assessment showed that the La Brea concession was potentially impaired. An impairment test was performed using a discounted cash flow model and no impairment charge was considered necessary. The impairment test uses several assumptions but is most sensitive to assumptions related to oil price, discount rate and production volumes. An impairment charge may be required in future periods if actual performance is not consistent with the assumptions used in the discounted cash flow model.

The sensitivity of the model for La Brea to these to specific assumptions is as follows:

Assumption	Sensitivity	Fair value, +/- US$ million
Oil price	+/- 5%	8.3
Discount rate	+/- 1%	2.5
Production	+/- 10%	16.7

14. Intangible assets

Exploration and evaluation assets are primarily the group's licence interests in exploration and evaluation assets located in Argentina. The exploration and evaluation assets consist of both conventional and unconventional oil and gas properties.

Non-current assets	Goodwill US$'000	Exploration and evaluation assets US$'000	Total US$'000
At 1 January 2017			
Cost	–	6,804	6,804
Net book amount	–	6,804	6,804
At 31 December 2017			
Opening net book amount	–	6,804	6,804
Acquisition of subsidiaries	260,007	161,760	421,767
Additions	–	3,148	3,148
Transfers to property, plant and equipment	–	(319)	(319)
Impairment of goodwill	(224,169)	–	(224,169)
Closing net book amount	35,838	171,393	207,231
At 31 December 2017			
Cost	260,007	171,393	431,400
Accumulated amortisation and impairment charges	(224,169)	–	(224,169)
Net book amount	35,838	171,393	207,231

The increase in exploration and evaluation assets of US$161.8 million in 2017 relates to the fair value assessed for the licences acquired and associated exploration upside as part of the combination transaction that completed on 10 August 2017. The fair value of exploration and evaluation acreage acquired in the combination was assessed on a comparative transaction basis by reference to Dollars-per-acre paid in other observable market transactions that took place around the date of the business combination. All of the exploration and evaluation assets recognised as part of the combination related to licence areas in the Neuquina basin.

14. Intangible assets continued

Non-current assets	Goodwill US$'000	Exploration and evaluation assets US$'000	Total US$'000
At 1 January 2018			
Cost	260,007	171,393	431,400
Accumulated amortisation and impairment charges	(224,169)	–	(224,169)
Net book amount	35,838	171,393	207,231
Year ended 31 December 2018			
Opening net book amount	35,838	171,393	207,231
Additions	–	57,568	57,568
Transfers from property, plant and equipment	–	1,413	1,413
Exploration cost written off	–	(5,202)	(5,202)
Closing net book amount	35,838	225,172	261,010
At 31 December 2018			
Cost	260,007	225,172	485,179
Accumulated amortisation and impairment charges	(224,169)	–	(224,169)
Net book amount	35,838	225,172	261,010

Additions to intangible assets during 2018 relate to amounts paid to secure additional acreage with unconventional exposure as part of open bid rounds held in both the Neuquén and Mendoza provinces. Additions in the period also include costs associated with securing the group's interests in the Mata Mora and Corralera blocks and increasing its working interest participation from 27% to 90%.

Exploration costs written off in 2018 include US$4.8 million related to the write-off of an unsuccessful exploration well at the Laguna el Loro concession. The well satisfied the commitments associated with the licence which has now been relinquished.

Impairment tests for exploration and evaluation assets

Exploration and evaluation assets are subject to impairment testing prior to reclassification as tangible fixed assets where commercially viable reserves are confirmed. Where commercially viable reserves are not encountered at the end of the exploration phase for an area the accumulated exploration costs are written off in the income statement.

Impairment tests for goodwill

Goodwill is monitored by management at the level of the operating segments identified in note 6.

A segment level summary of the goodwill allocation at the time of the acquisition is presented below.

At acquisition	Neuquina basin US$'000	Austral basin US$'000	Cuyana basin US$'000	Corporate – unallocated US$'000	Total US$'000
Chachahuen	15,223	–	–	–	15,223
Corralera	16,780	–	–	–	16,780
Mata Mora	3,835	–	–	–	3,835
	35,838	–	–	–	35,838

No goodwill was recognised prior to 2017. All goodwill presented relates to the allocation of technical goodwill arising as a result of accounting for deferred tax on the business combination in the prior year, see note 15. Goodwill of US$224.2 million that was related to the excess of the purchase consideration given over the fair value of assets acquired and liabilities assumed at the acquisition date was impaired in full on completion of the business combination in 2017 as discussed in note 15.

The carrying value of goodwill has been assessed for impairment at the period end. The discount rate used in the carrying value assessment was the group's calculated weighted average cost of capital of 14.0%. Prices used in the assessment were the Energy Information Administration's forecast of Brent crude prices. The assessment determined that fair value of the assets to which goodwill has been allocated was in excess of their carrying values as at 31 December 2018 and consequently no impairment charge has been recorded in 2018.

15. Business combination

Summary of acquisition

On 10 August 2017 the parent entity acquired 100% of the issued share capital of the Trefoil Holdings B.V. group ('Trefoil') of companies by way of a reverse takeover. The acquisition significantly increased the group's licensed acreage position in Argentina and, in particular, related to the Vaca Muerta shale formation and other unconventional oil and gas prospects that are present in much of the combined group's acreage in the Neuquina basin.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	US$'000
Ordinary shares issued	385,058

Both the assessed fair value of Trefoil and its oil and gas reserves were greater than those of Andes Energia Plc (Andes) and therefore the transaction represented a reverse takeover under the AIM Rules for Companies. Because of the reverse nature of the transaction, and although Andes was the legal acquirer, Trefoil was determined to be the accounting acquirer for the purposes of purchase accounting. Accordingly the transaction was accounted for under IFRS 3, 'Business Combinations' in 2017.

The purchase consideration was valued by reference to the number of shares held by Andes shareholders at the transaction date multiplied by the Andes share price on that day. This represents the value 'given up' by Andes shareholders in exchange for an interest in the enlarged group.

The assets and liabilities that were recognised as a result of the acquisition were as follows:

	Fair value US$'000
Cash	1,062
Trade receivables	22,826
Inventory	409
Available for sale financial assets	12,812
Property, plant and equipment: development and production assets	132,173
Property, plant and equipment: facilities	8,440
Property, plant and equipment: fixtures, fittings equipment and vehicles	153
Intangible assets: exploration and evaluation assets	161,760
Trade payables	(67,683)
Borrowings	(86,574)
Contingent liability	(4,680)
Provisions	(2,141)
Deferred tax liability	(53,506)
Net identifiable assets acquired	125,051
Add: goodwill	260,007
Net assets acquired	385,058

The fair values recorded in the initial purchase price allocation were assessed with the assistance of an external professional valuation firm. The inputs used for the evaluation included:

- asset level cash flow forecasts based on the production, revenue, capital expenditure and operational expenditure assessed by reference to the information used to compile the competent persons' reports prepared as part of the AIM readmission process;
- an assessment of the group's weighted average cost of capital;
- commodity price forecasts based on information published by the Energy Information Administration; and
- comparable transaction values based on a US Dollar per acre value were used to assess the fair value of non-producing assets and unconventional exploration upside associated with producing assets.

Under IFRS 3, the fair values of assets acquired and liabilities assumed can be adjusted during a 'measurement period' that concludes 12 months following the date of the business combination. That measurement period ended on 10 August 2018 and the purchase price allocation recorded at the time of the acquisition is now final.

Goodwill on the acquisition was US$260.0 million. Of this amount US$224.2 million related to the difference between the fair value of the purchase consideration given and the fair value of the net assets acquired and liabilities assumed. On completion of the transaction the directors assessed this element of the goodwill and determined there was no basis to recognise it in the balance sheet. Accordingly the full US$224.2 million was written-off on conclusion of the transaction. The remaining goodwill of US$35.8 million arose as a result of the application of deferred tax accounting to the fair values recorded in respect of the assets acquired.

The company incurred costs of US$24.1 million related to the combination transaction, primarily consisting of advisory costs. All deal related advisory costs were expensed in the income statement for the year ended 31 December 2017 within administrative expenses.

16. Disposal of non current assets

On 8 November 2018 the company sold its 100% shareholding in Andes Energia Argentina S.A. ('AEA S.A.') to Ocean Energy Services LLC ('OES') for consideration of US$2.6 million.

AEA S.A. was an intermediate holding company of the group incorporated in Argentina. The entity held a 70% interest in eight oil and gas licences in Colombia that had been determined by management to be non-core to the group, in addition to shareholdings in various group subsidiaries. The sale and purchase agreement ('SPA') was concluded for the sale of the AEA S.A. entity which held the title to the Colombian licences. Therefore in order to facilitate the sale, in advance of the completion date, AEA S.A. sold all the investments it held in group subsidiaries to PGR plc for consideration of US$6.6 million. Refer to note 4 of the company only financial statements for further discussion.

The sale of AEA S.A. completed on 8 November 2018. The realised loss on sale recognised in the consolidated income statement was US$1.1 million, which is broken down per the table below:

Loss on sale	USD $'000
Consideration	900
Contingent consideration	1,742
Costs to sell	(1,124)
Fair value of total consideration	**1,518**
Net assets of AEA S.A.	(2,643)
Loss on sale of non-current assets	**(1,125)**

* Loss on sale has been presented within other operating income and expenses in the consolidated statement of comprehensive income.

At 31 December 2018, US$0.4 million of the cash consideration had been received by the company, with the balance of US$0.5 million held within other receivables at the balance sheet date.

The contingent consideration represents the fair value attributed to restricted cash held in escrow in respect of commitments under the Colombian licences. The escrow accounts were put in place by the company at the time that the licences were originally awarded and are in favour of the Agencia Nacional de Hidrocarburos ('ANH') in Colombia. Release of the restricted cash amounts is dependant on the fulfilment of exploration commitments related to the licences that have now been sold to OES. The SPA in place between the company and OES provided that, as OES satisfies the licence commitments on the Colombian licences, 25% of any amounts released from escrow by the ANH will be to the benefit of the company.

At the date of sale, the total restricted cash balance held in respect of the Colombia licenses was US$11.9 million, of which US$6.1 million was held in an account maintained by the company (see note 21) and $5.8 million was held in an account maintained by AEA S.A.. The fair value of the portion of the restricted cash due to the group at the sale date of US$1.7 million was assessed by reference to OES' stated plans for work to be performed on the licences. The fair value assessment was reconsidered at 31 December 2018 with no change made to the carrying value.

The contingent consideration recognised at 31 December 2018 is split between other receivables (US$0.8 million) for the element of contingent consideration related to the account maintained by AEA S.A. and cash and cash equivalents (US$0.9 million) for the element related to the account maintained by the company.

17. Finance income and costs

	2018 US$'000	2017 US$'000
Finance income		
Interest income	**321**	572
Income from short-term investments	**390**	572
Net exchange gains on foreign currency borrowings	**2,743**	832
Other finance gains	**644**	–
Finance income	**4,098**	1,976
Finance costs		
Interest on borrowings	**(11,335)**	(8,207)
Accretion of discount on asset retirement obligation	**(860)**	(142)
Loan arrangement fees	**(1,875)**	–
Other finance costs	**(5,227)**	(4,039)
Exchange differences	**(11,405)**	(1,338)
Finance costs	**(30,702)**	(13,726)
Net finance income	**(26,604)**	(11,750)

Capitalised borrowing costs
The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 6.41% for US$ denominated borrowings (2017: 7.7%). In the prior year the group also held AR$ denominated borrowings which had an applicable weighted average interest rate of 22.6%.

In the year to 31 December 2018, US$0.7 million (2017: US$0.7 million) of interest expense in respect of qualifying assets was capitalised as part of additions to property, plant and equipment.

18. Income tax expense

This note provides an analysis of the group's income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the group's tax position.

Income tax expense	2018 US$'000	2017 US$'000
Current tax		
Current tax credit/ (expense) on profits for the year	**201**	(4,794)
Total current tax expense	**201**	(4,794)
Deferred income tax		
(Decrease)/ increase in deferred tax	**(16,998)**	21,429
Total deferred tax (expense)/ benefit	**(16,998)**	21,429
Income tax (expense)/ benefit	**(16,797)**	16,635

Reconciliation of income tax expense to notional tax charge calculated using corporate tax rate

	2018 US$'000	2017 US$'000
Loss from continuing operations before income tax expense	**(61,516)**	(286,730)
Tax at the Argentina tax rate of 30% (2017: 35%)	**18,455**	100,356
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Goodwill impairment	**–**	(78,459)
Effect of currency translation on tax values	**(26,556)**	(11,660)
Effect of change in tax rate	**3,400**	10,084
Expenses not deductible for taxation	**343**	(1,776)
Deferred tax assets not recognised	**(10,904)**	(1,690)
Fiscal assessment	**–**	525
Other	**(1,535)**	(745)
Total income tax (expense)/ benefit	**(16,797)**	16,635

18. Income tax expense continued

The corporate income tax rate in Argentina in 2018 was 30% (2017: 35%) and applies to profits earned and losses suffered in the year to 31 December 2018.

Under the December 2017 tax reform plan implemented by the Argentina tax authorities (AFIP), the corporate income tax rate will be maintained at 30% for the year ended 31 December 2019 and will be further reduced to 25% for years ended 31 December 2020 and forward.

The reduction in the corporate income tax rate articulated in the tax reform plan relates only to profits reinvested in Argentina. An additional tax is applied to dividends to revert the aggregate tax rate in respect of the profits used to make the dividend to 35%.

19. Financial assets and liabilities

Financial assets 2018	Assets at FV-OCI US$'000	Assets at FV-P&L US$'000	Assets at amortised cost US$'000	Total US$'000
Trade and other receivables	–	794	20,660	21,454
Cash and cash equivalents	–	–	21,085	21,085
	–	**794**	**41,745**	**42,539**

Financial assets 2017	Assets at FV-OCI US$'000	Assets at FV-P&L US$'000	Assets at amortised cost US$'000	Total US$'000
Trade and other receivables	–	–	37,111	37,111
Cash and cash equivalents	–	–	23,696	23,696
	–	**–**	**60,807**	**60,807**

Financial liabilities 2018	Derivatives FV-P&L US$'000	Derivatives hedging US$'000	Liabilities at amortised cost US$'000	Total US$'000
Trade and other payables	–	–	54,666	54,666
Borrowings	–	–	200,284	200,284
	–	**–**	**254,950**	**254,950**

Financial liabilities 2017	Derivatives FV-P&L US$'000	Derivatives hedging US$'000	Liabilities at amortised cost US$'000	Total US$'000
Trade and other payables	–	–	89,523	89,523
Borrowings	–	–	192,476	192,476
	–	**–**	**281,999**	**281,999**

On 22 January 2018, the group entered a swap agreement with Mercuria Energy Trading S.A. in order to fix the price received over a fixed amount of 2018 production at a price of US$65.97/ bbl. The effective term of the agreement commenced on 15 January and expired on 14 December 2018. The company was not party to any derivative instruments at 31 December 2018.

The group's maximum exposure to various risks associated with the financial instruments is discussed in note 24.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

20. Trade and other receivables

	2018			2017		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Contingent consideration	**794**	**–**	**794**	–	–	–
Financial assets at fair value through profit and loss	**794**	**–**	**794**	–	–	–
Trade receivables	**21,152**	**–**	**21,152**	26,930	981	27,911
Less: provision for impairment	**(3,651)**	**–**	**(3,651)**	(2,942)	(589)	(3,531)
	17,501	**–**	**17,501**	23,988	392	24,380
Receivables from related parties	**–**	**–**	**–**	241	–	241
Other receivables	**1,403**	**1,756**	**3,159**	9,657	2,833	12,490
Financial assets at amortised cost	**18,904**	**1,756**	**20,660**	33,886	3,225	37,111
Prepayments and other receivables	**1,404**	**–**	**1,404**	689	–	689
Tax credits	**9,305**	**3,329**	**12,634**	10,350	5,097	15,447
Total trade and other receivables	**30,407**	**5,085**	**35,492**	44,925	8,322	53,247

Trade receivables are amounts due from customers for sales of crude oil and natural gas in the ordinary course of business. Trade receivables are non-interest bearing and generally have, on average, 30-day terms and are therefore all classified as current. Due to their short maturities, the book value of trade receivables approximates fair value. Taxation, government related and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of amounts is expected in one year or less they are classified as current assets.

The lifetime expected credit loss rate of the group's trade receivables was assessed based on the payment profiles of sales over a period of 36 months before 31 December 2018 and 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. No material adjusting macroeconomic factors were identified for either assessment period. The actual credit loss over both periods was determined to be 0.3% of total sales which is immaterial to the group financial statements. No loss allowance has therefore been recognised in either period presented.

Other receivables are determined to be low credit risk and no loss allowance has been recorded against this balance in the period.

Other receivables in 2017 included confirmed balances related to historic transactions with Integra Capital S.A. and with the Andina group of companies that were settled in full in 2018.

For prior years a provision for impairment of trade receivables was established where there was objective evidence that the group would not be able to recover all amounts outstanding on the original terms. In 2016, a provision of US$0.7 million was established related to an outstanding receivable from a customer that had entered administration proceedings. The value of the provision established was equivalent to 60% of the outstanding balance from the customer (AR$18.3 million). In 2018, the remaining 40% of the outstanding balance was written off as there is no prospect of recovery from the administration.

Contingent consideration

Contingent consideration relates to the sale of AEA S.A. in November 2018. Contingent consideration represents the fair value attributed to restricted cash held in escrow in respect of the licence guarantees in Colombia and held in favour of the ANH. The fair value of the restricted cash assumed at the sale date was US$1.7 million.

Funds held in escrow in respect of the Colombian licences are held in two bank accounts, one maintained by AEA S.A. and one by the company. The element of contingent consideration related to the account maintained by AEA S.A. is recognised in other receivables, with the element related to the account maintained by the company held in restricted cash. For further details on the sale transaction refer to note 16.

21. Cash and cash equivalents

	2018 US$'000	2017 US$'000
Cash at bank and in hand	**16,497**	23,678
Short-term investments	**796**	18
Restricted cash	**3,792**	–
	21,085	23,696

Short-term investments

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest.

Restricted cash

Restricted cash comprises the cash held in escrow in relation to licence obligations on the 70% interest in eight licences in Colombia sold to OES in the period (see note 16). Release of the restricted cash is subject to OES fulfilling work commitments under the licences. The company is entitled to receive 25% of any amounts released from restricted cash as OES fulfils these commitments.

At the sale date, the company completed a fair value assessment and has recognised its share of expected receipts based on details received from OES regarding work to be performed. A payable has also been recorded related to the element owed to OES should the commitments be fulfilled. Any restricted funds released from this account will initially be received by the company and will then be allocated 75% to OES with the remaining 25% retained by the company.

22. Trade and other payables

	2018			2017		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Trade payables	**20,720**	**–**	**20,720**	59,091	–	59,091
Accrued staff costs	**4,356**	**–**	**4,356**	1,899	–	1,899
Social security and other taxes	**3,579**	**3,256**	**6,835**	9,476	7,168	16,644
Royalties	**1,390**	**–**	**1,390**	1,617	–	1,617
Accrued expenses	**15,257**	**–**	**15,257**	7,570	–	7,570
Other payables	**6,108**	**–**	**6,108**	2,702	–	2,702
	51,410	**3,256**	**54,666**	82,355	7,168	89,523

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

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

Social security and other taxes include amounts related to tax plans agreed with the Administratión Federal de Ingresos Públicos ('AFIP'), the Argentinian federal tax authority.

Under tax plan arrangements taxes due are paid in instalments with interest charged on the outstanding principal. The group historically participated in tax plans on a selective basis and where the level of currency depreciation and the interest rate on outstanding amounts resulted in an acceptable finance cost. Obligations falling due from tax plans within the next 12 months have been presented within current liabilities at 31 December 2018, with the remaining obligations presented as non-current.

Other payables include amounts owed to OES related to their fulfilment of licence commitments in Colombia and backed by restricted cash held in a bank account maintained by the company.

23. Borrowings

	2018			2017		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Secured						
Bank loans	**17,523**	**–**	**17,523**	19,694	2,502	22,196
Total secured borrowings	**17,523**	**–**	**17,523**	19,694	2,502	22,196
Unsecured						
Bank loans	**709**	**–**	**709**	3,802	–	3,802
Loans from related parties	**46,090**	**135,919**	**182,009**	2,616	160,000	162,616
Other loans	**43**	**–**	**43**	3,857	–	3,857
Bank overdraft	**–**	**–**	**–**	5	–	5
Total unsecured borrowings	**46,842**	**135,919**	**182,761**	10,280	160,000	170,280
Total borrowings	**64,365**	**135,919**	**200,284**	29,974	162,502	192,476

Secured liabilities and assets pledged as security

Secured liabilities relate to US Dollar denominated loans totalling US$17.5 million with interest rates ranging from 6.2-8.25% (2017: US$17.2 million). At 31 December 2018 the group held no AR$ denominated loans (2017: US$5.0 million). All AR$ denominated loans were repaid in full during the year.

Loans from related parties

The related party loan at 31 December 2018 relates to a bridging and working capital facility provided to the group by Mercuria Energy Netherlands B.V., a subsidiary within the Mercuria Group ('Mercuria'). In February 2018, US$100.0 million of the original Mercuria facility was converted to equity in the company at a price of £0.37 per share. At the same time the facility was restructured as a new convertible rolling credit facility ('RCF') in the amount of US$160.0 million with an additional US$100.0 million of new funds made available to the company. The new convertible RCF bears interest at three-month LIBOR+4% and is repayable by 31 December 2021. The new convertible RCF has a 17-month repayment grace period and will be amortised in eleven equal quarterly repayment instalments from 30 June 2019 until maturity.

In December 2018, Mercuria advanced an additional US$25.0 million as a Tranche B element to the facility. In February 2019, a further US$50.0 million was made available under the RCF facility. The original facility of US$160.0 million became Tranche A.

Mercuria Group has the right to convert all or part of the outstanding principal of Tranche A into additional new ordinary shares of the company at a price of £0.45 per share. This conversion right can be exercised at any time from 30 June 2018 until 10 business days prior to the maturity for Tranche A. A similar conversion feature exists in relation to Tranche B at a price of £0.28 per share. The conversion right under Tranche B is subject to appropriate shareholder resolutions in relation to the authority to allot and disapplication of pre-emption rights in relation to such shares having been approved.

Fair value

For the majority of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. Differences identified between the fair values and carrying amounts of borrowings are as follows:

	2018		2017	
	Carrying amount US$'000	Fair value US$'000	Carrying amount US$'000	Fair value US$'000
Bank loans	**18,232**	**17,924**	25,998	21,593
Other loans	**43**	**43**	3,857	3,306
Bank overdraft	**–**	**–**	5	5
Loans from related parties	**182,009**	**182,009**	162,616	162,616
	200,284	**199,976**	192,476	187,520

The fair values of non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as Level 3 fair values in the fair value hierarchy due to the use of unobservable inputs, including own credit risk.

23. Borrowings continued

Recognised fair value measurements

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

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This is the case for unlisted equity securities.

The group does not currently hold any financial instruments whose fair value is assessed by reference to Level 1 or Level 2 inputs (2017: Nil).

24. Financial risk management

The group's exposure to financial risks and how those risks could affect the group's future financial performance is summarised below.

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange.	Future commercial transactions.	Cash flow forecasting and budgeting.	The majority of the group's cash is held in US Dollars. The group draws progressively on available facilities as cash is needed to fund development.
	Financial assets and liabilities recognised in the balance sheet that are not denominated in US Dollars.	Sensitivity analysis.	Due to the influence of the US Dollar on the companies within the group, the US Dollar has been determined to be the functional currency of the operating subsidiaries and the parent. This determination also reduces the exposure to forex gains and losses.
Market risk – commodity prices.	Future revenue transactions.	Cash flow forecasting and budgeting.	The group considers the use of hedging instruments and enters into hedge arrangements where appropriate in order to protect downside price exposure and, particularly, to support budgeted capex requirements.
Market risk – interest rate.	Long term borrowings held at variable rates.	Sensitivity analysis.	The group has an active treasury management function and places excess cash on hand on overnight or term deposit.
Credit risk.	Cash and cash equivalents and trade receivables.	Aging analysis. Credit checks and credit ratings.	The group actively monitors outstanding receivables. Where a customer shows risk of default then no credit is extended and all sales are made on a prepaid basis.
Liquidity risk.	Borrowings and other liabilities.	Rolling cash flow forecasts.	The group maintains an active treasury management function.

24. Financial risk management continued

Market risk – foreign exchange risk and commodity price risk

The group's operations are solely focused on Argentina and wholly relate to the exploration for and the development and production of oil and gas reserves. The foreign currency that has the most influence on the financial performance of the group is the Argentine Peso. The group is exposed to quoted prices for oil and gas which are both traded commodities, the prices of which can also significantly influence financial performance.

Argentina has historically been subject to exchange controls that prevented effective currency management. The exchange controls were lifted in December 2015. In addition, as part of a policy to encourage the production of oil and gas in a low price environment the Argentina government had previously implemented commodity price controls. As the international crude benchmark prices recovered during the course of 2017, the government progressively lowered the regulated price for domestic crude to allow domestic prices to float in line with international prices. The regulated price regime was removed completely in October 2017, although in May 2018 the government imposed capped prices for domestic crude for May, June and July deliveries.

The introduction of price caps was in response to the increase in the Brent Crude benchmark and the consequential pressure on refined product pricing that would result from Brent linked pricing. The government has stated that this intervention was due to temporary market conditions and that the administration remains committed to market based pricing in the long term. Capped pricing was removed in August 2018 however the relationship between domestic prices and Brent remains imperfect.

The previous exchange and commodity price controls reduced the ability to manage exchange risk and commodity price risk effectively. In January 2018, the company entered into a swap agreement over a fixed amount of 2018 production to support planned capital expenditure. The increase in the Brent price from March 2018 combined with the price cap on oil sales introduced in Argentina in May 2018 however, caused the swap to become less effective as it meant that cash losses on the swap agreement were not compensated by increased realisations in Argentina as Brent rose above the swap price US$65.97/ bbl. As a result, the company recognised a net cash loss in respect of barrels subject to the agreement when the Brent benchmark price exceeded US$65.97/ bbl. The total hedge loss recognised in 2018 was US$7.6 million. The swap contract expired on 14 December 2018. The company is no longer party to any derivative commodity contracts.

The group did not use derivative financial instruments to manage currency risk in the year ended 31 December 2018 or in the prior year.

The group is primarily exposed to foreign exchange risk related to bank deposits, debtors or creditors that are denominated in Argentine Peso or Pound Sterling.

The group's exposure to foreign exchange risk at the end of the reporting period, expressed in US Dollars, was as follows:

	Denominated in:	
US$'000	**£GBP**	**AR$**
Trade and other receivables	310	31,592
Cash and cash equivalents	130	4,262
Trade and other payables	(1,911)	(39,856)
Borrowings	–	–
	(1,471)	(4,002)

Sensitivity – exchange rates

As shown in the table above the group is primarily exposed to changes in the US$/AR$ exchange rate. The sensitivity of profit and loss to changes in the exchange rates arises mainly from AR$ denominated financial instruments. There is no impact on other components of equity as the group is not party to any financial instruments, such as hedging instruments, where currency gains and losses would be recognised in other comprehensive income (2017: none).

	Impact on post tax profit and loss		Impact on other components of equity	
	2018 US$'000	**2017 US$'000**	**2018 US$'000**	**2017 US$'000**
US$/AR$ exchange rate increase by 10%[1]	**(547)**	(684)	**–**	–
US$/AR$ exchange rate decrease by 10%[1]	**547**	684	**–**	–

1 Assumes all other variables held constant

24. Financial risk management continued

Sensitivity – commodity prices

The impact of an increase or decrease in commodity prices on the group's oil revenues is as follows:

	Impact on revenue – crude oil prices		Impact on revenue – natural gas prices	
	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
Increase by 10%[1]	**15,448**	11,703	**2,250**	2,477
Decrease by 10%[1]	**(15,448)**	(11,703)	**(2,250)**	(2,477)

1 Assumes all other variables held constant Market risk – cash flow and fair value interest rate risk

Market risk – interest rate risk

The group's main interest rate risk arises from long term borrowings with fixed or semi fixed interest rates that expose the group to fair value risk on the underlying borrowing instrument. The group borrows money in both US Dollar and Argentine Peso.

Argentina has historically been subject to high levels of currency devaluation as well as high inflation. The group maintains a portion of its borrowings in Argentine Peso and balances its portfolio of borrowings between fixed Argentine Peso and fixed US Dollar in order to manage its exposure to the combination of inflation, currency devaluation and interest rate risk.

The group does not currently use swap instruments or other derivatives to manage its interest rate or fair value risk exposure.

The exposure of the group's borrowings to interest rate changes and the contractual repricing dates of the borrowings held at the end of the reporting period were as follows:

	2018 US$'000	% of total loans US$'000	2017 US$'000	% of total loans US$'000
Variable rate borrowings	**182,000**	**91**	160,000	88
	182,000	**91**	160,000	88

Sensitivity

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents or higher/lower interest expense on borrowings resulting from movements in the interest rate. The following table demonstrates the sensitivity of the group's financial instruments to reasonably possible movements in interest rates:

	Impact on post tax profit and loss		Impact on other components of equity	
	2018 US$'000	2017 S$'000	2018 US$'000	2017 US$'000
Interest rate increase by 100 basis points[1]	**2,003**	1,925	**–**	–
Interest rate decrease by 100 basis points[1]	**(2,003)**	(1,925)	**–**	–

1 Assumes all other variables held constant

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions. The group is also exposed to credit risk related to its customers and outstanding receivables with them.

Credit risk on cash and cash equivalents is managed by only maintaining bank accounts or placing funds on deposit with recognised, reputable financial institutions with a minimum credit rating of B2 (Moody's).

The group sells substantially all of its oil production to the Argentina state-owned oil company, YPF. At 31 December 2018 YPF maintained a credit rating of B2 (Moody's). There is no recent history of credit loss, non-payment or default by YPF in relation to oil and gas sales. The credit rating would indicate that a credit risk loss should be recorded in respect of sales to YPF; however, given the recent payment history related to such sales, the calculated amount of the potential 12 month credit risk loss is not material.

The group undertakes credit and other checks before accepting new customers. Where there are concerns about creditworthiness of a counterparty the group requires that the full amount/substantially all of any sale be paid in full before delivery.

24. Financial risk management continued

Credit risk continued

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to external credit ratings (where available) or to historical information about default rates.

	2018 US$'000	2017 US$'000
Trade receivables – counterparty without external credit rating[1]		
Group 1	–	–
Group 2	**2,885**	16,999
Group 3	–	–
	2,885	16,999

	2018 US$'000	2017 US$'000
Cash at bank and short-term deposits (Moody's)		
Aaa	**186**	1,053
Aa3	**16,602**	12,570
Aa2	–	23
A1	**43**	44
Baa1	**9**	–
Baa3	**210**	1,049
Ba3	**1,366**	1,599
B2	**2,666**	7,171
Other	**3**	187
	21,085	23,696

1 Group 1 – new customers (less than six months)
Group 2 – existing customers (more than six months) with no past default
Group 3 – existing customers with past default. All defaults were fully recovered

Past due but not impaired

At 31 December 2018, trade receivables of US$1.0 million were past due but not impaired (2017: US$1.1 million). The aging analysis of these trade receivables is as follows:

	2018 US$'000	2017 US$'000
Up to 3 months	**568**	–
3 to 6 months	**453**	–
Over 6 months	**17**	1,079
	1,038	1,079

Liquidity risk

Liquidity risk relates to the group's ability to meet its obligations as they fall due. The group generates cash from its operations. Management monitors investment plans, and in particular, those in relation to exploration expenditure that may not be cash generative in the short term, against available cash and cash equivalents, forecast cash from operations and maturity dates of financial liabilities before final sanction and deployment of cash to a project. Undrawn borrowing capacity, where available, is also taken into account.

The following table shows the group's financial liabilities by relevant maturity groupings based on contractual maturities. The amounts included in the analysis are the contractual undiscounted cash flows.

31 December 2018	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000	Total contracted cash flows US$'000	Carrying amount US$'000
Trade and other payables	**52,510**	**1,712**	**2,197**	**262**	**56,681**	**54,666**
Borrowings	**75,428**	**75,096**	**70,727**	–	**221,251**	**200,284**
	127,938	**76,808**	**72,924**	**262**	**277,932**	**254,950**

24. Financial risk management continued

Liquidity risk continued

31 December 2017	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000	Total contracted cash flows US$'000	Carrying amount US$'000
Trade and other payables	82,913	3,732	8,016	558	95,219	89,523
Borrowings	42,099	179,608	–	–	221,707	192,476
	125,012	183,340	8,016	558	316,926	281,999

25. Deferred tax balances

Deferred tax assets

	2018 US$'000	2017 US$'000
Tax losses	**2,525**	2,837
Provisions	**3,055**	8,051
Others	**7,151**	8,118
Total deferred tax assets	**12,731**	19,006

Argentina tax law does not contain the concept of tax groups and therefore deferred tax assets and liabilities cannot be offset between and among companies registered in Argentina and falling under the control of the same shareholder. Outside of Argentina, the group does not have sufficient concentration of subsidiaries in a single tax jurisdiction to warrant seeking tax group status to allow the offset of assets and liabilities.

The company did not recognise deferred income tax assets of US$10.9 million (2017: US$1.7 million) in respect of tax losses amounting to US$36.3 million (2017: US$4.8 million) as there is insufficient evidence that the potential assets will be recovered.

Assessed tax losses amounting to US$2.5 million (2017: US$2.8 million) will expire between 2020 to 2023 (2017: 2018 to 2022).

Under the December 2016 Argentine tax reform, corporate income tax will remain at its current level of 30% for the fiscal year ended 31 December 2019. The rate will further reduce to 25% for fiscal years ended 31 December 2020 and onward. Deferred tax assets and liabilities are calculated at the rate of 25% or 30% taking into consideration the expected time of recovery. The reduction in the corporate income tax rate relates only to profits that are reinvested in Argentina. Where dividends are paid the corporate income tax rates reverts to 35% in respect of the amount of net profit being used to support the dividend. This calculation is done on a first-in/first-out basis by reference to accumulated net income within retained earnings.

Movements	Tax losses US$'000	Provisions US$'000	Inventories US$'000	Other US$'000	Total US$'000
At 1 January 2017	–	–	1,352	–	1,352
Credited/(charged) to profit and loss	331	2,663	(1,352)	1,511	3,153
Acquisition of subsidiary	2,506	5,388	–	6,607	14,501
At 31 December 2017	2,837	8,051	–	8,118	19,006

Movements	Tax losses US$'000	Provisions US$'000	Inventories US$'000	Other US$'000	Total US$'000
At 1 January 2018	**2,837**	**8,051**	**–**	**8,118**	**19,006**
Loss on disposal of assets	**(251)**	**(2,127)**	**–**	**(8)**	**(2,386)**
Credited/(charged) to profit and loss	**(61)**	**(2,869)**	**–**	**(959)**	**(3,889)**
At 31 December 2018	**2,525**	**3,055**	**–**	**7,151**	**12,731**

The timeframe for expected recovery or settlement of deferred tax assets is as follows:

	2018 US$'000	2017 US$'000
No more than 12 months after the reporting period	**7,150**	15,197
More than 12 months after the reporting period	**5,581**	3,809
	12,731	19,006

25. Deferred tax balances continued

Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2018 US$'000	2017 US$'000
Property, plant and equipment and intangible assets	**(101,310)**	(85,802)
Inventories	**(42)**	(1,108)
Others	**(1,751)**	(2,181)
Total deferred tax liabilities	**(103,103)**	(89,091)

Movements	Property, plant and equipment and intangible assets US$'000	Inventories US$'000	Other US$'000	Total US$'000
At 1 January 2017	(35,572)	–	(3,788)	(39,360)
(Charged)/credited to profit and loss	16,248	(1,108)	3,136	18,276
Acquisition of subsidiaries	(66,478)	–	(1,529)	(68,007)
At 31 December 2017	(85,802)	(1,108)	(2,181)	(89,091)

Movements	Property, plant and equipment and intangible assets US$'000	Inventories US$'000	Other US$'000	Total US$'000
At 1 January 2018	**(85,802)**	**(1,108)**	**(2,181)**	**(89,091)**
(Charged)/credited to profit and loss	**(14,605)**	**1,066**	**430**	**(13,109)**
Disposal of assets	**(903)**	**–**	**–**	**(903)**
At 31 December 2018	**(101,310)**	**(42)**	**(1,751)**	**(103,103)**

The above presentation of deferred tax assets and liabilities is prepared showing the aggregate of the gross asset and liability position on a company by company basis.

Deferred tax assets and liabilities presented in the balance sheet reflect the offset of deferred tax assets and liabilities where permissible. The deferred tax assets and liabilities, after legal offset, are shown in the table below.

	2018 US$'000	2017 US$'000
Deferred income tax assets	**9,001**	11,629
Deferred tax liabilities	**(99,374)**	(81,714)
Net deferred income tax liability	**(90,373)**	(70,085)

26. Inventories

Current assets	2018 US$'000	2017 US$'000
Crude oil	**1,594**	2,614
Spare parts and equipment	**15,685**	11,761
Total	**17,279**	14,375

The costs of individual items of inventory are determined using weighted average costs. Crude oil inventory is recorded using the per-barrel weighted average cost of production for the period. Weighted average cost is determined by dividing the total production costs for the period by the volume of barrels produced in the period.

Inventories recognised as an expense in the period relate to the change in crude inventory period-on-period reflecting the timing of the actual sale of the crude as opposed to being expensed based on production volumes in the period. For certain fields, inventory is accumulated in storage pending tanker collection. Depending on the timing of collection, crude produced in one period can be sold in the following period resulting in inventory at the period end.

27. Provisions and contingent liabilities

	2018			2017		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Decommissioning and site restoration	**–**	**13,382**	**13,382**	–	12,535	12,535
Legal claims	**1,733**	**2,854**	**4,587**	367	4,680	5,047
Total	**1,733**	**16,236**	**17,969**	367	17,215	17,582

Decommissioning and site restoration

The group has an obligation to remove its oil and gas production equipment from a field at the end of its useful life. The group is required to securely plug wells that will no longer be used in order to make them environmentally and physically safe. In addition, all land must be returned to its natural state at the cessation of production operations. A provision is established representing the present value of the estimated future cost of this obligation with a corresponding depreciable 'decommissioning' asset recorded in property, plant and equipment.

The key assumptions applied in calculating the decommissioning provision relate to the extent of the physical decommissioning activity required on a licence-by-licence area, the cost of performing that activity and the timing of when that activity is due to take place. The estimate of the quantum of the provision is most sensitive to the extent of the activity required, which may change over time due to legislation. In addition, the estimate of the provision is sensitive to the timing of the decommissioning activity which is determined by the economically productive life of the related asset.

Provinces may not require remediation of wells prior to the relinquishment of licences. This can occur where the province considers wells may be of geologic interest to future licence holders or could be remediated in the future. In these circumstances no provision is made.

Provision for legal claims

As part of the accounting for the business combination in 2017 provisions were established for certain legal contingencies. The claims mainly relate to disputes arising related to payments for services rendered and the nature of the service rendered. It is uncertain at this time when, or if any cases will come to court and whether any action by a third party would be successful. Because the population of cases is small and the value of each claim is low it was not considered appropriate to risk adjust the provision or apply probability weighting.

Movements in provisions

Movements in each class of provisions during the financial year are set out below:

	Decommissioning and site restoration US$'000	Legal claims US$'000	Total US$'000
At 1 January 2018	12,535	5,047	17,582
Charged/(credited) to profit or loss			
– Additional provisions recognised	458	797	1,255
– Reversed provisions	–	(890)	(890)
– Unwinding of discount	860	–	860
Amounts used during the year	(471)	(367)	(838)
At 31 December 2018	13,382	4,587	17,969

28. Commitments

At 31 December, the group had the following licence commitments:

	2018 US$'000	2017 US$'000
Chachahuen	**19,800**	9,764
Colombia	**–**	15,000
Laguna el Loro	**–**	6,600
Santa Cruz Sur area	**7,231**	8,562
Tierra del Fuego	**252**	–
Loma Cortaderal y Cerro Dona Juana	**4,400**	–
Rio Atuel	**790**	–
La Paloma	**3,200**	–
Cerro Alquitran	**4,100**	–
Mata Mora	**16,296**	–
Corralera Noreste	**16,300**	–
Corralera Sur	**16,300**	–
La Tropilla	**11,830**	–
Aguada de Castro I	**5,830**	–
Aguada de Castro II	**11,095**	–
Santo Domingo I	**6,645**	–
Total	**124,069**	39,926

Most licence commitments relate to exploration commitments that are typically required to be satisfied within the exploration period, which is normally 2–3 years from the date of grant of the licence.

The group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2018 US$'000	2017 US$'000
Not later than one year	**420**	349
Later than one year and not later than five years	**380**	927
Later than five years	**–**	19
Total	**800**	1,295

Operating lease commitments relate primarily to rented office space, none of which is sublet by the group. There are no contingent payments associated with operating leases that the group is party to.

The group does not have any significant contingencies.

29. Related party transactions

Significant shareholder

Mercuria Energy Group Limited is the ultimate majority shareholder of the group. A relationship agreement is in place between the company and Mercuria Energy Group companies. The relationship agreement has been put in place to protect the rights of minority shareholders and limits the control that Mercuria Energy Group can exercise over the group, primarily through restricting the number of Mercuria appointed directors on the board. Mercuria is also prevented from removing directors from the board. By maintaining a minority of Mercuria appointed directors on the board those directors cannot carry a majority vote individually or in concert. The relationship agreement also requires directors nominated by Mercuria to excuse themselves from certain board decisions.

29. Related party transactions continued

Transactions with owners

On 22 January 2018, the company entered a swap agreement with Mercuria Energy Trading S.A. in order to fix the price received for a fixed amount of 2018 production at a price of US$65.97/ bbl. The effective term of the agreement commenced on 15 January and expired on 14 December 2018. The realised hedging loss expensed in the period was US$7.6 million. The company was not party to any derivative instruments at 31 December 2018. Refer to note 10 for further details.

On 27 June 2018, the group issued 7,156,625 new ordinary shares being issued to Mercuria in the form of a share-based payment. The payment was triggered by a clause in the SPA held between the group and Upstream Capital Partners VI Limited dated 24 July 2017, which entitled Mercuria to receive 3.06147 ordinary shares for each ordinary share issued to Integra Capital S.A. under the Transaction Fee Services Agreement ("TFSA") dated 24 July 2017. It was agreed however for this transaction, for no consideration, that Mercuria would reduce its entitlement to one ordinary share for each ordinary share issued to Integra. This resulted in a share-based payment charge of US$5.5 million being recognised in the income statement in 2018.

Subsidiaries

Interests in subsidiaries are set out in note 4 to the company financial statements.

Loan from Mercuria Group

As part of the business combination in 2017 Mercuria Energy Trading S.A. advanced a bridging and working capital facility to the group of the amount of US$160.0 million. Mercuria Energy Trading S.A. is a 100% owned subsidiary of Mercuria Energy Group Limited ('Mercuria').

On 15 February 2018, Mercuria agreed to convert US$100.0 million of the facility into ordinary shares of the company at a conversion price of £0.37 per share. The remaining US$60.0 million of the bridging and working capital facility was restructured into a new convertible revolving credit facility ('RCF') of US$160.0 million, providing additional funds of US$100.0 million to support the 2018 capital expenditure programme. The new convertible revolving credit facility has an interest rate of three-month LIBOR +4% through maturity at end of December 2021.

On 6 December 2018, the new convertible rolling credit facility was extended by way of a new Tranche B element in the amount of US$25.0 million and bearing interest at the same rate as the existing facility (now Tranche A). Refer to note 23 for further details.

Analysis of amounts advanced and interest paid are shown in the table below:

	2018 US$'000	2017 US$'000
Loan from Mercuria Group		
Beginning of the year	**162,561**	–
Loans advanced	**116,210**	160,000
Debt conversion	**(100,000)**	–
Acquisition of subsidiaries	**–**	21,238
Loan repayments made	**–**	(20,000)
Interest charged	**10,261**	4,373
Interest paid	**(7,023)**	(3,050)
End of year	**182,009**	162,561

Loan from Mercuria Energy Asset Management B.V.

Analysis of amounts advanced and interest paid are shown in the table below:

	2018 US$'000	2017 US$'000
Loan from Mercuria Energy Asset Management B.V.		
Beginning of the year	**–**	–
Acquisition of subsidiaries	**–**	21,305
Loan repayments made	**–**	(15,000)
Interest paid	**–**	(6,305)
End of year	**–**	–

30. Loss per share

Basic and diluted loss per share	2018 US$	2017 US$
From continuing operations attributable to the ordinary equity holder of the company	**(0.03)**	(0.19)
Total basic loss per share attributable to ordinary equity holders of the company	**(0.03)**	(0.19)

Basic and diluted loss per share	2018 US$'000	2017 US$'000
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share:		
From continuing operations	**(78,313)**	(270,095)
	(78,313)	(270,095)

Weighted average number of shares used as the denominator

Number of shares	2018	2017
Adjustments for calculation of diluted earnings per share:	**–**	–
At 1 January	**2,537,178**	605,505
At 31 December	**2,786,645**	2,537,178
Potential dilutive ordinary shares	**3,325**	–
Weighted average number of shares used as the denominator in calculating diluted earnings per share	**2,730,364**	1,405,794

31. Cash generated from operations

	2018 US$'000	2017 US$'000
Loss for the year before taxation	**(61,516)**	(286,730)
Finance costs	**12,055**	8,207
Finance income	**(321)**	(572)
Other finance results	**–**	4,018
Accretion of discount on asset retirement obligation	**860**	142
Net unrealised exchange gains	**8,662**	506
Income on short-term investments	**(390)**	(572)
Exploration cost written off	**8,609**	–
Loss of disposal of non current assets	**1,125**	–
Impaired receivables	**–**	5,355
Share-based payments	**5,990**	105
Impairment of goodwill	**–**	232,407
Depreciation and amortisation	**64,726**	49,297
Change in operating assets and liabilities, including net effects from business combination:		
(Increase) in inventories	**(2,904)**	(4,696)
(Increase) in trade and other receivables	**(15,418)**	(7,122)
Increase in trade and other payables	**9**	6,825
(Decrease)/ increase in provisions	**(473)**	1,872
Cash generated from operations	**21,014**	9,042

32. Changes in liabilities arising from financing activities

	31 December 2017 US$'000	Cash flows US$'000	Interest paid US$'000	Non-cash changes: Movements from non-current to current US$'000	Interest charge US$'000	Other movements US$'000	Debt conversion US$'000	Capitalised interest US$'000	Foreign exchange US$'000	31 December 2018 US$'000
Current liabilities										
Borrowings	29,974	(5,054)	(1,829)	46,090	(1,476)	(1,370)	–	720	(2,690)	**64,365**
Non-current liabilities										
Borrowings	162,502	113,708	(7,023)	(46,090)	12,822	–	(100,000)	–	–	**135,919**
Total borrowings	192,476	108,654	(8,852)	–	11,346	(1,370)	(100,000)	720	(2,690)	**200,284**

33. Post balance sheet events

Convertible revolving credit facility extension

On 4 February 2019, the existing convertible revolving credit facility ('RCF') held with Mercuria Group was increased by US$50.0 million to US$235.0 million. This provided immediate additional funds of US$50.0 million bearing interest at a rate of LIBOR+4% and repayable on 31 December 2021. The amended convertible RCF has two tranches, a facility A commitment of US$160.0 million which was entered into in February 2018 and a facility B commitment of US$75.0 million. US$25.0 million of the facility B commitment was agreed in December 2018, with the additional $50.0 million of the total facility B commitment being provided from February 2019.

Salta licence claim

In January 2019, the company received notice from the secretary of energy for Salta province in respect of a claim for compensation in the amount of US$25.0 million related to certain unfulfilled licence obligations. The obligations related to work commitments on three licences that allegedly expired in 2010. The company has refuted the claim.

A similar claim in the amount of US$41.0 million had been received in 2012 related to two further Salta licences that had been relinquished in 2010. The company refuted that claim through a series of administrative appeals, the last of which was filed in 2015. No further notice was received since then.

No judicial proceedings have been initiated in respect of either claim. The company considers that its legal arguments to defend both claims remains valid.

Directorate change

On 23 April 2019, Anuj Sharma served a notice on the company, which the company is treating as a notice terminating his employment in accordance with his service agreement and resigning from his position as chief executive officer and a director of the company with immediate effect. Pending the recruitment of a new chief executive officer, Tim Harrington, a non-executive director of the company, will be appointed interim chairman of the executive committee, working closely with the chief financial officer and chief operating officer.

COMPANY STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	Note	2018 US$'000	2017 US$'000
Non-current assets			
Property, plant and equipment	5	**194**	217
Intangible assets	6	**21,380**	–
Investments in subsidiaries	4	**1,063,900**	973,368
Other receivables	8	**1,546**	–
Total non-current assets		**1,087,020**	973,585
Current assets			
Cash and cash equivalents	9	**16,601**	12,570
Equity investments	7	**108**	–
Trade and other receivables	8	**55,798**	103,188
Total current assets		**72,507**	115,758
Total assets		**1,159,527**	1,089,343
Non-current liabilities			
Trade and other payables	10	**17,965**	15,400
Borrowings	11	**135,919**	160,000
Total non-current liabilities		**153,884**	175,400
Current liabilities			
Trade and other payables	10	**7,328**	15,556
Income tax liability		**600**	–
Borrowings	11	**46,090**	3,931
Provisions	18	**1,060**	–
Total current liabilities		**55,078**	19,487
Total liabilities		**208,962**	194,887
Net assets		**950,565**	894,456
Equity			
Called up share capital	14	**364,175**	329,877
Share premium account		**93,023**	–
Other reserves		**329,155**	325,566
Retained earnings		**164,212**	239,013
Total equity		**950,565**	894,456

The company made a loss for the year of US$74.7 million (2017: US$532.3 million).

The above company statement of financial position should be read in conjunction with the accompanying notes.

The financial statements on pages 145 to 159 were approved by the board of directors and authorised for issue on 2 May 2019 and were signed on its behalf by:

Kevin Dennehy
Chief financial officer

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

Capital and reserves	Note	Called up share capital US$'000	Share premium account US$'000	Retained earnings US$'000	Other reserves US$'000	Total equity US$'000
At 1 January 2017		98,414	52,467	25,125	16,585	192,591
Loss for the year		–	–	(532,330)	–	(532,330)
Translation differences		–	–	–	11,090	11,090
Total comprehensive loss for the year		–	–	(532,330)	11,090	(521,240)
Effect of changes in functional currency		(19,699)	(9,162)	(23,721)	52,582	–
Issue of ordinary shares		2,359	7,244	–	–	9,603
Acquisition of subsidiary		248,803	–	–	960,928	1,209,731
Transfer from merger reserve		–	–	463,189	(463,189)	–
Issue of warrants		–	–	–	7,570	7,570
Capital reduction		–	(50,549)	310,549	(260,000)	–
Distribution of IOX shares		–	–	(4,051)	–	(4,051)
Fair value of share-based payments		–	–	252	–	252
At 31 December 2017		329,877	–	239,013	325,566	894,456
IFRS 9 transition adjustment	17	–	–	(3,270)	–	(3,270)
Loss for the year		–	–	(71,464)	–	(71,464)
Translation differences		–	–	–	(18)	(18)
Total comprehensive loss for the year		–	–	(74,734)	(18)	(74,752)
Issue of ordinary shares		7,271	20,050	–	4,510	31,831
Distribution of IOX shares		–	–	(606)	–	(606)
Debt to equity conversion		27,027	72,973	–	–	100,000
Fair value of share-based payments		–	–	305	–	305
Fair value of warrants		–	–	234	–	234
Consolidation of the Colombia branch		–	–	–	(903)	(903)
At 31 December 2018		**364,175**	**93,023**	**164,212**	**329,155**	**950,565**

Other reserves	Merger reserve US$'000	Warrant reserve US$'000	Translation reserve US$'000	Deferred consideration US$'000	Total other reserves US$'000
At 1 January 2017	89,886	2,105	(79,879)	4,473	16,585
Profit for the year	–	–	–	–	–
Translation differences	–	–	11,090	–	11,090
Total comprehensive profit for the year	–	–	11,090	–	11,090
Effect of changes in functional currency	(15,648)	–	68,815	(585)	52,582
Acquisition of subsidiary	964,816	–	–	(3,888)	960,928
Reserves transfer	(463,189)	–	–	–	(463,189)
Issue of warrants	7,570	–	–	–	7,570
Capital reduction	(260,000)	–	–	–	(260,000)
At 31 December 2017	323,435	2,105	26	–	325,566
Translation differences	–	–	(18)	–	(18)
Issue of ordinary shares	4,510	–	–	–	4,510
Consolidation of the Colombia branch	(903)	–	–	–	(903)
At 31 December 2018	**327,042**	**2,105**	**8**	**–**	**329,155**

The above statement of changes in the company's equity should be read in conjunction with the accompanying notes.

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 US$'000	2017 US$'000
Cash flows from operating activities			
Cash used in operations	13	**(103,438)**	(102,500)
Net cash used in operating activities		**(103,438)**	(102,500)
Cash flows from investing activities			
Payments for intangible assets		**(7,000)**	–
Payments for property, plant and equipment		**(45)**	(217)
Sale of fixed assets		**180**	–
Net cash outflow from investing activities		**(6,865)**	(217)
Cash flows from financing activities			
Proceeds from issues of shares and other equity instruments		**4,925**	9,603
Proceeds from borrowings		**116,210**	176,054
Interest paid		**(7,023)**	(16,241)
Interest received		**224**	–
Repayment of borrowings		**–**	(55,829)
Net cash inflow from financing activities		**114,336**	113,587
Net increase in cash and cash equivalents		**4,033**	10,870
Cash and cash equivalents at the beginning of the financial year		**12,570**	1,438
Effects of exchange rates on cash and cash equivalents		**(2)**	262
Cash and cash equivalents at end of year		**16,601**	12,570

The above statement of cash flows for the company should be read in conjunction with the accompanying notes.

1. Basis of preparation

The financial statements have been prepared in accordance with IFRS as adopted by the European Union.

The company applies consistent accounting policies to those applied by the group. To the extent that an accounting policy is relevant to both group and company financial statements, refer to the group financial statements for disclosure of the accounting policy. Material policies that apply to the company only are included in these financial statements as appropriate.

The company has used the exemption granted under s.408 of the Companies Act 2006 and accordingly has not presented its income statement. The loss attributable to the company for the year ended 31 December 2018 was US$74.7 million (2017: US$532.3 million loss).

2. Critical accounting estimates and judgements

Critical judgements

Carrying value of investments in subsidiaries

The company assesses its investments in subsidiaries for impairment where an indicator that the investment may be impaired exists. Indicators may include poorer operating performance than budgeted, a decrease in the volume of oil and gas reserves booked by operating subsidiaries or a decrease in the NPV10 value of assets assessed under the Petroleum Resource Management System issued by the Society of Petroleum Engineers.

In 2017 an impairment charge of US$463.1 million was recorded against the carrying value of the investment in Trefoil Holdings B.V. ("Trefoil"). The company's investment in Trefoil was acquired in 2017 through the combination transaction with Andes Energia plc. The acquisition was effected through the issue of shares and the pre-impairment carrying value of the investment was calculated by reference to the number of shares issued and the closing price on the date of the transaction (£0.49).

The impairment evaluation was performed by comparing the carrying value of the investment with the fair value of the underlying assets acquired and liabilities assumed in the combination transaction. For consolidation accounting, the combination represented a reverse takeover and therefore the fair value exercise and resultant purchase price allocation included in the group financial statements was performed by reference to assets and liabilities of the former Andes Energia plc. The corresponding fair value of the Trefoil assets and liabilities used in the impairment test for the investment held in the company financial statements was calculated using the assessed Andes fair values and applying the share exchange ratio set in the combination. This fair value was then compared with the carrying value of the investment in Trefoil.

During 2018, an impairment charge of US$21.5 million was recorded against the investment carrying value in Andes Energia Argentina S.A. ('AEA S.A.') following the sale by AEA S.A. of all of its subsidiary investments to the company. Subsequent to the sale the net assets of AEA S.A. related entirely to the Colombia licences and operations which triggered an impairment assessment to be carried out in relation to the carrying value of company's investment in AEA S.A.. The impairment assessment resulted in the investment value being written down to its fair value less costs to sell of US$1.5 million resulting in the impairment loss.

At 31 December 2018 the company performed an assessment of its investments to identify if any impairment indicators existed at the balance sheet date. Refer to note 4 for full details.

Determination of functional currency

The determination of a company's functional currency can require significant judgement. Functional currency is defined as the currency of the primary economic environment in which the company operates, assessed on an entity by entity basis. In this regard the default assumption is that a company's functional currency will be that in which it is registered or that where the majority of its operations are located.

This assumption can be challenged or rebutted where it can be demonstrated that a currency other than that of the country of registration or operations can be shown to have a greater influence over the revenue, costs, assets and liabilities of a company.

Following the combination transaction in 2017 whereby the company acquired 100% of the share capital of Trefoil Holdings B.V., the functional currency of the company was re-assessed.

As part of the transaction, the company entered a bridging and working capital facility agreement with Mercuria Energy Trading S.A. This facility provided US$160.0 million of funding to the company which it, in turn, has used to fund the operations of its subsidiaries in Argentina. This facility was extended by an amount of US$100.0 million in February 2018 following the conversion of US$100.0 million of the initial principal into equity. The facility was then extended by way of a Tranche B of US$25.0 million in December 2018. In February 2019, the facility was further extended by an amount of US$50.0 million. The company transfers cash for operations in US Dollar.

As a result of the predominance of the US Dollar denominated funding it was determined that the functional currency of the company had changed from Sterling to US Dollar as of 10 August 2017, being the date of completion of the combination transaction. The financial statements were re-translated to US Dollar using the spot rate on the date of the change, being 10 August 2017. The impact of the change in functional currency on the reserves of the company is shown in the statement of changes in equity for 2017.

2. Critical accounting estimates and judgments continued

Critical judgements continued

Amounts due from subsidiary undertakings

IFRS 9 'Financial Instruments' ('IFRS 9') became effective for accounting periods that started on or after 1 January 2018 and requires the company to assess the carrying value of each of the amounts due from subsidiary undertakings in accordance with the 'expected credit losses' impairment model. This is in contrast to IAS 39 under which only 'incurred credit losses' were required to be recognised.

Under the IFRS 9 model the company is required to assess both the repayment profile of the subsidiary loan and the credit risk of the associated subsidiary for each subsidiary loan held at the balance sheet date. Where the loan is determined to be repayable on demand, or the associated subsidiary is determined to have a high level of credit risk, then the expected credit losses of the subsidiary loan should be determined. In completing this assessment, if the subsidiary has sufficiently liquid assets to repay the loan, if demanded at the reporting date, the expected credit loss is determined to be immaterial. However, if the subsidiary cannot demonstrate the ability to repay the loan, if demanded at the reporting date, the company has calculated an expected credit loss.

This credit loss calculation considers the loss given default of the amount due from subsidiary undertakings, which involves judgement around how loan amounts would likely be recovered, and over what timeframe they would be recovered. Despite this new requirement, the company does not intend to demand repayment of any amounts due from subsidiary undertakings in the near future. Refer to note 19 for further details of the financial impact of the implementation of IFRS 9.

3. Significant accounting policies

New accounting standards

The IASB published IFRS 16 'Leases' ('IFRS 16') in January 2016. The standard will be effective for accounting periods starting on or after 1 January 2019. The principal lease agreement that the company participants in is related to rental of office space in London under a three-year lease agreement. Therefore the impact of adopting the new standard is not expected to be material to the company financial statements.

Investments in subsidiaries

Investments in unquoted subsidiaries are carried at cost unless an indicator of impairment exists, in which case the recoverable value of the investment is assessed by reference to the cash flows it is expected to generate or the fair value of the assets it holds and an impairment loss is recorded as appropriate. Impairment losses are reversed to the extent that the condition giving rise to the impairment reverses in a subsequent period.

The company has no investments in subsidiaries that are quoted on an active market.

Exploration and appraisal assets

The company follows an accounting policy for exploration and appraisal assets that is based on the successful-efforts accounting method. Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence-by-licence basis. Costs are held within intangible assets and are not depreciated until the exploration phase on the licence area is complete or commercial reserves have been discovered.

Capitalised intangible exploration and evaluation costs are reviewed regularly for indicators of impairment and are tested for impairment where these indicators exist.

Trade and other receivables

Trade receivables and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. The group applies the IFRS 9 simplified approach to measuring expected credit losses to calculate impairment, which uses a lifetime expected loss allowance based on a 36 month assessment period. Any resulting impairment loss is recognised immediately in the income statement.

Trade and other receivables are classified as current assets if receipt is due within one year or less. If not, they are presented as non-current assets.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with financial institutions that can be called on demand together with other short-term, highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash. Cash equivalents also include restricted amounts pledged as securities for licence commitments. Cash equivalents are classified as financial assets measured at amortised cost or fair value through profit or loss.

3. Significant accounting policies continued

Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not they are presented as non-current liabilities.

Accruals are recognised in respect of goods or services delivered but not yet invoiced.

4. Investments

Investments	2018 US$'000	2017 US$'000
At 1 January	**973,368**	234,134
Investment in subsidiaries	**117,147**	166
Effect of change in functional currency	**–**	13,313
Acquisition of subsidiaries	**7,177**	1,217,301
Disposal of subsidiaries	**(1,518)**	–
Revaluation of investment on distribution	**–**	2,157
Distribution to shareholders	**–**	(4,051)
Impairment of investment	**(32,274)**	(26,523)
Impairment of acquired subsidiaries	**–**	(463,129)
At 31 December	**1,063,900**	973,368

On 18 December 2017, and pursuant to the commitments made in the AIM admission document, the company distributed its investment in Interoil Exploration and Production ASA to the company's shareholders by way of a dividend in specie. The dividend was made to shareholders on record as of 8 August 2017.

On 8 November 2018 the company sold its 100% shareholding in Andes Energia Argentina S.A. ("AEA S.A.") to Ocean Energy Services LLC ("OES"). The purpose of the sale was to allow the company to divest of its 70% interest in eight licences in Colombia.

In order to facilitate the transaction, prior to the sale date the company acquired from AEN Netherlands Cooperatief U.A. ("AEN Net") its 7.31% shareholding in AEA S.A. for consideration of US$0.6 million. This acquisition increased the company's shareholding in AEA S.A. to 100%. Immediately following this acquisition, AEA S.A. sold all the investments it held in group subsidiaries to the company for consideration of US$6.6 million. Subsequent to the sale the net assets of AEA S.A. related entirely to the Colombia licences and operations.

The change in the net assets held by AEA S.A. resulting from the sale of its subsidiary investments to the company triggered an impairment assessment to be carried out in relation to the carrying value of the company's investment in AEA S.A.. The impairment assessment resulted in the investment value to be written down to its fair value less costs to sell of US$1.5 million causing an impairment loss of US$21.5 million to be recognised in the 2018 company financial statements.

	USD $'000
Investment held in AEA S.A.	23,012
Fair value deemed to be the lower of:	
Net assets of AEA S.A. at 1 November 2018	2,643
Determined fair value less costs to sell	1,518
Impairment charge	**21,494**

The sale of AEA S.A. completed on 8 November 2018. The realised gain on sale recognised in the company financial statements was US$nil. Further details on the sale can be found in note 16 in the notes to the group financial statements.

On 31 December 2018, the company made a capital contribution in certain of its subsidiary holdings in exchange for forgiveness of intercompany debt. The total investment made was $117.1 million.

The company completed an assessment of the carrying value of its subsidiary investments at 31 December 2018. As part of this assessment the company identified that the carrying value of its investment in Grecoil y Cia. S.A. ('Grecoil') was in excess of the determined fair value of the entity at 31 December 2018. Fair value was assessed in line with the criteria identified for the group impairment assessment. The carrying value of the company's investment in Grecoil was therefore written down to the net asset value of Grecoil at 31 December 2018, resulting in a $10.8 million impairment loss being recorded.

4. Investments continued

At 31 December 2018, the company had investments in the following subsidiaries. The principal activity of all companies relates to oil and gas exploration, development and production.

	Principal activity	Country of incorporation	Proportion of issued shares controlled by the Group
PGR Operating LLC	Service company	USA	100%
AEN Energy Holdings S.P.C.	Dormant	Cayman Is.	100%
AEN Energy Cayman Islands Ltd	Dormant	Cayman Is.	100%
Andes Energy LLC	Dormant	USA	100%
AEN Netherlands Cooperatief U.A.	Intermediate holding company/services	Netherlands	100%
Trefoil Holdings B.V.	Intermediate holding company	Netherlands	100%
San Enrique Petrolera B.V.	Intermediate holding company	Netherlands	100%
AEN Energy Latina, S.L.	Dormant	Spain	100%
Upstream Latino America S.A.	Intermediate holding company	Spain	99.96%
Trefoil (Switzerland) S.A.	Intermediate holding company	Switzerland	100%
Trefoil Limited	Intermediate holding company	Bermuda	100%
Trefoil GmbH	Intermediate holding company	Austria	100%
Petrolera El Trebol S.A.	Oil and gas operations	Argentina	100%
MSO Andes Energia S.A.	Intermediate holding company/services	Argentina	100%
Andes Oil S.A.	Intermediate holding company	Argentina	100%
Andes Oil and Gas S.A.	Intermediate holding company	Argentina	100%
Grecoil y Cia. S.A.	Oil and gas operations	Argentina	100%
AEN Energy Mendoza S.A.	Intermediate holding company	Argentina	100%
AEN Energy Argentina S.A.	Intermediate holding company	Argentina	100%
Patagonia Oil & Gas S.A.	Intermediate holding company	Argentina	100%
Andes Hidrocarburos S.A.	Intermediate holding company	Argentina	100%
Kilwer S.A.	Oil and gas operations	Argentina	100%
Ketsal S.A.	Oil and gas operations	Argentina	100%
CHPPC Andes S.R.L	Oil and gas operations	Argentina	100%
Integra Investment S.A.	Intermediate holding company	Argentina	100%
Andes Interoil Limited	Intermediate holding company	UK	100%
Andes Energia Limited	Dormant	UK	100%
Patagonia Oil & Gas Limited	Dormant	UK	100%
Patagonia Energy Limited	Dormant	UK	100%

5. Property, plant and equipment

The property, plant and equipment balance of US$0.2 million (2017: US$0.2million) relates entirely to leasehold improvements, fixtures and fittings and office equipment. Depreciation is charged on a straight-line basis at rates that reflect the expected useful life of each asset category. Rates applied range between 20 – 35% per annum.

6. Intangible assets

The intangible assets acquired in the period relate to licence payments for the Mata Mora and Corralera exploration concessions.

In April 2018, the company renegotiated the joint venture contracts previously held under a memorandum of understanding with Gas y Petróleo del Neuquén ('GyP'), the Neuquen province oil and gas company, that governed the company's interest in the Mata Mora and Corralera exploration concessions. Following the renegotiation, the company's working interest two concessions increased from 27% to 90% and the company assumed operatorship. As part of the renegotiation Integra Oil & Gas S.A. ("IOG") agreed to waive any rights to participate in these concessions in return for consideration of US$21.4 million. The consideration was settled through a cash payment of US$7.0 million and the issue of 25,000,000 new ordinary shares at an issue price of £0.45 per share.

7. Equity investments

Current assets	2018 US$'000	2017 US$'000
Unlisted equity securities	**108**	–

Unlisted equity securities are designated at fair value through profits and loss. Any fair value movements in the period are recorded in other income and expenses within the income statement.

8. Trade and other receivables

	2018			2017		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Contingent consideration	**794**	**–**	**794**	–	–	–
Financial assets held at fair value through profit and loss	**794**	**–**	**794**	–	–	–
Trade and other receivables	**3,925**	**1,546**	**5,471**	5,426	–	5,426
Less provision for impairment:	**(2,942)**	**–**	**(2,942)**	(2,943)	–	(2,943)
	983	**1,546**	**2,529**	2,483	–	2,483
Loans to subsidiaries	**53,695**	**–**	**53,695**	100,519	–	100,519
Financial assets at amortised cost	**54,678**	**1,546**	**56,224**	103,002	–	103,002
Prepayments to suppliers	**326**	**–**	**326**	186	–	186
Total trade and other receivables	**55,798**	**1,546**	**57,344**	103,188	–	103,188

Contingent consideration was recognised on the sale of AEA S.A. to OES in November 2018. The contingent proceeds represent the fair value attributed to restricted cash held in escrow in respect of the guarantees put in place in favour of the Colombian national oil company, the ANH, and relate to capital commitments on the licences held by AEA S.A.. The fair value of the restricted cash assumed at the sale date was US$1.7 million.

As the company still holds title to a portion of the restricted funds, the contingent consideration recognised in other receivables in the period reflects the fair value attributed to the restricted funds held by AEA S.A. at the balance sheet date. The fair value attributed to the restricted cash held by the company is included within cash and cash equivalents.

The amounts due from subsidiary undertakings include US$34.5 million (2017: US$27.3 million) that incurs interest at a fixed rate of 7.0% per annum (2017: 7.0%) and US$23.8 million (2017: US$23.1 million) that incurs interest at a fixed rate of 5.0% per annum (2017: 5.0%). The remaining amounts due from subsidiaries accrue no interest. All amounts are repayable on demand.

At 31 December 2018, a provision of US$10.7 million (2017: US$nil) was held in respect of the recoverability of amounts due from subsidiary undertakings. The current year provision has resulted from the implementation of IFRS 9 from 1 January 2018 and would have been US$nil had the standard not been implemented in the year. Refer to note 19 for further detail.

9. Cash and cash equivalents

	2018 US$'000	2017 US$'000
Cash at bank and in hand	**12,809**	12,570
Restricted cash	**3,792**	–
	16,601	12,570

Restricted cash comprises the cash held in escrow in relation to the Colombia licence obligations which were sold to OES in the period (see note 14 in the notes to the group financial statements). Release of the restricted cash is subject to OES fulfilling work commitments under the licences. The company is entitled to receive 25% of any amounts released from restricted cash as OES fulfils these commitments.

At the sale date, the company completed a fair value assessment and has recognised its share of expected receipts based on details received from OES regarding work to be performed. A payable has also been recorded related to the element owed to OES should the commitments be fulfilled. Any restricted funds released from this account will initially be received by the company and will then be allocated 75% to OES with the remaining 25% retained by the company.

10. Trade and other payables

	2018			2017		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Trade payables	**1,237**	**–**	**1,237**	12,147	–	12,147
Employee costs, social security and other taxes	**899**	**–**	**899**	1,629	–	1,629
Loans from subsidiaries	**–**	**17,965**	**17,965**	–	15,400	15,400
Other payables	**5,192**	**–**	**5,192**	1,780	–	1,780
Trade and other payables	**7,328**	**17,965**	**25,293**	15,556	15,400	30,956

All balances held within trade and other payables are held at amortised cost.

11. Borrowings

	2018			2017		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Loans	**46,090**	**135,919**	**182,009**	2,561	160,000	162,561
Other borrowings	**–**	**–**	**–**	1,370	–	1,370
	46,090	**135,919**	**182,009**	3,931	160,000	163,931

The loan balance at 31 December 2018 relates to amounts drawn down under the new convertible rolling credit facility ('RCF') provided by Mercuria. The RCF bears interest at a rate of 4% over 3-month LIBOR with a maturity date of 31 December 2021. See note 12 for full details.

12. Related party balances

Related party balances relate to loans received from the major shareholder and loans advanced to subsidiaries. Amounts outstanding at 31 December 2018 include:

	2018 US$'000	2017 US$'000
Related party loans receivable		
Amounts advanced to subsidiaries	**53,695**	100,519
Total related party receivables	**53,695**	100,519
Related party loans payable		
Shareholder loan	**182,000**	160,000
Interest accrued on shareholder loan	**9**	2,561
Amounts payable to subsidiaries	**17,965**	15,400
Total related party payables	**199,974**	177,961

The shareholder loan in 2017 relates to a bridging and working capital facility provided to the company by Mercuria Energy Trading S.A., part of the Mercuria Group ('Mercuria'). In February 2018, US$100.0 million of this facility was converted to equity at a price of £0.37 per share (based on an exchange rate of £1.00: US$1.39). At the same time, an additional US$100.0 million of funds was advanced by Mercuria Group and the combined US$160.0 million facility was renamed as the new convertible rolling credit facility ('RCF'). The RCF bears interest at LIBOR+4% and is repayable on 31 December 2021.

In December 2018, Mercuria advanced an additional US$25.0 million through its subsidiary Mercuria Energy Netherlands B.V. as a Tranche B to the convertible rolling credit facility. This second tranche bears interest at LIBOR+4% and is repayable on 31 December 2021. In February 2019, Tranche B was extended by an additional amount of US$50.0 million.

Mercuria Group has the right to convert all or part of the outstanding principal of the facility into additional new ordinary shares of Phoenix. The conversion right has been set at a price of £0.45 per share at any time from 30 June 2018 until 10 business days prior to the maturity for tranche A, and at a price of £0.28 per share at any time from 30 June 2019 until 10 business days prior to the maturity for Tranche B, subject to appropriate shareholder resolutions in relation to the authority to allot and disapplication of pre-emption rights in relation to such shares having been approved by the board.

During the year the company made interest payments to Mercuia in relation to the convertible RCF of US$7.0 million.

12. Related party balances continued

The amounts advanced to subsidiaries consist of amounts advanced for working capital purposes that have no fixed repayment dates and no interest burden. The balance also includes two interest bearing loans to subsidiaries. The primary interest bearing loan relates to a US$72.3 million (2017: US$27.3 million) facility advanced to Petrolera el Trebol that carries an interest rate of 7.0%.

Transactions with related parties during the period

Hedging contracts

On 22 January 2018, the company entered a swap agreement with Mercuria Energy Trading S.A. in order to fix the price received for a portion of 2018 production at a price of US$65.97/bbl. The total volume under the contract was 1,215,954 barrels representing 47% of total 2018 production. The effective term of the agreement commenced on 15 January 2018 and expired on 14 December 2018. The realised hedging loss expensed in the period was US$7.6 million. The company was not party to any derivative instruments at 31 December 2018. Refer to note 10 in the group financial statements for further details.

Share-based payments

During 2018, the company issued 7,156,625 new ordinary shares to Mercuria in the form of a share-based payment. Refer to note 14 for further detail.

13. Cash generated from operations

	2018 US$'000	2017 US$'000
Loss for the year before taxation	**(74,734)**	(532,330)
Depreciation	**69**	–
Impairment of investments and other non current assets	**32,563**	489,652
Revaluation of investment on change of control	**–**	(2,157)
Provision for credit losses on intercompany loans	**10,680**	–
Provision for restricted cash	**–**	6,491
Finance costs	**12,636**	14,631
Finance income	**(2,585)**	(7,680)
Share-based payments	**5,990**	252
Other non-cash items	**385**	–
(Increase) in trade and other receivable	**(92,889)**	(75,232)
Decrease/(increase) in restricted cash	**4,198**	(1,049)
Increase/(decrease) in trade and other payables	**700**	4,927
Net unrealised exchange gains/(losses)	**(451)**	(5)
Cash used in operations	**(103,438)**	(102,500)

14. Called up share capital

The company's share capital consists of one class of ordinary share. Each ordinary share carries an equal voting right and right to a dividend.

	2018		2017	
Allotted, called up and fully paid	**No. ('000)**	**US$'000**	**No. ('000)**	**US$'000**
Ordinary shares of 10 pence	**2,786,645**	**364,175**	2,537,178	329,877

Movements in ordinary shares:

	2018		2017	
	No. ('000)	**US$'000**	**No. ('000)**	**US$'000**
At 1 January	**2,537,178**	**329,877**	605,505	98,414
Effect of change in functional currency	**–**	**–**	–	(19,699)
Acquisition of subsidiary	**–**	**–**	1,913,873	248,803
Issue of ordinary shares	**55,080**	**7,271**	17,800	2,359
Debt to equity conversion	**194,387**	**27,027**	–	–
At 31 December	**2,786,645**	**364,175**	2,537,178	329,877

On 10 August 2017, the company issued 1,899,106,385 ordinary shares with nominal value of £0.10 per share as consideration for 100% of the issued share capital of Trefoil Holdings B.V.. Also on 10 August 2017, a further 14,766,666 shares were issued related to deferred consideration from previous acquisition transactions.

On 16 February 2018, the company issued 194,387,299 ordinary shares with nominal value of £0.10 per share to Mercuria upon conversion of US$100.0 million of the bridging and working capital facility into equity.

14. Called up share capital continued

On 6 March 2018, the company received notice from Mercuria to exercise warrants and subscribe for 15,143,833 ordinary shares with nominal value of £0.10 per share.

On 27 June 2018, the company exercised the option to settle the second instalment of the payment due under the Transaction Fee Services Agreement ('TFSA') dated 24 July 2017, by allotting and issuing 7,156,625 new ordinary shares of nominal value of £0.10 each to Integra Capital SA ('Integra') at a price of £0.58 per share in lieu of cash. The exercise of this option by the company triggered a clause in the share purchase agreement held between the company and Upstream Capital Partners VI Limited (part of the Mercuria Group) dated 24 July 2017, which entitles Mercuria to receive 3.06147 ordinary shares for each ordinary share issued to Integra under the TFSA. It was agreed however, for this transaction, that for no consideration Mercuria would reduce its entitlement to one ordinary share for each ordinary share issued to Integra, with the company, therefore, allotting and issuing 7,156,625 new ordinary shares to Mercuria.

Also on 27 June 2018, the company allotted and issued 86,337 ordinary shares of nominal value of £0.10 each to one of the company's directors, in respect of fees accrued pursuant to the terms of his appointment as a non-executive director for the period up to the completion of the business combination with Trefoil Holdings B.V.. A further 535,714 ordinary shares were allotted and issued to senior management on this date in lieu of bonus payments due on the completion of the business combination with Trefoil.

On 19 September 2018, the Company reached an agreement with Integra Oil & Gas S.A. to settle the remaining amount due in respect of the Mata Mora and Corralera exploration concessions through the issue of 25,000,000 new ordinary shares of nominal value of £0.10 each. Refer to note 6 for further detail.

15. Employee benefits

15.1 Staff costs

As permitted by s408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the company. The loss attributable to the company is disclosed in the footnote to the company's balance sheet.

The auditors' remuneration for audit and other services is disclosed in note 11 to the consolidated financial statements.

The average monthly number of employees (including executive directors) during the year was 4 (2017: 3).

Staff costs	2018 US$'000	2017 US$'000
Wages and salaries	**2,168**	1,443
Social security costs	**296**	140
Other benefits	**31**	39
Share-based payments	**305**	105
	2,800	1,727

Staff costs incurred include fees paid to seven of the non-executive directors for services provided to the company. Detailed remuneration disclosures are provided in the remuneration report on pages 70 to 88.

15.2 Share based payments

During 2018, the company implemented a Long Term Incentive Plan ('LTIP') for directors and a Deferred Share Bonus Plan ('DBP') for management. For the year ended 31 December 2018, the total cost recognised by the company for equity-settled share-based payment transactions is US$0.3 million. A credit of US$0.3 million has been recorded in retained earnings for all equity-settled payments of the company.

Details of the various share incentive plans currently in operation are set out below:

2018 Long term incentive plan (LTIP)

Under the LTIP, directors can be granted nil cost share awards that vest over three years following grant provided the individual remains in employment. Share awards must be held for two years after vesting. The size of awards under the plan depends on the calculation of Total Shareholder Return ('TSR') over the three year period from the grant date, which is measured 50% on an absolute basis and 50% relative to a group of listed industry comparators. There are no other post-grant performance conditions. No dividends are paid over the vesting period. Refer to the annual report on remuneration on pages 81 to 88.

The following table details the weighted average fair value of awards granted and the assumptions used in the fair value expense calculations. The weighted average remaining contractual life for LTIP awards outstanding at 31 December 2018 was 2.6 years.

15. Employee benefits continued

15.2 Share based payments continued

2018 Long term incentive plan (LTIP) continued

	2018 LTIP
Weighted average fair value of awards granted (pence)	7.82
Grant date	2018
Vesting	3 years
Weighted average share price at grand date	22.69
Shares granted	17,124,212
Risk free rate of interest	0.78%
PGR TSR Volatility	46.31%
Comparitor TSR Volatility	29% – 72%

Deferred bonus plan (DBP)

During the year, the company established a DBP through which management is eligible to be granted nil exercise price options as part of their annual bonus. These are exercisable three years following grant. An individual must normally remain in employment for three years from grant for the shares to vest. Awards are not subject to post-grant performance conditions and no dividends are paid over the vesting period.

The total number of share granted under the scheme in 2019 was 3,325,406 shares based on a share price at the grant date of £0.18 per share. The weighted average remaining contractual life for DBP awards outstanding at 31 December 2018 was 2.5 years.

15.3 Warrants

Details of warrants granted are as follows:

	1 January 2018 No.	Grant No.	Lapsed No.	31 December 2018 No.	Exercise price pence
January 2013 – January 2018	73,527,264	–	(73,527,264)	–	54
August 2013 – August 2020	10,454,545	–	–	**10,454,545**	40
December 2014 – December 2017	8,154,545	–	(8,154,545)	–	43
February 2015 – February 2018	3,000,000	–	(3,000,000)	–	0[1]
	4,000,000	–	(4,000,000)	–	34
August 2015 – August 2019	22,104,787	–	(8,144,417)	**13,960,370**	26
Total	121,241,141	–	(96,826,226)	**24,414,915**	

1 Priced by reference to Interoil share price

The weighted average remaining contractual life of the warrants is 1.1 years. None of the warrants described above are accounted for as share-based payments. The number of warrants that are not treated as share-based payments that were outstanding during the year, together with their associated weighted average exercise price (WAEP), are as follows:

	2018 No. ('000)	2018 WAEP (p)	2017 No. ('000)	2017 WAEP (p)
At 1 January	**121,241,141**	**45.0**	51,278,958	44.9
Granted	**–**	**–**	151,610,440	49.8
Exercised	**–**	**–**	–	–
Lapsed	**(96,826,226)**	**50.3**	(81,648,257)	53.9
At 31 December				
– Outstanding	**24,414,915**		**121,241,141**	
– Exercisable	**24,414,915**		**121,241,141**	

15. Employee benefits continued

15.3 Warrants continued

Warrants – share-based payments

Details of warrants that are accounted for as share-based payments are as follows:

	1 January 2018 No.	Grant No.	Lapsed No.	31 December 2018 No.	Exercise price pence
June 2012 – June 2019	20,281,273	–	–	**20,281,273**	54
November 2013 – November 2020	9,090,909	–	–	**9,090,909**	40
Total	29,372,182	–	–	**29,372,182**	–

The weighted average remaining contractual life of the warrants that are treated as share-based payments is 0.9 years. The number of warrants that are treated as share-based payments that were outstanding during the year, together with their associated WAEP, are as follows:

	2018		2017	
	No. '000	WAEP (p)	No. '000	WAEP (p)
At 1 January	**29,372,182**	**49.7**	7,961,880	50.5
Granted	**–**	**–**	28,228,424	40.4
Exercised	**–**	**–**	–	–
Lapsed	**–**	**–**	(6,818,122)	54.0
At 31 December				
– Outstanding	**29,372,182**	**–**	29,372,182	–
– Exercisable	**29,372,182**	**–**	29,372,182	–

The fair value of the warrants accounted for as share-based payments was calculated using the Black-Scholes model. The estimated fair value of options accounted for as share-based payments and the model inputs used to calculate those fair values are as follows:

Date of grant	Number	Estimated fair value pence	Share price at date of agreement pence	Exercise price pence	Expected volatility %	Expected life Years	Risk free rate %	Expected dividends %
June 2012	4,461,880	23	45.25	54	53	4.43	1.80	–
November 2013	2,000,000	10	22.50	40	53	5.83	1.80	–

	1 January	Grant	Lapsed	31 December	Exercise price pence	Exercise date
Nicolás Mallo Huergo	606,600	–	–	606,600	54	2019
Senior management	822,280	–	–	822,280	54	2019
Others	1,415,400	–	–	1,415,400	54	2019
Others	2,000,000	–	–	2,000,000	40	2020

16. Financial risk management

Where equivalent disclosures for the requirements of IFRS 7 'Financial Instruments: Disclosures' and IFRS 13 'Fair Value Measurements' have been included in the consolidated financial statements of the group, the company has adopted the disclosure exemptions available to the company's accounts.

The company's exposure to financial risks and how those risks could affect the group's future financial performance is summarised below.

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange	Future commercial transactions	Cash flow forecasting and budgeting	The majority of the company's cash is held in US Dollars. The company draws progressively on available facilities as cash is needed to fund operating subsidiaries.
	Financial assets and liabilities recognised in the balance sheet that are not denominated in US Dollars	Sensitivity analysis	Due to the influence of the US Dollar on the company and the level of funding obtained in US Dollars, the US Dollar has been determined to be the functional currency of the company. This determination also reduces the exposure to foreign exchange gains and losses.
Market risk – interest rate	Long-term borrowings held at variable rates	Sensitivity analysis	The company has a treasury management function and monitors interest rate movements.
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	The company maintains an active treasury management function.

Market risk – cash flow and fair value interest rate risk

The company's main interest rate risk arises from long-term borrowings with floating interest rates that expose the group to interest rate risk. The company's functional currency is US Dollar and it only holds US Dollar denominated debt, therefore is not exposed to exchange rate risk.

The group does not currently use swap instruments or other derivatives to manage its interest rate risk exposure.

The exposure of the group's borrowings to interest rate changes at the end of the reporting period were as follows:

	2018 US$'000	% of total loans US$'000	2017 US$'000	% of total loans US$'000
Variable rate borrowings	**182,000**	**100**	160,000	100
	182,000	**100**	160,000	100

	Impact on post-tax profit and loss		Impact on other components of equity	
	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
Interest rate increase by 100 basis points	**1,820**	1,600	**–**	–
Interest rate decrease by 100 basis points	**(1,820)**	(1,600)	**–**	–

17. Commitments and contingencies

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2018 US$'000	2017 US$'000
Not later than one year	**130**	67
Later than one year and not later than five years	**85**	357
Later than five years	**–**	–
Total	**215**	424

Operating lease commitments relate primarily to rented office space none of which is sublet by the company. There are no contingent payments associated with operating leases that the company is party to.

The company does not have any significant contingencies.

18. Provisions

	2018			2017	
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000
Legal claims	**1,060**	**–**	**1,060**	–	–
Other provisions	**–**	**–**	**–**	–	–
Total	**1,060**	**–**	**1,060**	–	–

As part of the accounting for the business combination in 2017, provisions were established for certain legal contingencies. An amount of US$1.1 million was provided for in the entity AEA S.A.. When AEA S.A. was sold to OES in 2018 by the company, the terms of the SPA stated that the potential claim would remain the responsibility of PGR plc and consequently, the prior provision held was brought into the company accounts in the year.

19. IFRS 9 transition

The implementation of IFRS 9 in the period has had a material impact upon the measurement of financial assets held with group companies in comparison to the previous requirements under IAS 39. The financial asset impairment requirements of IFRS 9 introduce a forward-looking expected credit loss model that results in earlier recognition of credit losses than the incurred loss model of IAS 39. The adjustment to the 2018 opening balance sheet relating to expected credit loss reduced both the carrying amounts of financial assets and retained earnings. There were no differences in classification or carrying amounts for financial liabilities.

	Carrying amount under IAS 39 $'000	IFRS 9 transition adjustment $'000	Carrying amount under IFRS 9 $'000
Current assets			
Trade and other receivables	103,188	(3,270)	**99,918**
Net assets	103,188	(3,270)	**99,918**
Equity			
Retained Earnings	239,383	(3,270)	**236,113**
Total Equity	239,383	(3,270)	**236,113**

20. Post balance sheet events

Convertible revolving credit facility extension

On 4 February 2019, the existing convertible revolving credit facility ('RCF') held with Mercuria was increased by US$50.0 million to US$235.0 million. This provided immediate additional funds of US$50.0 million bearing interest at a rate of LIBOR+4% and repayable on 31 December 2021. The amended convertible RCF has two tranches, a facility A commitment of US$160.0 million which was entered into in February 2018 and a facility B commitment of US$75.0 million. US$25.0 million of the facility B commitment was agreed in December 2018, with the additional $50.0 million of the total facility B commitment being provided from February 2019.

Other information

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GLOSSARY

Mm³	Thousand cubic metres
MMbtu	Million British thermal units
MMscf	Million standard cubic feet
Tcf	Trillion cubic feet
bbl	Barrel
boe	Barrel of oil equivalent
boepd	Barrel of oil equivalent per day
Bn	Billion
MM	Million
LNG	Liquefied natural gas
WI	Working interest
Opex	Operating expenses
Capex	Capital expenditure
1P	Proved reserves
2P	Proved plus probable reserves
3P	Proved plus probable plus possible reserves
HSE	Health, safety and the environment
KPI	Key performance indicator
EBITDAX	Earnings before interest, taxation, depreciation, amortisation and exploration expense
bopd	Barrels of oil per day
mscfpd	thousand standard cubic feet per day

REGISTERED OFFICES

The registered offices of the group's subsidiaries are as follows:

Company	Registered address
PGR Operating LLC	20 Greenway Plaza, Suite 1075, Houston, Texas 77046-2011, USA
AEN Energy Holdings S.P.C.	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
AEN Energy Cayman Islands Ltd	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
AEN Netherlands Cooperatief U.A.	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands
Trefoil Holdings B.V.	Herculesplien 108, 3584AA Utrecht, Netherlands
San Enrique Petrolera B.V.	Herculesplien 108, 3584AA Utrecht, Netherlands
AEN Energy Latina, S.L.	Calle Hermosilla 11, 4th Piso, Madrid, Spain
Upstream Latino America S.A.	Valezquez 61, 1ºIzquierda, Madrid 28, Spain
Trefoil (Switzerland) S.A.	Rue Du Rhône 50, 1204 Geneva, Switzerland
Trefoil Limited	Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda
Trefoil GmbH	Schubertring 6, 1010 Vienna, Austria
Petrolera El Trebol S.A.	Suipacha 1111, 18th Floor, Ciudad Autonoma de Buenos Aires, Argentina
Andes Energia Argentina S.A.	Suipacha 1111, 18th Floor, Ciudad Autonoma de Buenos Aires, Argentina
MSO Andes Energia S.A.	Suipacha 1111, 18th Floor, Ciudad Autonoma de Buenos Aires, Argentina
Andes Oil S.A.	Suipacha 1111, 18th Floor, Ciudad Autonoma de Buenos Aires, Argentina
Andes Oil and Gas S.A.	Maipu 1252, Piso 6 Ciudad Autonoma de Buenos Aires, Argentina
Grecoil y Cia. S.A.	Tiburcio Benegas 843, Ciudad de Mendoza, Mendoza, Argentina
AEN Energy Mendoza S.A.	Tiburcio Benegas 843, Ciudad de Mendoza, Mendoza, Argentina
Patagonia Oil & Gas S.A.	Maipu 1252, Piso 6 Ciudad Autonoma de Buenos Aires, Argentina
Andes Hidrocarburos S.A.	Suipacha 1111, 18th Floor, Ciudad Autonoma de Buenos Aires, Argentina
Kilwer S.A.	Suipacha 1111, 18th Floor, Ciudad Autonoma de Buenos Aires, Argentina
Ketsal S.A.	Tiburcio Benegas 843, Ciudad de Mendoza, Mendoza, Argentina
CHPPC Andes S.R.L	Suipacha 1111, 18th Floor,Ciudad Autonoma de Buenos Aires, Argentina
Integra Investment S.A.	Maipu 1252, Piso 6 Ciudad Autonoma de Buenos Aires, Argentina
Andes Interoil Limited	6th Floor, King's House, 10 Haymarket, London SW1Y 4BP
Andes Energia Limited	6th Floor, King's House, 10 Haymarket, London SW1Y 4BP
Patagonia Oil & Gas Limited	6th Floor, King's House, 10 Haymarket, London SW1Y 4BP
Patagonia Energy Limited	6th Floor, King's House, 10 Haymarket, London SW1Y 4BP

OFFICERS AND ADVISERS

Directors

Sir Michael Rake	Non-executive chairman
Kevin Dennehy	Chief financial officer
John Bentley	Non-executive director (independent)
Garrett Soden	Non-executive director (independent)
Javier Alvarez	Non-executive director (independent)
David Jackson	Non-executive director (independent)
Tim Harrington	Non-executive director (independent)
Daniel Jaeggi	Non-executive director
Nicolás Mallo Huergo	Non-executive director
Nigel Duxbury	Company secretary

Registered address and corporate office

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Company number

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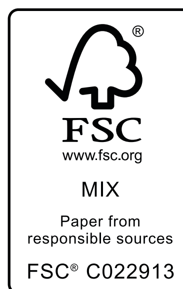

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