Phoenix Global Resources plc
Annual Report and Accounts 2019

Contents

Chairman's statement

Dear shareholders,

The company's strategic objective in 2019 was to create additional value in its substantial portfolio of unconventional oil and gas assets through continued appraisal and development activity in key prospective areas, an objective that was progressed in the year.

Continued appraisal and development of our core prospective assets

We saw success at Mata Mora where the drilling and completion of the first two horizontal wells delivered initial production volumes in excess of pre-drill estimates. The success at Mata Mora has confirmed the block as a commercial unconventional prospect in the oil and condensate window of the Vaca Muerta.

At Puesto Rojas the company secured the first ever unconventional licence to be issued by the Province of Mendoza. The award of the licence recognises the substantial evaluation work undertaken at Puesto Rojas in the last several years and, importantly, provides the platform for future work on the development of the unconventional resources on the concession.

Testing at Mata Mora was extended beyond the initial plan as we worked though analysis of initial production results and detailed analysis of well performance. This extended testing has provided us with additional subsurface information that will be used in planning future wells and preparing for the pilot development project at Mata Mora.

In addition, the results from the initial vertical five-well development campaign at Puesto Rojas were mixed. Three wells were unsuccessful, and information obtained during drilling and completion showed that the targeted folded Agrio formation is significantly more complex than the seismic surveys had indicated. The outcome of the limited campaign and the additional information gained from it has confirmed the development of the Vaca Muerta formation using horizontal wells and the non-folded Agrio horizontal development as the areas of focus for future activity at Puesto Rojas.

Recent events

Unfortunately, notwithstanding the progress made in the year, recent events mean the company is currently faced with several challenges. On a macro level it faces economic uncertainty in Argentina following a change of government in December 2019 and as a result of the continuing negotiations by the government to restructure the country's debt. This political and economic uncertainty has been compounded by the impact of COVID-19 and the global collapse in demand for oil that caused oil prices to collapse in the first half of 2020.

Currency and inflation

The economic environment in Argentina continued to be volatile in 2019 as the Peso suffered further significant devaluation and full-year price inflation exceeded 50%. The company benefits from a degree of protection as the oil and gas industry operates in a primarily Dollar-based environment and Phoenix sources its primary funding in US Dollars outside Argentina. Nevertheless, the company is affected by aspects of government fiscal policy. These measures can include short term intervention on commodity prices to curb price inflation for fuel at the pumps or tariffs on production such as the notional export tariff introduced in 2019 that impact realised prices for domestic sales.

A change in government

December 2019 saw a change in government in Argentina following the presidential elections in October 2019 where the Frente de Todos party was returned to government under the leadership of Alberto Fernandez. The initial primary vote held in August had foreshadowed this result with Fernandez securing an unexpectedly large margin of victory over the incumbent Cambiemos coalition, headed by the then President Macri.

Immediately following the result of the August primary, the already weakened Peso suffered further significant and immediate devaluation driven by uncertainty in international markets over what the newly elected government's position would be in regard to the US$57.0 billion standby credit agreement.

Potential new legislative support for key industries

The new administration has announced its intent to provide explicit economic and regulatory support to four key sectors of the economy, being agriculture, oil and gas, mining, and intellectual services. These are the sectors considered to have the greatest potential to positively impact the Argentine economy. An imperative in reversing the fortunes of the economy is the reduction of and potential reversal in the current significant balance of payments deficit.

In May 2020, the Argentine government issued a decree establishing a fixed realised Medanito price of US$45.00/bbl. This pricing will remain in place in the Argentine domestic market until the Brent crude benchmark sustains a price of US$45.00/bbl or above for 10 consecutive days. The issuance of the decree demonstrates the intention of the government to support the industry where possible.

The impact of COVID-19

The start to 2020 has been dominated by the emergence of the COVID-19 virus and its rapid development as a life-threatening global pandemic. Almost universally, the governmental response to the pandemic has been one of containment through lock-down, quarantine or self-isolation for substantially all citizens.

This has resulted in an almost total shut-down of non-essential industrial and commercial activity and a cessation of substantially all discretionary travel worldwide. The sudden and profound reduction of activity globally has resulted in a significant reduction in demand for energy translating to record low prices for oil and gas and, in turn, rendering many development projects financially unviable.

As the virus begins to reach a perceived peak in a number of countries, the focus of policy response is turning to when and to what extent lock-down measures can be progressively lifted such that economic and industrial activity can be recommenced and economies effectively restarted.

Demand led commodity price drops typically reverse more quickly than those driven primarily by excess supply and whilst this is promising, the timetable to resumption of normal levels of activity is unclear and could be some way off.

Current operations

The company has currently shut-in production of crude oil from its operated licences due to demand constraints. The company has developed and is progressively implementing a plan that involves a significant reduction in both operating and administrative costs. The cost reduction actions being taken mean the company will be in a significantly better position to produce oil economically at lower oil prices and with a positive contribution to cash flow when production recommences. The company will then focus on the continued development of its unconventional assets.

Our major shareholder, Mercuria, is supportive of the cost reduction plan and has extended short-term debt facilities to facilitate its implementation and execution. Mercuria has written to the company stating its intention to continue to provide financial support to the company of up to $37 million in order that the company may continue to operate and service the company's liabilities as they fall due in the next 12 months whilst the company assesses the timing of work plans and capital commitments. Mercuria has agreed to meet the company's cash needs for this period and not demand repayment of the existing loan within the next 12 months whilst in discussion with the company to restructure the existing loan agreement. This letter, which by its nature is not legally binding, represents a letter of comfort stating Mercuria's current intention to continue to provide support.

The directors believe they will be able to agree the restructure of the existing debt with Mercuria and formalise an agreement for new funding and that the group and company can continue as a going concern for the foreseeable future. The application of the going concern basis of preparation of the financial statements included in this annual report is based on the letter that has been received from Mercuria and the ongoing discussions with the Mercuria principals and accordingly, the directors continue to adopt the going concern basis for accounting in preparing the 2019 financial statements. However, the directors recognise that if financial support over the next 12 months from Mercuria were not to be available and the company is unable to restructure the existing loan agreement from Mercuria or obtain funding from alternative sources, this gives rise to a material uncertainty that may cast significant doubt on the group's and company's ability to continue as a going concern.

Summary

These are truly unprecedented time with disruption on the demand and supply side. The board believes it can leverage this situation and take this opportunity to examine the cost base in detail. The company is fundamentally an unconventional oil and gas exploration company and has excellent assets in this space. The companies that will be successful in the future will be those with a low-cost base and strong balance sheet. The board recognises that significant investment will be required in the coming years to develop these assets and enhance value and acknowledges this may include third-party partners and local debt providers in the funding mix to support this development.

Unprecedented times, require unprecedented painful decisions to be made and whilst the steps we have agreed to take will be challenging to implement, the board believes this will result in a cost base from which it can leverage the company's interests in its high quality unconventional oil and gas assets and be in a position to create long-term value for shareholders.

It goes without saying that I take this opportunity on behalf of your board to extend my sincere thanks to our teams for their continued dedication and hard work in what has been a challenging period for us all. In particular, I would like to thank all of the departing staff and directors who have made significant contributions during the time they have been with the company and I am sincerely sorry to see them go. I wish them all the best for the future. We all understand the challenges faced by the Company and the difficult actions we are faced with in this environment.

Sir Michael Rake
Non-executive chairman
26 June 2020

Our strategy and KPIs

Control and consolidate

Our strategic objectives

Phoenix holds significant licence acreage in Argentina. Our focus is to secure operatorship and consolidate our ownership position of that acreage where possible.

We may seek to strategically add further acres with exposure to unconventional resources, including the Vaca Muerta if the right opportunities arise.

How we do this and what we've done

No new unconventional acreage was acquired in 2019 with the company's licence activity mainly related to securing a 35-year unconventional concession for the Puesto Rojas area. This new concession that was awarded in April 2019 provides the foundation for our continued unconventional development work in the area.

The partner-operated Santa Cruz Sur assets were sold in the year reflecting the strategic focus on operated assets where we have a greater level of influence and higher netbacks. The sale contributed $7.0 million of cash proceeds for reinvestment in unconventional activity.

Measuring our progress

- → Total unconventional acreage
- → % of acreage operated by Phoenix
- → Resource progression
- → Netback per boe

Link to KPIs

2 6

Potential risks

- → Competition for acreage (especially Vaca Muerta and other unconventional acreage)
- → Ability to fulfill licence commitments

Explore and develop

Our strategic objectives

Our exploration and development activity is focused on appraising and evaluating the group's unconventional acreage.

We apply the latest shale technologies and methods from the US combined with in country expertise with the objective of demonstrating the commerciality of our unconventional licence areas.

How we do this and what we've done

Exploration and appraisal work in 2019 was focused on our significant unconventional assets at Puesto Rojas and Mata Mora.

We unconventionally completed the first pair of long-lateral wells at Mata Mora in May 2019 with volumes of up to 1,000 bpd seen from each well in initial testing.

The unconventional drilling and completions campaign at Puesto Rojas yielded mixed results though provided valuable information on the targeted folded Agrio formation.

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
- → Determining a homogeneous well completion design for each development area
- → Availability of experienced service crews
- → Competition for services and related costs
- → HSE risk

Profitable production

Phoenix has existing production from conventional oil assets that provides cash flow for reinvestment.

We seek to maintain existing conventional production, where profitable, as a lower cost, lower risk element of the funding mix.

Production was lower in 2019 at 9,236 boepd compared to 10,249 boepd in 2018.

The lower production reflects the sale of the non-core and partner-operated Santa Cruz Sur assets. We continue to experience normal production decline on other conventional assets that is not yet offset by new unconventional production.

Unconventional production is expected to increase through the development phase of our key assets upon completion of paced and successful appraisal programmes.

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

1 2 4 5 6

- → Formation integrity and ability to achieve design type-curve
- → Commodity prices and volatility
- → Impact of inflation and foreign exchange risk
- → Availability of refining capacity for offtake
- → Proactively managing HSE exposure

Realise value

Protecting and realising value for shareholders is fundamental to what we do.

Demonstrating the commerciality of our assets through exploration and evaluation activity and then efficiently and safely developing and producing the resources is key to our value proposition.

Reserves were recognised at Mata Mora for the first time in the 2019 independent reservoir engineers report. The booking of reserves demonstrates the potential commerciality of the prospect at Mata Mora and is a significant step forward in terms of value creation.

In addition to recording reserves, there was significant progression of the resource base at Mata Mora with a greater volume of prospective resources assessed than previous.

- → EBITDAX – earnings before interest, taxes, depreciation, amortisation and exploration expenses
- → Total shareholder return
- → Resource conversion

1 2 3 4 5 6

- → Fiscal risk
- → Financing risk
- → Final decommissioning costs and obligations
- → Ability to optimise asset portfolio through acquisition or divestment, participation in licencing rounds and farm-in or farm-out
- → HSE risk

Our KPIs

for performance measurement/ management remuneration.

We measure our performance and remunerate management based upon 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 or decrease

5 EBITDAX — earnings before interest, taxation, depreciation, amortisation and exploration expense

6 Personal and group project delivery and milestone targets

Read more on pg.s 12–13

Our business model

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 has been growing.

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

Inputs

Supported by a robust governance framework

1 Our value enablers

Technology
We use the latest international technology to appraise and develop our assets and bring experience gained in the United States to bear for our Argentina operations.

People
Our technical and operational teams combine deep knowledge of the Argentina oil and gas industry with industry expertise from the United States. We consult widely with industry peers and expert consultants.

Financial capital
We benefit from a supportive major shareholder providing strong financial backing. Our dual listing in London and Buenos Aires gives the potential to raise equity capital in the future.

2 The right assets

Identify assets
We seek to secure operatorship on the unconventional assets that we participate in.

We currently hold a material operated acreage position in the unconventional windows of the Vaca Muerta and Agrio formations. We continue to evaluate other prospective acreage positions that would compliment our current acreage.

We aim to acquire acreage positions that are either contiguous with our existing licence areas and have unconventional potential or that are proximate to or on trend with unconventional areas where prospectivity has been demonstrated by other operators.

3 Exploration and appraisal

Combining local knowledge and experience with the best international technology to thoughtfully appraise and appropriately pace the development of our material unconventional resource base.

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

How we create value

4
Development

Constantly optimising drilling and completion techniques to support full-field development of our unconventional resource base.

5
Production and sale

Proactively managing all our obligations related to health, safety and the environment and optimising cost while enhancing our production and infrastructure assets to maximise realised margins.

Outputs

6
Outputs and outcomes

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

Employees
As our operations grow over time 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.

HSE
We proactively manage HSE risk and target no harm to employees, contractors or others visiting our operational sites or offices or the environment.

Government
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.

Communities and provinces
We are committed to investing into the communities and provinces we work in and to produce oil and gas in a safe and efficient manner that respects the environment.

Engaging with our stakeholders

How the board gathers feedback from our stakeholders

Engaging effectively with, and understanding the objectives of our diverse stakeholder groups is key to the long-term success of Phoenix in Argentina.

The board ensures that the interests and views of stakeholders are considered as part of its decision making process.

A director of a company must act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of the members as a whole, taking into account the factors listed in section 172 of the Companies Act 2006. The board uses its board meetings as a mechanism for discharging its duties under section 172.

Engagement with our shareholders and wider stakeholder groups plays a vital role throughout the business. Our directors are conscious of their responsibilities to act in the way that they consider, in good faith, would most likely promote the near and longer term success of the company for the benefit of its members as a whole, taking into account the factors as listed in section 172 of the Companies Act 2006.

The key stakeholder groups identified by the board are set out here together with a summary of why and how we seek to engage with our wider stakeholder group to obtain feedback that is used to inform our strategic decision making.

Our purpose

To help develop Argentina's unconventional oil and gas resources safely and responsibly whilst making a positive contribution to the economies and communities where we work and creating value for our stakeholders.

Our people

A motivated and professional workforce is vital to deliver complex operational projects and to meet our strategic goals

Why we listen:

- To build engagement, passion, and a sense of ownership in the business
- To ensure open collaboration
- To develop skills and capabilities in our teams
- To instill a consistent culture and set of behaviours across the business

How we take feedback:

- Formalised individual performance feedback, concluded for all staff in April 2020
- Periodic lunch-and-learn sessions in Mendoza and Buenos Aires with team members presenting a topical business issue or technical project
- Senior leadership team-building away-day in September 2019
- Regular board interaction with teams
- Formalised coaching relationship established between executive management team and non-executive directors

Our partners

We partner with other industry players on certain projects to share knowledge, opportunity and risk

Why we listen:

- To share knowledge and learn from each other
- To bring diverse experience to bear in high-value projects
- To maintain competitive advantage
- To foster trust and collaboration
- To understand each other's objectives and value drivers

How we take feedback:

- Regular joint operating and technical committee meetings held throughout the year
- Senior management meetings to share knowledge and debrief in detail, including meetings held both before and after executing major projects to compare experiences and share knowledge.
- Participation in industry bodies and initiatives

Our investors

We provide regular detailed and transparent information to aid understanding of our strategy, business model and performance

Why we listen:
- To build support in our investor base
- To assist investors in informed decision making
- To enhance long-term shareholder value

How we take feedback:
- Periodic investor meetings including twice in 2019 with the major shareholders, also attended by representatives of the minorities
- Annual general meeting is open to all shareholders
- Specific evaluation of voting on resolutions taken account of when making changes to the composition of the board in 2019
- Through a dedicated investor relations email address

Communities and provinces

We operate in many locations providing employment and paying royalties that support the social infrastructure in the communities in which we work

Why we listen:
- To respond to feedback and maintain our social licence to operate
- To deliver projects that exceed the environmental and safety expectation of provinces while delivering value and creating jobs
- To build trust in the communities that we work in and are a part of

How we take feedback:
- Regular meetings with provincial governments including ahead of significant operational activity in both Mendoza and Neuquén provinces in 2019
- Working with provincial departments, including water authorities, HSE, fire and emergency response teams.
- Participation in multi-discipline safety drills with municipal authorities, partners and provinces, such as spill response drill in 2019
- Feedback after licence bid rounds

Our suppliers

We work closely with and seek to build effective relationships with suppliers of specialised drilling, completion and other services that are critical to the delivery of our complex projects

Why we listen:
- To build relationships based on mutual trust that build value
- To bring specialist expertise to bear in developing our portfolio
- To learn from shared experiences
- To share value outcomes equitably

How we take feedback:
- Contract tendering and renegotiation processes
- Joint working teams on complex projects including at Mata Mora with daily interaction with the drilling, completions and flowback contractors
- Project debrief sessions with technical advisers held following 2019 work at Mata Mora and Puesto Rojas, focused on lessons learned
- External benchmarking

Market drivers

Oil prices

Link to strategy

Control and consolidate

Explore and develop

Profitable production

Market challenges

Crude oil is a tradeable commodity whose price fluctuates in relation to supply and demand dynamics.

YPF, the Argentina state-controlled oil and gas company, sets the price for domestic crude deliveries by reference to the Brent crude benchmark as adjusted for location and quality differentials. Prices are fixed monthly using the average quoted Brent price for the 15 days immediately preceding the delivery month and the first 14 days of the delivery month.

In 2018, a 10% tax for all exports, including exports of crude oil, was introduced. Following this, the pricing formula for domestic crude was adjusted to reflect 'export parity' with an additional 10% tariff applied to domestic crude sales, subsequently rising to 12%.

Brent pricing was relatively volatile in 2019, opening the year at US$54.1/bbl and breaching the US$70.0/bbl threshold in early April before hitting a high of US$74.4/bbl on 25 April. Prices averaged US$66.1/bbl in the first half and US$62.6/bbl in the second half.

As prices peaked, the government intervened in the market in an attempt to delay the impact of increased crude prices on price inflation for fuel at the pump. The government issued a number of decrees covering a three-month period that fixed the Brent reference price for sales at US$59.0/bbl and the US$/AR$ exchange at 45.2 rising to 51.2 in three dated stages.

Crude prices collapsed in Q2 2020 and remain depressed as the COVID-19 pandemic impacts demand for fuel.

Our response

The exploration for and development of oil and gas reserves is capital intensive. Cash generated from operations forms an important element of the funding mix for an E&P company.

Whilst domestic oil sales are priced by reference to the Brent crude benchmark, the relationship is imperfect with sales prices fixed each month based on a 29-day Brent average before taking account of location, quality and export differentials.

Intervention in pricing further dislocates the relationship between realised prices and the Brent crude benchmark on which sales contracts are purportedly based.

The imperfect relationship of the pricing formula and the possibility of market intervention makes it difficult to design effective hedge protection.

The company does not currently have any hedging instruments in place.

Gas prices

Link to strategy

Control and consolidate

Explore and develop

Profitable production

Market challenges

Argentina has historically been a net importer of natural gas with gas sourced by pipeline from Bolivia and also through LNG cargoes shipped internationally. Argentina has almost no coal reserves and relies on gas imports for power generation, industrial and domestic use.

Because of subsidies previously applied to gas for domestic use, volumes sourced as LNG had, on occasion, been purchased at a price per MMbtu that was higher than the price charged to the end-user. Although consumer subsidies have been reduced, there remains the potential for losses on LNG cargoes, particularly when seasonal prices are increased.

Previous incentive plans for producers to increase domestic gas production, reducing Argentina's reliance on imports have now been phased out, including schemes aimed at incentivising unconventional gas production.

Our response

Phoenix has always been a price taker for gas and continues to be so. In 2019, the company sold its Santa Cruz Sur assets, significantly reducing the amount of gas in the production mix and the company's exposure to gas pricing.

The company will re-evaluate its position related to gas pricing and hedging strategy for gas as the appraisal and development work as the Corralera area appraisal progresses. Corralera is a potentially significant unconventional gas play covering more than 74,000 acres in Neuquén province, one of our core areas of operation.

Currency and inflation

Link to strategy

Profitable production

Realise value

Market challenges

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

The Peso devalued by almost 60% in 2019, opening the year at 37.56 to the US Dollar and closing at 59.81. The biggest shock to the value of the Peso came immediately after announcement of the result of the August presidential primary with the Peso losing 34% of its value against the US Dollar almost immediately.

In response to the sudden devaluation, the government introduced exchange controls over personal savings that limit the amount of Pesos that individuals can convert to US Dollars each month to US$200 from the previous US$10,000 allowance. Concurrently, a 30% transaction tax was levied on foreign currency transactions including payments made overseas and those made on credit cards.

The Peso held relatively flat against the US Dollar following the introduction of the exchange controls at approximately 60 Pesos to the US Dollar.

Full-year inflation for 2019 was 53.8%, the highest recorded inflation in Argentina in 28 years. The record level of inflation was in part driven by the central bank selling US Dollars in an attempt to support the Peso before the introduction of exchange controls.

Our response

The oil and gas industry in Argentina benefits from a degree of natural hedge protection from currency risk with sales contracts for oil priced by reference to the US Dollar and the Brent crude benchmark price.

Despite being priced by reference to the US Dollar, oil sales invoices are physically settled in Peso. The company typically generates enough Peso from oil sales contracts to enable it to settle all its operating costs in Argentina and to contribute toward the cost of capex activity.

Cost inflation affects the company in relation to salaries and wages that are denominated in Pesos. Peso salaries are periodically adjusted to take account of cost inflation. Contracts for materials and services sourced in-country will increase year-on-year due to inflation. However, this inflation is typically offset by additional Peso receipts from sales contracts priced by reference to the US Dollar.

Competition for skills and services

Link to strategy

Explore and develop

Realise value

Market challenges

The unconventional marketplace in Argentina continues to expand. However, there remains a shortage of unconventional experience and associated equipment.

Our response

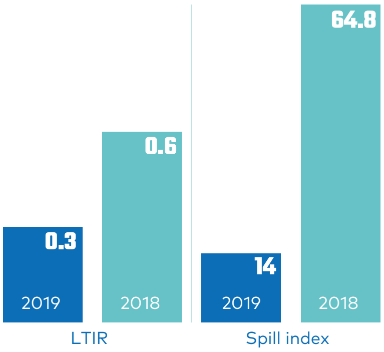
The company seeks to form relationships with trusted and experienced service providers and individual crews.

Contracts for all services are put in place in advance and campaigns scheduled to maximise operational efficiencies including crew and equipment mobilisation and demobilisation synergies where possible.

Key performance indicators

1 HSE metrics

-50% -78.4%



Definition

The measures used by the company were revised in 2019 to include monitoring of Spill Index ('SI') performance in addition to Lost Time Incident Rate ('LTIR').

These measures are calculated as follows:

SI = spill volume (bbls)/oil production on operated fields multiplied by a million.

LTIR = (number of LTIs x 200,000)/Total hours worked

For LTIR, the company calculates total hours worked, including contractor hours, on a monthly basis. Both lost time incidents and spills are reported by line managers or supervisors to the HSE manager and are documented.

Comment

The LTIR fell from 0.6 in 2018 to 0.3 in 2019 against a target of 0.7, resulting in top quartile safety performance. The improvement in safety performance is notable given the level of physical activity during in 2019 including the drilling and completions work at Mata Mora and the unconventional development programme at Puesto Rojas. Other drilling activity was also undertaken at La Paloma and at Rio Atuel.

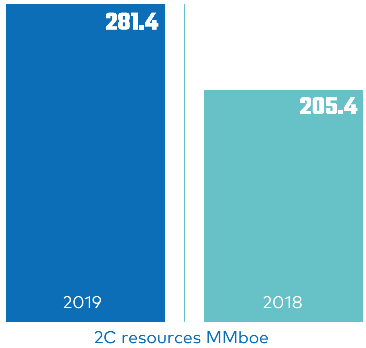
Spill index performance was recorded at 14 compared to 64.8 in 2018. The company experienced some minor spill incidents in the year with remediation and clean up activity overseen by provincial authorities.

Read more on pg.s 33–34

2 Resource and reserve progression

+37%

Increase in 2C resources



Definition

The year-on-year growth in reserves and resources is calculated by reference to reserves and resources statements issued by independent reservoir engineers. The company currently commissions external reserves and resources statements annually.

There are several measures that can be used to assess resource 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.

Comment

The measure of 2C contingent resources increased by 37% from 205.4 MMboe in 2018 to 281.4 MMboe in 2019 with substantially all of the increase at Mata Mora and based on the results from the MM.x-1001 and MM.x-1002 wells that were unconventionally completed in the period.

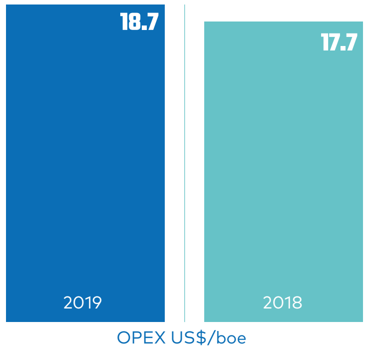
First time proved reserve bookings were made at Mata Mora in 2019 with initial proved reserves of 376 MMboe recorded on a working interest basis.

Read more on pg.s 14–19

3 Operating cost per boe

+5.6%

(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. As production increases the fixed costs are spread over a larger volume base resulting in a lower unit cost. Conversely when production falls, the cost per boe produced typically rises.

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 continually 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.

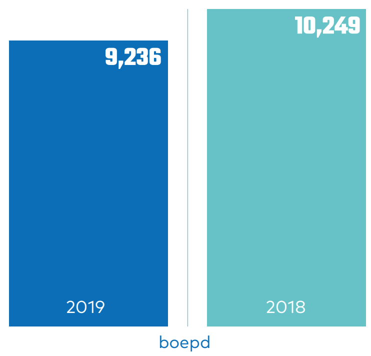
In 2019, the operating cost per boe increased by 5.6% from US$17.7/boe in 2018 to US$18.7/boe in 2019. This increase in per-boe cost reflects production decline on conventional assets not yet offset by gains from new unconventional production.

Read more on pg.s 20–23

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.

4
Production volumes

-9.9%



Definition
Production performance is measured by reference to the absolute and percentage increase or decrease in production year-on-year measured in boepd.

Production in 2019 averaged 9,236 boepd compared to 10,249 boepd in 2018, a decrease of9.9%.

Comment
Production was lower in 2019 compared to 2018 on both a gross volume basis and a boepd basis.

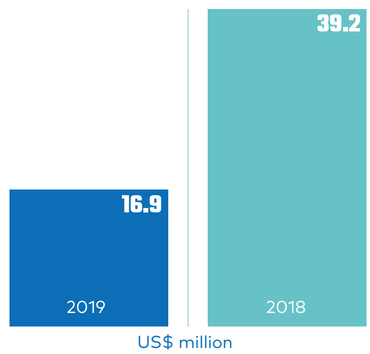
This was largely due to natural production decline in existing well stock not offset by new production that had been expected from newly drilled unconventional wells.

In addition and as part of the company's strategy to focus on core unconventional areas, the Santa Cruz Sur assets were divested in 2019. These assets contributed approximately 2,500 boepd prior to disposal, albeit at low operating margins.

Read more on pg.s 14–19

5
Adjusted EBITDAX

-56.9%



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

Adjusted EBITDAX is like EBITDA used in non-oil and gas businesses but takes account of exploration cost that is often high value and is akin to research and development costs. Not all future-related investment will be successful. Removing the exploration cost from the performance metric focuses performance measurement on the cash generating capability of the underlying operations. The outcome of exploration activity is evaluated separately. Adjusted EBITDAX excludes non-recurring costs.

Comment
Adjusted EBITDAX fell in the year with US$16.9 million generated in 2019 compared to almost US$39.2 million in 2018. The year-on-year reduction in EBITDAX was caused by lower average commodity prices and the impact of government decrees that effectively put a cap on realised prices for certain months.

In addition, the unconventional development campaign undertaken at Puesto Rojas yielded lower total production resulting in lower revenue from sales than planned.

The sale of the Santa Cruz Sur assets improved EBITDAX on a per boe basis given the comparatively higher production cost for these assets in the portfolio mix.

Read more on pg.s 20–23

6
Personal objectives

Measured based on individual performance.

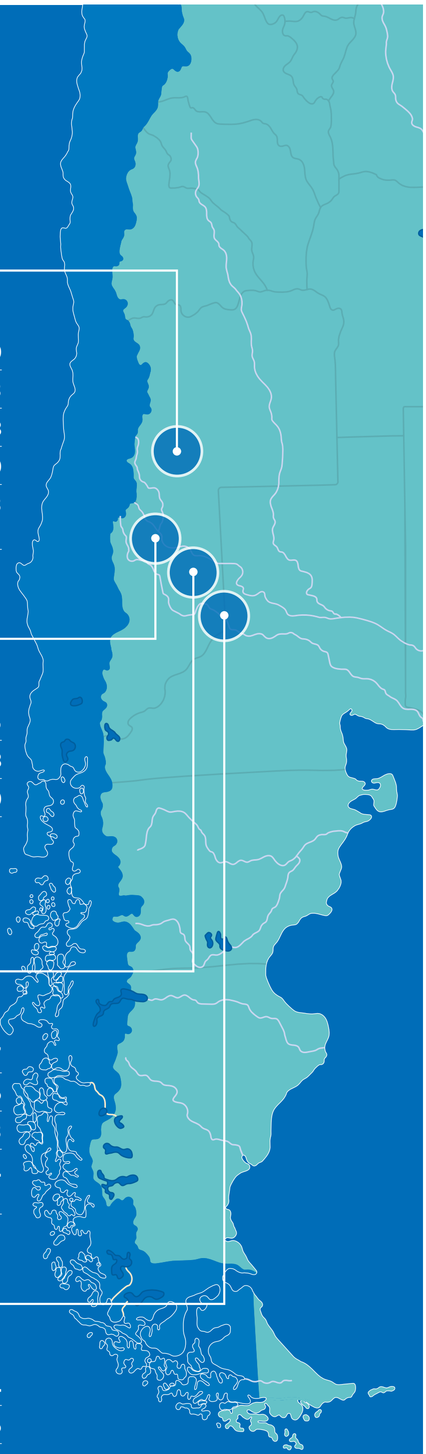
Definition
Personal and collective performance targets are set for employees and teams by line managers. These performance targets are often qualitative in nature and focused on individual and collective performance in relation to project delivery, system and process improvements and to operational and production performance.

Comment
Key aspects of personal performance targets in 2019 included the successful drilling of the second horizontal well at Mata Mora and the unconventional completion of both wells. At Puesto Rojas objectives were mainly related to the unconventional development plan targeting the folded Agrio.

Administrative targets in the year related to the enhancement of systems and processes, improvements and redesign of monthly management reporting and the establishment of professional procurement and HSE groups.

Operating review

Map of core assets



Puesto Rojas area

Gross km²	440
Phoenix WI acres	108,603
2P reserves (MBOE)	17,028
2C resources (MBOE)	35,600
Avg. daily production (BOE/D)	1,563

Corralera area

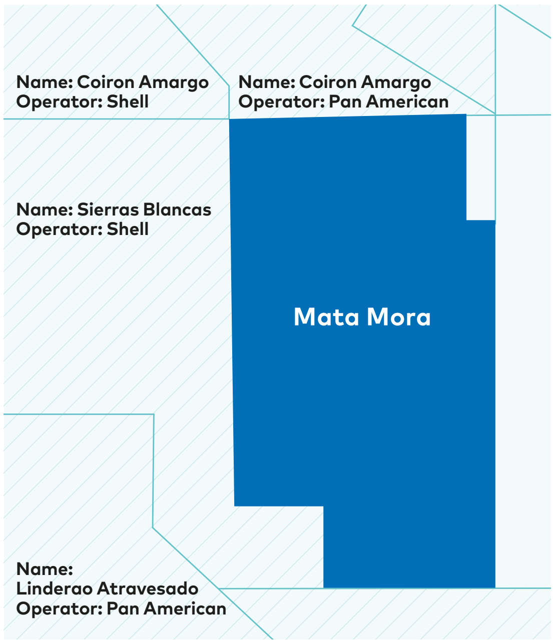
Gross km²	335
Phoenix WI acres	74,578
2C resources (MBOE)	128,250

Chachahuen area

Gross km²	717
Phoenix WI acres	35,416
2P reserves (MBOE)	5,773
Avg. daily production (BOE/D)	2,131

Mata Mora

Gross km²	224
Phoenix WI acres	49,916
2P reserves (MBOE)	225
2C resources (MBOE)	80,890



Mata Mora – operated, core

The drilling and completion of the first two unconventional horizontal Vaca Muerta wells at Mata Mora is a milestone for Phoenix and demonstrates value in the asset.

Initial unconventional horizontal wells targeting Vaca Muerta

The first horizontal well at Mata Mora, MM.x-1001, was spud in late 2018 and completed drilling operations in early January 2019. On conclusion of drilling, the well was cased and cemented with completion to be undertaken simultaneously with MM.x-1002, the second horizontal commitment well at Mata Mora. MM.x-1002 was spud from the same pad as MM.x-1001 in late January 2019 and drilling of the horizontal section concluded at the end of March 2019.

The vertical section of MM.x-1002 reached a total depth of 3,170 metres with the lateral section extending to a horizontal length of 2,058 metres. Like MM.x-1001, the well was successfully geo-steered with 95% of the lateral section maintained within a seven-metre window in the La Cocina horizon of the Vaca Muerta formation.

The wells were unconventionally completed in May 2019 in simultaneous zipper-frac operation where frac stages are applied in an alternate sequence along the length of the two wells. This technique was developed in the North American shale industry and is designed optimise the stimulated rock volume via stress-shadowing whilst minimising the risk of communication of the completion fluid (or 'frac hits') between fracs stages applied to adjacent wells in high intensity drilling operations. Frac hits can have a positive, negative or neutral impact but where negative they can manifest in a 'parent-child' relationship between wells with production losses observed in one well when production is increased on an adjacent well.

A total of 80 frac stages were successfully completed across the two Mata Mora wells with an average of four stages completed per day. The rate of deployment of frac stages is expected to increase with future wells. On conclusion of the frac operation, both wells were placed on flowback during which the frac fluids used in the wells are recovered and initial oil volumes are produced. Both the produced oil volumes and fluid recovery increased through the flowback period as the choke valves were conservatively opened on the wells.

Extended well testing providing valuable subsurface and production information

Whilst both Mata Mora wells saw production rates of up to 1,000 bopd in initial testing it was noted that when the choke aperture was progressively opened on one well thereby increasing its production, offsetting production losses were noted on the other. This production behaviour suggests a level of ongoing communication between the wells, separate from expected interference that would occur during completion operations.

In early Q3 2019, both wells were choked back and put on extended test. As part of that testing, a production logging tool was run along the length of each well that confirmed the frac stages applied to the wells are connected to the well-bore and that fluid is flowing in each stage across both wells. This indicates that, whilst there may be some communication between the wells, the individual frac stages themselves are all performing.

As of February 2020, the choke stages were being managed on each well and are being progressively opened in small increments in order to reduce wellhead pressure ahead of the potential installation of pumps on both wells, dependent on well performance in the interim.

"The completion of long-lateral wells and the first time booking of reserve volumes at Mata Mora is a significant step forward in the development of Phoenix as a bona fide unconventional oil and gas company."

The communication issues experienced on MM.x-1001 and MM.x-1002 have caused a re-evaluation of the optimal spacing for future unconventional lateral wells at Mata Mora. Where the initial two wells have spacing of 250 metres, future wells will be drilled with projected spacing of between 300 and 400 metres between adjacent laterals.

Optimising well spacing to maximise production potential and total ultimate oil recovery at the same time as minimising the risk of interference between wells is key to determining the most economic development plan for a field.

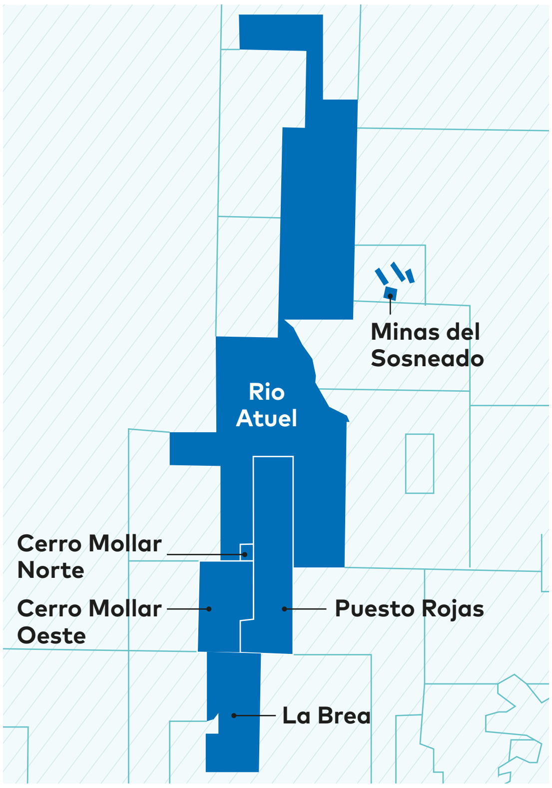
Confirming Mata Mora as a commercial prospect

As of 31 March 2020, total cumulative production from the two Mata Mora wells was more than 240,000 bbls of 37 API crude generating sales proceeds of US$8.7 million.

In early April, the Mata Mora wells were shut in under force majeure conditions. The significant reduction in demand for fuel because of COVID-19 had caused YPF to shut in several of its refineries and hence there was no route to market from the field. Production is expected to resume in 2020 when the impact of the pandemic on fuel demand eases and commercial markets return.

The work performed to date and the well results from the initial lateral wells at Mata Mora have confirmed that the block is a commercial prospect for development.

Operating review continued



Puesto Rojas area – operated, core

Production

Puesto Rojas, including the Cerro Mollar Oeste and Cerro Mollar Norte concessions, is an important area in terms of current production and future potential. The area consistently delivered approximately 1,500 boepd of production in 2019. Most existing production is derived from conventional well stock however the focus of development work going forward will be on the multiple unconventional opportunities present at Puesto Rojas.

The Puesto Rojas area is significant in terms of acreage and contains several formations and horizons with potential for unconventional development.

Award of licence

In April 2019, Mendoza province awarded the company the first unconventional concession ever issued by the province. The unconventional concession covers the Puesto Rojas block and has a primary term of 35 years and carries a lower royalty rate than the conventional concession.

The unconventional concession contains a requirement for a pilot development phase with certain works to be completed by June 2022. On conclusion of the pilot phase the company has the option to either move into unconventional development at Puesto Rojas or to revert the unconventional concession without specific penalty and to resume conventional development activity on the block under the conventional concession.

Completion of appraisal campaign

In Q1 2019, the final well of the 2018/2019 unconventional appraisal campaign, CDM-3012, was completed and put on artificial lift. Concurrently, the previously drilled CDM-3004 well was also completed and put on flowback. The 2018/19 unconventional appraisal campaign comprised a total of eight wells with a combination of full and limited tests of various horizons undertaken over the course of the campaign.

The appraisal campaign resulted in the identification of the shallow folded 'tight' Agrio formation as the primary near-term development target at Puesto Rojas given the formation can be accessed using comparatively lower cost unconventionally competed vertical wells meaning it could potentially provide robust production returns in the short to medium term.

Unconventional development campaign

Three new vertical Agrio development wells were drilled and completed as part of the initial 2019 development campaign. CDM-3011 was the first well in the campaign followed by CDM-3014 and then CDM-3025 from the same pad as CDM-3011. In addition to the newly drilled wells, the CDM-3012 and CDM-3007 wells that were drilled as part of the appraisal campaign were recompleted as development wells in the folded Agrio.

The results of the development campaign have been mixed with only CDM-3007 and CDM-3012 currently producing at economic rates, though below pre-drill estimates. The CDM-3011, CDM-3014 and CDM-3025 wells, although producing, have been determined as uncommercial in the folded Agrio.

Unconventional development at Puesto Rojas

Horizontal development of the Vaca Muerta and non-folded Agrio formations remain the primary medium-term objective at Puesto Rojas. Prior to its completion in the folded Agrio, several swab tests were performed on CDM-3007 to determine the production contributions of each of the Vaca Muerta layers penetrated by the well. In addition, a further workover was performed on CDM-3023 where the Vaca Muerta layers were isolated and each layer tested for flow rates.

The results of this work in the Vaca Muerta formation will be used to plan future horizontal wells in the formation at Puesto Rojas.

Other Puesto Rojas area drilling activity

Two commitment wells, LP.a-09 and LP-07 were drilled in the year and are awaiting completion. The wells satisfy the licence commitment for the field though the completion and testing of the wells will likely be delayed following the recent fall in the Brent benchmark price.

An additional commitment well, ML.x-1001 was drilled on the Mallin Largo field contained within the sizeable Rio Atuel licence. The well was not successful in its target objective but provided information to help interpret the nature of the folded Agrio at Mallin Largo continuing into Puesto Rojas.

Gas to power project – removing production constraints

In August 2019 the company commissioned the construction of a gas to power plant at Puesto Rojas. Associated gas is produced as a by-product of oil production at Puesto Rojas and whilst modest amounts of gas in early production can be flared, this is not a solution in a larger scale long-term development project.

As a responsible operator, the company has commissioned a modular gas to power plant at Puesto Rojas to convert associated gas to electricity that can be sold into the electricity grid.

The conversion of gas to power using lean burn technology results in reduced emissions of greenhouse gases and provides a relatively clean source of power for domestic, commercial or industrial use and mitigates constraints on oil production where associated gas is present.

Puesto Rojas production

c.1,500 boepd

Puesto Rojas primary term

35 years

expires

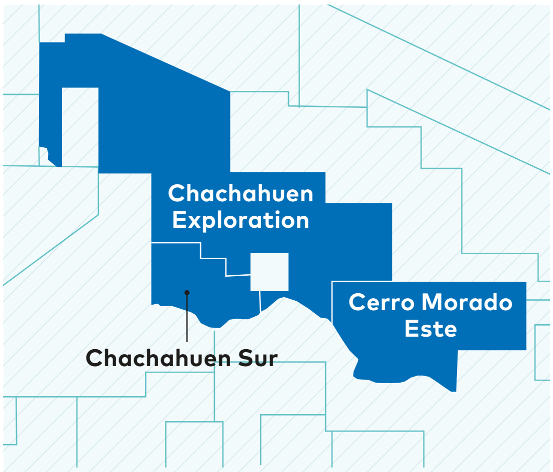
2052

	At 31 December 2018				Production 2019				Revision to estimate				At 31 December 2019			
PHOENIX OPERATED	Oil Mbbl	Gas MMcf	Gas Mboe	Total Mboe	Oil Mbbl	Gas MMcf	Gas Mboe	Total Mboe	Oil Mbbl	Gas MMcf	Gas Mboe	Total Mboe	Oil Mbbl	Gas MMcf	Gas Mboe	Total Mboe
Puesto Rojas area																
Operated Core 1P	14,596	8,732	1,455	16,051	(470)	(601)	(100)	(570)	(6,356)	(2,170)	(362)	(6,717)	7,770	5,961	994	8,764
Operated Core 2P	23,708	18,084	3,014	26,722	(470)	(601)	(100)	(570)	(8,404)	(4,321)	(720)	(9,124)	14,834	13,162	2,194	17,028
Operated Core 3P	31,398	23,108	3,851	35,249	(470)	(601)	(100)	(570)	(9,428)	(3,235)	(539)	(9,967)	21,500	19,272	3,212	24,712
Mata Mora																
Operated Core 1P	–	–	–	–	(151)	–	–	(151)	376	–	–	376	225	–	–	225
Operated Core 2P	–	–	–	–	(151)	–	–	(151)	376	–	–	376	225	–	–	225
Operated Core 3P	–	–	–	–	(151)	–	–	(151)	376	–	–	376	225	–	–	225
Total operated – prospective																
Operated Prospective 1P	90	–	–	90	–	–	–	–	(40)	–	–	(40)	50	–	–	50
Operated Prospective 2P	289	–	–	289	–	–	–	–	122	–	–	122	411	–	–	411
Operated Prospective 3P	289	–	–	289	–	–	–	–	376	–	–	376	665	–	–	665
Total operated – other*																
Operated Other 1P	4,121	–	–	4,121	(444)	–	–	(444)	(584)	–	–	(584)	3,094	–	–	3,094
Operated Other 2P	4,670	–	–	4,670	(444)	–	–	(444)	153	–	–	(153)	4,074	–	–	4,074
Operated Other 3P	4,800	–	–	4,800	(444)	–	–	(444)	38	–	–	38	4,395	–	–	4,395
PARTNER OPERATED																
Total Chachahuen area																
Non-op Core 1P	5,269	–	–	5,269	(728)	–	–	(728)	(608)	–	–	(608)	3,933	–	–	3,933
Non-op Core 2P	6,778	–	–	6,778	(728)	–	–	(728)	(277)	–	–	(277)	5,773	–	–	5,773
Non-op Core 3P	8,651	–	–	8,651	(728)	–	–	(728)	2,198	–	–	2,198	10,121	–	–	10,121
Total partner-operated – other**																
Non-op Other 1P	4,358	25,903	4,317	8,675	(635)	(5,059)	(843)	(1,478)	(2,608)	(16,772)	(2,795)	(5,404)	1,115	4,072	679	1,794
Non-op Other 2P	6,402	73,321	12,220	18,622	(635)	(5,059)	(843)	(1,478)	(4,194)	(64,045)	(10,674)	(14,868)	1,573	4,217	703	2,276
Non-op Other 3P	6,577	75,464	12,577	19,154	(635)	(5,059)	(843)	(1,478)	(3,921)	(64,826)	(10,804)	(14,726)	2,021	5,579	930	2,951
TOTAL RESERVES																
1P	28,434	34,635	5,773	34,207	(2,428)	(5,660)	(943)	(3,371)	(9,819)	(18,942)	(3,157)	(12,976)	16,187	10,033	1,672	17,859
2P	41,847	91,405	15,234	57,081	(2,428)	(5,660)	(943)	(3,371)	(12,529)	(68,366)	(11,394)	(23,924)	26,890	17,379	2,897	29,787
3P	51,715	98,572	16,429	68,144	(2,428)	(5,660)	(943)	(3,371)	(10,360)	(68,061)	(11,344)	(24,704)	38,927	24,851	4,142	43,069

* Atamisqui, Tupungato, Cerro Alquitran and La Paloma
** Cajon de Los Caballos, Santa Cruz Sur, RCLV and Chañares Herrados

Totals may not add due to rounding.

Operating review continued



Chachahuen Sur and Cerro Morado Este – non-operated, core

Enhanced recovery, Chachahuen Sur

The focus of activity at the relatively mature Chachahuen Sur concession remains on the ongoing waterflood and tertiary pilot recovery programmes aimed at arresting or slowing natural production decline at the field. Improved and upgraded water handling systems were commissioned during 2019 to both improve the quality of injected water and the rate at which water can be injected into the oil-bearing formations.

In addition to the waterflood project at Chachahuen Sur, a tertiary recovery project using polymer-injection has been proposed by the operator, YPF. The proposal is based on production results to date and the properties of the oil being produced at Chachahuen together with the nature of the reservoir itself and production behaviour observed on neighbouring fields. The objective of polymer injection is to arrest production decline and, potentially, increase absolute production.

The use of polymer injection typically enhances waterflood performance by increasing the viscosity of injected water and thereby increasing the sweep efficiency through the reservoir. This results in a greater volume of oil being pushed toward the producing wells and increasing production.

The proposed tertiary injection project would initially involve polymer injection in six wells with the potential to expand the project if results from the pilot are positive.

Appraisal drilling, Cerro Morado Este

YPF's focus in the Chachahuen area has been related to ongoing delineation drilling at Cerro Morado Este. A total of 23 delineation wells were drilled in the year with encouraging results for large-scale development of the asset.

Cerro Morado Este concession covers

45,467 acres

An additional

25,699 acres

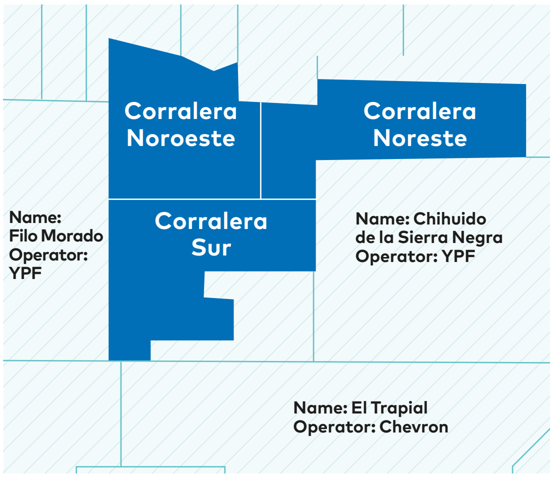
has been requested

The evaluation work undertaken on the reservoir at Cerro Morado Este to date has shown that the block has high potential for enhanced production through waterflood. This determination is supported by analysis of waterflood performance of neighbouring analogue fields, including at Chachahuen Sur.

A proposal for an initial waterflood pilot using three injection wells has been made by YPF. In addition to the continued drilling of development wells, should the results of the initial pilot be positive, it is expected that the operator will continue with the expansion of waterflood across the concession.

Potential for additional acreage

The Cerro Morado Este concession currently covers an area of 45,467 acres. Based on 3D seismic studies on neighbouring areas, an extension to the concession of an additional 25,699 acres has been requested to the province.



Corralera – operated, core

The Corralera licence carries an initial commitment for two horizontal wells to be drilled before April 2021. Corralera is situated in the gas and condensate window for Vaca Muerta in Neuquén province. As with at Mata Mora, the province owned oil company, Gas y Petróleo de Neuquén, is a 10% partner in the project.

Work undertaken in 2019 related to drilling has been focused on determining well design and identifying the best landing zone for the well. Work has also been ongoing related to the design of the completions to be deployed in the wells together with the method of doing so.

Groundworks to prepare the drill site are largely complete.

Santa Cruz Sur – non-operated, non-core

The sale of Santa Cruz Sur reflects the company's focus on its core assets and contributed modest proceeds for reinvestment in core activity.

On 13 November 2019, the company announced the completion of the sale to Echo Energy plc of its 70% non-operated interest in five mature conventional production blocks comprising the Santa Cruz Sur assets.

The Santa Cruz Sur assets are in the Austral basin in south Argentina and their sale is in line with the company's strategy to refocus Phoenix's portfolio to focus the company's resources on the development of its significant unconventional oil and gas portfolio in its primary areas of operation in Mendoza and Neuquén provinces.

Average daily production to the date of sale was approximately 2,500 boepd of which approximately 1,950 boepd or 75% was derived from comparatively lower-value gas production.

Rio Cullen, Las Violetas – non-operated, non-core

The Rio Cullen/Las Violetas ('RCLV') group of assets are in Tierra del Fuego in the southernmost part of Argentina with all production derived from conventional formations.

In February 2017, the SM.x-1001 well was drilled as an initial exploration well in the Tobifera formation in the San Martin field and was reported as Argentina's most productive oil well in 2019. In Q4 2019, the well produced at an average of rate of 2,025 bpd. In January 2020, however, the level of water cut in the well increased rapidly to more than 50% of total production and the well was shut in. In March 2020, production tests were undertaken in the middle and upper Tobifera as part of the further evaluation of the well with water volumes recorded in each section, both of which were subsequently abandoned. The SM.x-1002 well continues to produce strongly from the Tobifera formation. A third well in the formation, SM.x-1003, produces at lower rates with a frac job undertaken in early 2019 being unsuccessful in increasing production.

The test in the upper Tobifera section in the 1,871 to 1,876-metre interval showed an average production rate of 1,576 bpd over seven days with lower water cut. The well was subsequently shut in due to a COVID-19 outbreak at the Chilean ENAP terminal which is the export delivery point that production from RCLV is currently trucked to for sale.

The main evacuation route for crude from RCLV is normally by sea using tankers to offtake production. This option is currently not available because the loading buoy is shut down for maintenance and repair work. Production and sales from the San Martin field is expected to resume in October when the repair, maintenance work and tests on the buoy are due to conclude.

The company has commenced marketing of the non-core RCLV assets which are now classified as held for sale.

Malargüe – non-operated, non-core

In May 2019, the Province of Mendoza ratified its decision to deny the second exploration permit for the Malargüe area, in which the company participates on a non-operated basis and where the operator is YPF. During the first exploration period one well was drilled on the block and was deemed a dry hole. The block, though large in terms of overall acreage, was judged to have prospects for unconventional resources in only a relatively small area of the overall licence.

Chief financial officer's report

Financial overview	2019 US$'000	2018 US$'000
Revenue	**129.4**	177.0
Gross profit	**(15.4)**	21.3
Operating loss	**(110.2)**	(34.9)
EBITDAX	**(39.9)**	39.2
Adjusted EBITDAX	**16.9**	39.2
Loss for the year	**(113.8)**	(78.3)
Net assets	**222.7**	336.2
Investment in fixed assets	**96.5**	139.1
Net cash from operations	**(16.4)**	20.2

Revenue and gross margin

Revenue for the period was US$129.4 million (2018: US$177.0 million), comprising revenue from oil sales of US$114.7 million (2018: US$154.5 million) and revenue from gas sales of US$14.8 million (2018: US$22.5 million).

The reduction in oil revenue between periods resulted from a combination of a reduction in the realised price per barrel and lower sales volumes period-on-period.

The average realised oil sales price in 2019 was US$47.96/bbl, a 19% decline on the average price of US$59.26/bbl in 2018. Realised prices achieved by the company are indirectly linked to Brent. The average Brent crude price fell period-on-period by 10%, from an average of US$71/bbl in 2018 to an average of US$64/bbl in 2019, driving the reduction in the Argentine realised prices.

The larger reduction (than Brent) in the realised price has resulted from intervention by the Argentine government in the oil market across the period. The export retention tax, which was implemented in September 2018, has resulted in a discount being applied to domestic crude prices based on export parity, and has equated to an approximate downward impact of 10% on prices in 2019.

During the second half of the year the government issued decrees fixing both the Brent reference price for sales and the US Dollar ('Dollar') to Argentine Peso ('Peso') exchange rate. This new legislation was introduced after both the Merval index and Dollar to Peso exchange rate fell dramatically following the result of the Argentine presidential primary elections announcement in August 2019. The legislation fixed the crude oil and gasoline prices for 90 days at a Brent reference price of US$59/bbl and set a Dollar to Peso exchange rate of 45.19, rising to 46.69 then 51.2 in three dated stages. The final Dollar to Peso exchange rate set of 51.2 is around 14% lower than the year-end exchange rate of 59.9.

Total revenue
US$129.4 million

Oil sales
US$114.7 million

Gas sales
US$14.8 million

All domestic oil sales contracts, whilst Dollar based, are settled in Peso, therefore this legislation has had a direct impact on the company's realised revenues, although the decline in revenue has been partially offset by lower Peso denominated costs.

Average daily oil sales in the period were 6,550 bopd compared to 7,060 bopd in 2018. The majority of the reduction has resulted from natural decline not offset by production from new wells at Puesto Rojas and Chachahuen. At Puesto Rojas the company's focus in the period was the completion of the folded Agrio unconventional development campaign, which saw four new wells completed and four new wells drilled and completed during 2019. The campaign did not yield the pre-drill production estimates and a number of the wells were shut in pending further evaluation at period end.

The reduction in oil sales at Puesto Rojas has been somewhat offset by Mata Mora coming online in Q3 2019, contributing an additional 140,000 bbls of operated sales volume by period end.

Gas revenues arise mostly in the non-operated segment and declined by US$7.7 million in the year compared to 2018. The reduction was driven by a 19% decline in the realised price from an average of US$4.10/MMcf in 2018 to an average of US$3.32/MMcf in 2019 and was further compounded by the sale of Santa Cruz Sur ('SCS') in November. The higher price observed in the prior period resulted from a cold spike in the weather during Q2 2018 which increased demand. In the second half of 2018 the gas market started to become oversupplied, predominately caused by the continued development of the Vaca Muerta bringing new supply streams onto the market. This change in economics has reduced the seasonal variations in the gas curve, and consequently the higher prices previously obtained during the winter months have not been realised in 2019.

Operating costs

Operating costs increased period-on-period at US$18.69/boe in 2019 compared to US$17.66/boe in 2018. The increase was driven by Puesto Rojas, where conventional wells experienced natural decline and new unconventional wells on the whole did not perform to pre-drill estimates. The fall in sales and production also meant that the fixed element of production cost was spread over lower volumes, resulting in higher operating costs on a per barrel basis. The operating cost achieved at Mata Mora in early production was US$22.77/boe, also contributing to the cost increase due to the $/boe realised being higher than both the 2018 and 2019 average. As the Mata Mora block is further developed it is expected that the $/boe operating cost will reduce.

Other operating costs

Other operating costs before impairment and one-off charges were US$38.0 million compared to US$55.1 million in 2018. The reduction in cost was primarily due to the hedging losses realised in 2018 of US$7.6 million (2019: US$nil) and a one-off share-based payment expense of US$5.5 million (2019: US$nil).

A non-recurring loss of US$56.8 million was realised in 2019 comprising US$29.0 million loss on sale of non-current assets, US$20.2 million loss on termination of licences and a US$7.6 million impairment charge.

The loss on sale of non-current assets resulted from the sale of SCS to Echo Energy plc in November 2019. SCS formed part of the group's non-operated asset portfolio and the sale was in furtherance of the group's strategy to divest of non-core conventional operations. Total consideration received for the sale was US$8.5 million split between cash proceeds of US$7.0 million and equity of US$1.5 million.

The loss on termination of licences was driven by the termination of the Chañares Herrados exploitation concession. In May 2019, the Province of Mendoza issued a decree terminating the concession, which was held by the company's joint venture partner, Chañares Energía S.A., due to its failure to fulfil work commitments. The company has no intention of participating in the re-tender process for the licence and will cease to hold any rights in the block once a new concessionaire is appointed. The carrying value of the Chañares Herrados asset was consequently written off and a corresponding US$15.8 million non-cash loss was recognised. It is noted that a new concessionaire was not identified in 2019, therefore the company continued to participate in the concession during the year with the 12-month results from Chañares Herrados included within gross margin for the period. On 9 April 2020, the company gave a notice of termination of the joint venture agreement to Chañares Energía S.A., which took immediate effect.

An additional US$2.4 million non-cash loss was recorded in respect of the Vega Grande concession in the operated segment. This area is not part of the company's core operations and is currently not producing. Management therefore made the decision not to request the extension of the licence. A US$2.0 million non-cash loss was also recorded in respect of the Malargüe concession in the non-operated segment, where the application for the second exploration permit made by the operator, YPF, was denied by the Province of Mendoza.

"Total consideration received for the sale of Santa Cruz Sur was US$8.5 million spilt between cash proceeds of US$7.0 million and equity of US$1.5 million."

2019 US$'000	Operated	Non-operated	Corporate	Total
Oil revenue	49,341	65,311	–	129,417
Gas revenue	14	14,751	–	14,765
Gross revenue	**49,355**	**80,062**	–	**129,417**
Operated loss	**(32,571)**	**(50,146)**	**(27,434)**	**(110,151)**
Add: DD&A	32,470	31,954	1,633	66,057
Add: exploration costs written off	3,665	575	–	4,240
EBITDAX	**3,564**	**(17,617)**	**(25,801)**	**(39,854)**
Non-recurring expenses	–	56,724	–	56,724
Adjusted EBITDAX	3,564	39,107	(25,801)	16,870

2018 US$'000	Operated	Non-operated	Corporate	Total
Oil revenue	64,785	89,690	–	154,475
Gas revenue	21	22,476	–	22,497
Gross revenue	**64,806**	**112,166**	–	**176,972**
Operated loss	**1,362**	**3,690**	**(39,964)**	**(34,912)**
Add: DD&A	24,445	39,547	734	64,726
Add: exploration costs written off	5,607	3,752	–	9,359
Adjusted EBITDAX and EBITDAX	**31,414**	**46,989**	**(39,230)**	**39,173**

Other operating costs	2019 US$'000	2018 US$'000
Exploration expenses	**4,240**	9,359
Selling and distribution expenses	**5,230**	5,758
Administrative expenses	**27,144**	24,561
Other operating expenses	**1,417**	15,443
Non-recurring expenses	**56,724**	–
	94,755	55,121

Chief financial officer's report continued

Finance income and costs

Net finance costs were lower in 2019 at US$24.7 million compared to US$26.6 million in 2018. The decline in cost was driven by a US$6.2 million reduction in the net FX loss realised in the period, offset by a US$5.3 million increase in interest on borrowings. Interest charges rose due to the increase in the loan balance in the year. The FX losses primarily arise on Peso denominated balances held by the company. Significant devaluation of the Peso has been experienced across both 2018 and 2019. The Peso devalued by 97% across 2018 compared to 59% across 2019, leading to lower FX losses recognised in the current period.

Taxation

A US$21.0 million taxation credit was recognised in 2019, compared to a US$16.8 million taxation charge in 2018. The main driver of the taxation credit in the current period is the deferred tax benefit from loss before tax, principally the non-recurring losses recorded in 2019.

Balance sheet

At 31 December 2019, the group had net assets of US$222.7 million, a decrease of US$113.5 million compared to 31 December 2018.

Property, plant and equipment ('PP&E') is US$42.0 million lower in 2019 compared to 2018. This decline has resulted from the disposal of SCS (US$37.1 million), the termination of the Chañares Herrados licence (US$15.8 million), impairment charges of US$2.5 million, the write-off of US$3.6 million exploration expenses and depreciation, depletion and amortisation ('DD&A') of US$66.1 million, offset by US$100.7 million of additions. Additions to PP&E predominately related to the unconventional drilling campaign at Puesto Rojas, drilling investment in the Chachahuen area and the acquisition of an additional 4.4% share in the Rio Cullen and Las Violetas concessions.

A US$43.3 million transfer from intangible assets was made to PP&E related to the costs of the MMx-1001 and MMx-1002 development wells at Mata Mora following their completion in the period and the subsequent determination of commercial reserves.

Assets of US$17.6 million were also reclassified as 'held for sale'. The reclassification relates to certain non-core and non-operated assets where board approval for sale has been obtained and the company is engaged in an active programme for sale of the assets within the next 12 months.

Additions to PP&E

US$100.7 million

Additions to intangible assets

US$39.1 million

Intangible assets decreased by US$14.5 million in the period predominately as a result of the US$43.3 million transfer made to PP&E at Mata Mora, a US$5.1 million impairment charge and a US$4.3 million write-off in relation to the licence relinquishments at Vega Grande and Malargüe, offset by US$39.1 million of additions. Additions to intangibles in the period predominately related to the conclusion of drilling and completion of the MMx-1001 well and the drilling and completion of the MMx-1002 well at Mata Mora.

Working capital

Current assets comprise inventories, trade and other receivables and cash. Inventories increased by US$0.9 million to US$18.2 million at 31 December 2019, with trade receivables increasing by US$3.8 million to US$39.3 million at 31 December 2019. Trade and other receivables primarily consist of receivables from the sale of oil and gas whose value fluctuates related to the timing of the 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 declined by US$9.9 million to US$44.8 million at 31 December 2019. At 31 December 2018, the company was part way through the FY18 unconventional completions campaign at Puesto Rojas which concluded during H1 2019 and resulted in higher payables over the 2018 year-end. No substantial drilling or completion works were ongoing at 31 December 2019.

Financing and liquidity

At 31 December 2019, the group had cash on hand of US$11.0 million (31 December 2018: US$21.1 million). Total borrowings in the period increased by US$103.3 million from US$200.3 million at 31 December 2018 to US$303.6 million at 31 December 2019. The increase mostly resulted from the drawdown of an additional US$96.0 million of funds from the revolving convertible credit facility in place with Mercuria and the capitalisation of US$15.5 million of accrued interest. Borrowings held in Argentina of US$8.0 million were repaid during the year.

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 2019, a total facility of US$285.0 million was available to the company, with a total of US$278.0 million drawn down under the facility.

Funding status and going concern

The company has currently shut-in production of crude oil from its operated licences due to a significant reduction in demand. The company has developed and is progressively implementing a plan that involves a significant reduction in both operating and administrative costs. The cost reduction actions being taken mean the company will be in a significantly better position to produce oil economically at lower oil prices and with a positive contribution to cash flow when production recommences. The company will then focus on the continued development of its unconventional assets.

Our major shareholder, Mercuria, is supportive of the cost reduction plan and has extended short-term debt facilities to facilitate its implementation and execution. Mercuria has written to the company stating its intention to continue to provide financial support to the company of up to $37 million in order that the company may continue to operate and service the company's liabilities as they fall due in the next 12 months whilst the company assesses the timing of work plans and capital commitments. Mercuria has agreed to meet the company's cash needs for this period and not demand repayment of the existing loan within the next 12 months whilst in discussion with the company to restructure the existing loan agreement. This letter, which by its nature is not legally binding, represents a letter of comfort stating Mercuria's current intention to continue to provide support.

The directors believe they will be able to agree the restructure of the existing debt with Mercuria and formalise an agreement for new funding and that the group and company can continue as a going concern for the foreseeable future. The application of the going concern basis of preparation of the financial statements included in this annual report is based on the letter that has been received from Mercuria and the ongoing discussions with the Mercuria principals and accordingly, the directors continue to adopt the going concern basis for accounting in preparing the 2019 financial statements. However, the directors recognise that if financial support over the next 12 months from Mercuria were not to be available and the company is unable to restructure the existing loan agreement from Mercuria or obtain funding from alternative sources, this gives rise to a material uncertainty that may cast significant doubt on the group's and company's ability to continue as a going concern.

Dividend

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

Net working capital

US$24.3 million

Total borrowings

US$303.6 million

Outlook and COVID-19

The emergence of COVID-19 as a global pandemic has had a significant impact on the operations of the company. This has primarily resulted from the significant reduction in the demand for oil, which has seen crude oil prices drop to historic price lows. Within Argentina, the over-supply of crude in the market has resulted in YPF, the state-controlled Argentine energy company, notifying its customers that it will be suspending the purchase of oil until further notice. This has caused the refineries to which the company sells its oil to stop accepting deliveries and as a result, management has made the decision to shut-in the majority of operations until the impact the pandemic is having on the economy is reduced and current global restrictions begin to be lifted.

To manage this evolving situation in the short term, the company has substantially reduced its capital expenditure programmes for 2020. The company has also assessed its cost base in detail, targeting a significant reduction in operating and general and administrative costs to be implemented through the remainder of 2020. It is also holding discussions with Mercuria to renegotiate the terms of the convertible revolving credit facility.

While the short-term impacts on the company will be significant, we believe that when the COVID-19 infection rate slows and the pandemic is brought under control, the global economy will start to ramp up again and the supply glut in the oil markets will be reversed.

We are confident that with the cost measures we are currently putting in place, Phoenix will be positioned to continue to operate and develop our licences in the Vaca Muerta in the medium and long term.

Kevin Dennehy
Chief financial officer
26 June 2020

Risk management

The effective management of risk and opportunity plays a key role in the delivery of the group's strategy.

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.

A focus on risk management at the board level

The composition of the board has evolved in recent years as the company has increased its focus on unconventional activity in its licence areas.

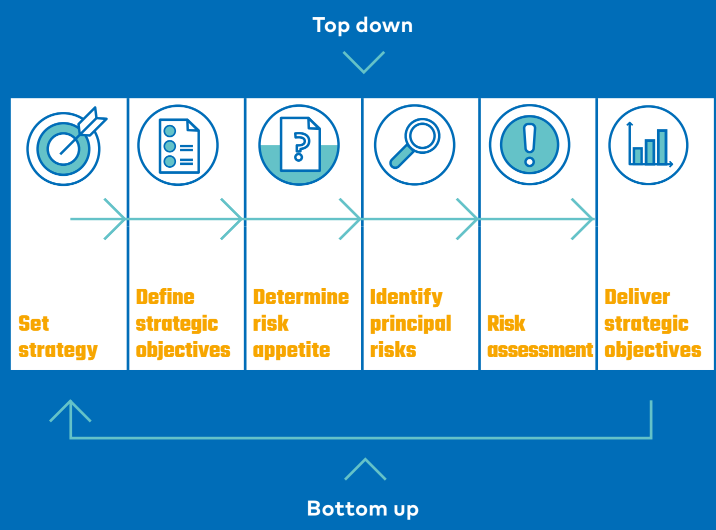
Tim Harrington joined the board in November 2018 bringing significant experience of unconventional oil and gas operations in the United States and providing support and challenge to the executive management team. Following the departure of the former CEO, Tim has assumed the role of chairman of the executive management committee, which involves him working directly with the management team on matters of strategy, leadership and the development of robust management systems and processes. Martin Bachmann joined the board as a non-executive director in September 2019. Martin brings additional international experience and, importantly, recent experience of having worked in Argentina from his time at Wintershall AG where he was responsible for both conventional and unconventional operations in-country.

Whilst 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 innovation in the US independent E&P sector that has focused on technology to reduce operating costs. The sector is being further transformed as big oil continues to move into the unconventional oil and gas, particularly in prospective basins such as the Neuquina basin in Argentina.

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 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 management reports provided to management and to the board contain an assessment of these performance measures. A number of business performance measures have been established as key performance indicators for the group.

Group risk management framework



Principal risks and uncertainties

The principal risks facing the group 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 their potential impact. Identified risks are segregated between those that we can influence and those which are 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. Reserves and resources
4. Portfolio concentration
5. Financing
6. Bribery and corruption

Risks outside our control

7. Commodity prices
8. Demand/limited sales routes
9. Impact of C19 virus
10. Fiscal and political

Risks no longer considered principal

11. Joint venture partners
12. Competition

Change in risk profile

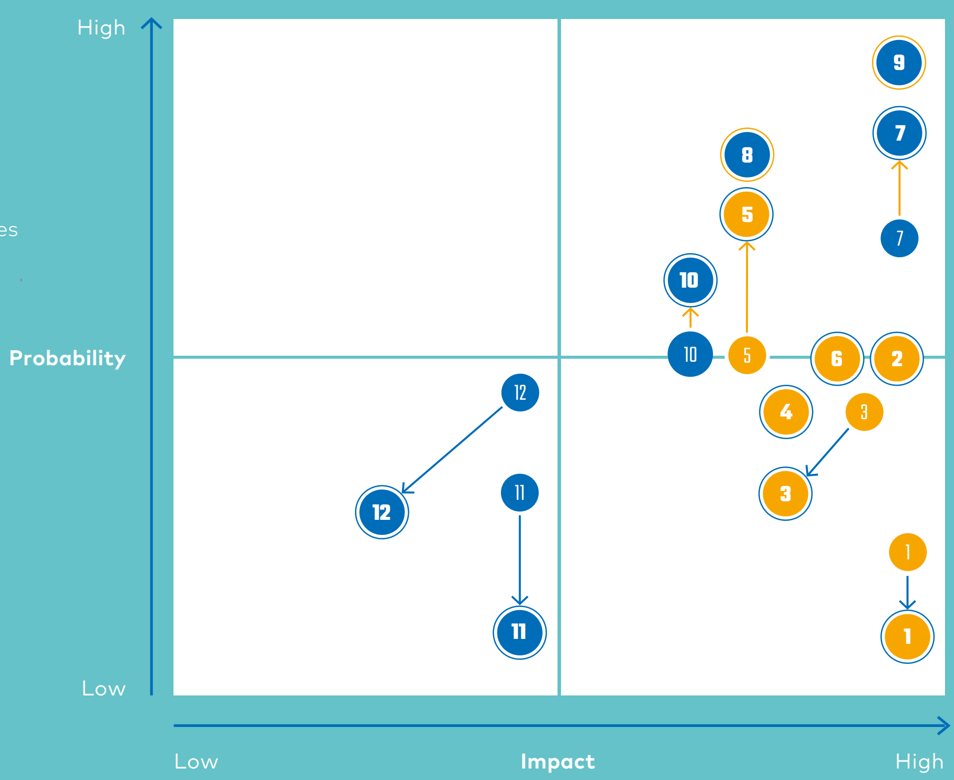
0 2018 risk assessment

New/emerging risk

Risk evolution in 2019

Improving year-on-year

Worsening year-on-year



Principal risks and uncertainties

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 ↔ **Probability** 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 work in.

The group has a very low appetite for risks associated with HSE and strives to achieve a zero-incident rate.

Link to strategy

Mitigation

The group maintains a programme of HSE, asset integrity, upgrade and maintenance activity. This activity is supported by a core group of specialist contractors and has hired a dedicated HSE Manager.

The risk of physical injury or fatalities increases as physical operations such as drilling and completion activity increases. In 2019 we finished drilling operations at Mata Mora, completed both wells in a complex simultaneous fracturing operation and placed the wells on production. We also undertook a multi-well drilling and completions campaign at Puesto Rojas.

There was no deterioration in our HSE metrics despite and increase in activity, with an integrated Phoenix group HSE policy delivering top quartile performance in 2019.

Relevant KPI by priority/significance

1

2 Exploration, development and production

The ultimate success of the group is based on its ability to develop its assets, create value 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 ↔ **Probability** Medium ↔

Risk appetite

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 appraisal and into initial development.

The group has some tolerance for this risk and acknowledges the need to have effective controls in place in this area.

Link to strategy

Mitigation

Technology and operational experience are fundamental in developing unconventional resources.

We completed the initial two horizontal wells at Mata Mora in the first half of the year. Since completion, we have undertaken extended well tests on both laterals including examining the performance of individual frac stages. This information will be used to design the wells that will be needed in the pilot development phase and, later, in full development.

We consult and share information with other operators in the industry in order that, as a group, we benefit from experience of others to broaden our collective operational knowledge.

We include specialist expert consultants in the design and evaluation of our drilling and completions work.

Relevant KPI by priority/significance

2 4 6

Key to risk change

↔ No change

↓ Reduced risk

↑ Increased risk

Key to our strategic priorities

Control and consolidate

Profitable production

Explore and develop

Realise value

Strategic report
Governance
Financial statements
Other information

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 Medium ↓ **Probability** Medium ↓

Risk appetite
The growth in absolute reserve volumes and the progression of resources through the different categories is one element of the group's success. This is dependent on the commercial viability of resources and the commitment of capital resources in the future.

The group has some tolerance of risk in relation to the key activities required to deliver reserve growth.

Link to strategy

Mitigation
The group has a strong focus on subsurface analysis. We employ industry technical specialists and qualified reservoir engineers who work closely with our operational teams responsible for delivering asset performance.

Reserve and resource volumes are assessed on an annual basis using the Petroleum Reservoir Management System developed by the Society of Petroleum Engineers.

An external assessment of reserve volumes is undertaken by an independent and internationally recognised reservoir engineering firm.

Relevant KPI by priority/significance

2 3 6

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 that represent the main long-term growth opportunities for the company.

Potential impact High ↔ **Probability** Medium ↔

Risk appetite
The group's business model is based on exploiting its early entrant position in the Argentina unconventional sector derived from existing conventional areas where the substantial unconventional opportunities are also present. Additional pure-play unconventional licences have been selectively acquired.

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

We accept this risk as our strategy is Argentina focused. We diversify by holding multiple licences, targeting varied geological formations and in terms of the commodity production objective.

Link to strategy

Mitigation
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 small number of provinces. The group's unconventional assets are principally in the Mendoza and Neuquén provinces.

The Argentine economy continued to be volatile in 2019 with inflation at more than 50% and significant devaluation of the Peso in the year.

Some of the currency and inflation risk is mitigated by the group sourcing funding internationally in US Dollars and by key aspects of the industry being largely Dollar based.

Relevant KPI by priority/significance

6

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

Principal risks and uncertainties continued

5 Financing

The inability to fund financial commitments, including licence obligations, could significantly delay the development of the group's assets and consequent value creation. 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 licences.

Potential impact High ↑ **Probability** High ↑

Risk appetite

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 has benefited from the support of its major shareholder in doing so.

The group continues to evaluate both debt and equity financing options.

Link to strategy

Profitable production, Explore and develop, Realise value

Mitigation

The credit facility extended to the company by Mercuria was progressively increased during 2019 and stood at US$285.0 million at year-end.

As the group moves toward the development of its core unconventional assets, the capital requirements of the group will increase substantially. The group may not be able to secure suitable funding either through existing arrangements, additional debt instruments, the farm-out of assets or through the issuance of equity.

Relevant KPI by priority/significance

2 3 4 5

6 Bribery and corruption

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

Potential impact Medium ↔ **Probability** Medium ↔

Risk appetite

The oil and gas industry, in common with other extractive industries, has a higher than average perception of risk related to bribery and corruption. Argentina has historically been perceived as having a medium to high risk of bribery and corruption with high-profile cases or allegations regularly appearing in the media.

We have zero tolerance of bribery and corruption.

Link to strategy

Profitable production, Explore and develop, Realise value

Mitigation

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.

The group, its board and management have a zero-tolerance policy towards bribery and corruption.

Relevant KPI by priority/significance

n/a

Key to risk change

↔ No change

↓ Reduced risk

↑ Increased risk

Key to our strategic priorities

Control and consolidate

Profitable production

Explore and develop

Realise value

7 Realised commodity prices

A material decline in oil and gas prices adversely affects the group's profitability, cash flow, financial position, and ability to invest.

Potential impact High ↔ **Probability** High ↑

Risk appetite

Considerable exposure to commodity price risk is inherent in the business and is accepted by the company.

Link to strategy

Mitigation

Argentina moved away from regulated pricing and toward 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 differential.

Theoretically this links the Argentine domestic price to Brent; however, prices in Argentina are fixed monthly on a 29-day average based on prior-month and in-month Brent prices. This results in an imperfect relationship to Brent that makes designing cost effective hedging strategies difficult.

Relevant KPI by priority/significance

4 5

8 Fluctuating demand and limited sales routes for some production.

NEW emerging risk

Demand can be negatively affected by economic conditions in Argentina and globally. Some assets have a single sales route and effectively a single customer.

Potential impact High **Probability** High

Risk appetite

The Argentine economy has been historically volatile and subject to periods of rapid and sustained inflation that can affect demand for oil and oil products.

For certain assets, the primary or only sales route is through a single refinery and single customer. In addition, the government has historically intervened in the market both in terms of capping domestic prices to delay the impact of rising Brent crude benchmarks on refined products. The government has also previously provided price support in times of low crude prices.

The company accepts this risk as fluctuations in demand resulting from economic uncertainty are a feature of the industry.

Link to strategy

Mitigation

2019 saw continued devaluation of the Peso and rising inflation. Both measures were impacted negatively and in a pronounced fashion following the August presidential primary. To slow the impact of inflation on fuel demand at the pump, the government introduced temporary fixed Brent reference prices and US Dollar exchange rates for oil sales contracts that effectively put a cap on crude prices.

Further, the impact of the COVID-19 virus in early 2020 exposed potential structural weaknesses in the market in that a significant number of fields in the Mendoza and Neuquén provinces ultimately share a single sales route, being the YPF-operated refinery at Lujan de Cuyo.

When demand for fuel and oil products cratered in April 2020, the refinery was reduced to operating at less than 60% of capacity, causing a number of producing fields to be shut in due to the lack of alternate sales routes.

Relevant KPI by priority/significance

4 5

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

Principal risks and uncertainties continued

9 COVID-19 virus

NEW emerging risk

The emergence of COVID-19 as a global pandemic has had a significant effect on economies worldwide.

Potential impact High **Probability** High

Risk appetite

The COVID-19 virus that was first identified in China in late 2019 spread rapidly in early 2020, becoming prevalent in Europe and Asia initially, followed by North America, South America and Africa. Almost all countries have now been affected by the virus that is extremely contagious and has a significant mortality rate. The governmental response enacted almost universally has been one of social distancing, self-isolation and quarantine.

Many businesses have significantly reduced activity with home working enforced for most employees. Industrial activity has all but ceased as working from home for industrial or factory employees is impossible in many cases.

This is an inherent risk that the company must address in terms of personal safety and business continuity.

Link to strategy

Mitigation

The response to the pandemic has resulted in a significant and rapid reduction in demand for energy including oil and gas. Many industrial facilities are not operating, and substantially all non-essential travel has ceased, be that by road, rail or air.

The company has followed government policy and advice in respect of the safety of employees and consequential revised operational guidance.

In response to the near record low prices for oil as a result of a severe drop-off in demand for fuel as the COVID-19 situation continues, the company has assessed its cost base in detail targeting a significant reduction in operating and general and administrative costs. In addition, capital projects have been deferred to the extent possible whilst maintaining licence compliance.

Relevant KPI by priority/significance

4 5 6

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 Medium ↔ **Probability** Medium ↑

Risk appetite

The Macri administration was voted into government in 2015 on pro-business policy agenda focused on economic reform. His win was welcomed internationally; however, issues in the domestic economy persisted with high levels of inflation and devaluation resulting in increasing poverty among large parts of the population.

In the October 2019 presidential elections, the opposition Peronist party ousted the Macri administration, returning the country to a centre-left policy agenda, albeit a potentially more moderate one than under previous Peronist administrations.

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

Link to strategy

Mitigation

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

We also participate in industry groups and forums that seek to provide feedback to governmental departments, provincial governments, unions, and other legislative bodies.

Relevant KPI by priority/significance

n/a

Key to risk change

↔ No change

↓ Reduced risk

↑ Increased risk

Key to our strategic priorities

Control and consolidate

Profitable production

Explore and develop

Realise value

Risks no longer considered principal

11 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 ↔ **Probability** Low ↓

Risk appetite

In certain of its operations, the group has joint venture partners, as either operator or non-operator. 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 operator, we have less influence on the rate of capital expenditure for development.

The company has a low appetite for this risk.

Link to strategy

Mitigation

The group's primary joint venture partners are YPF, the Argentina state-owned oil and gas company, Gas y Petróleo del Neuquén, the Neuquén province-owned oil and gas company, and Roch S.A, a well-recognised Argentine independent oil and gas company.

In 2019, the company sold its interest In the ROCH S.A. operated Santa Cruz Sur assets, reducing its exposure to partner operated assets.

A dedicated joint venture manager has been appointed with the full-time remit to manage non-operated ventures on behalf of the company in accordance with our rights embedded in the UTE contracts that govern our joint ventures.

The company has rights of audit over its joint venture partners in relation to joint operations and regarding both financial and operational matters.

Relevant KPI by priority/significance

2 3 4 5

12 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 ↔ **Probability** Low ↓

Risk appetite

The unconventional oil and gas industry in Argentina emerged rapidly with significant investment commitments made by major international and national oil companies together with companies from the independent sector.

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.

Link to strategy

Mitigation

The group has a substantial acreage position with a focus on operatorship of its core assets. Core assets are those that are large in terms of acreage with high assessed potential for unconventional development.

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.

Competition in terms of the acquisition of new acreage is substantially reduced following the demonstration of commercial potential at Mata Mora that gave the company unconventional production on a second sizeable acreage area.

Securing the title to Mata Mora and Corralera in 2018 substantially reduced this risk also.

Relevant KPI by priority/significance

2

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

Viability statement

In accordance with the UK Corporate Governance Code, the board has assessed the prospects and viability of Phoenix over a three-year period to June 2023. This assessment has considered the group's financial position in June 2020, its future projections and the principal risks and uncertainties faced.

Assessment of prospects

The company has built a significant portfolio of licence interests in Argentina focused on the country's nascent unconventional oil and gas sector. The licence areas held by the company that contain unconventional oil and gas opportunities cover more≈than 620,000 acres 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 the company has reported contingent resources of 281 MMboe and prospective resources of 1,556 MMboe. Importantly, and as a result of work done in 2019, first-time reserves have been recorded at Mata Mora and the concession confirmed as prospective for unconventional development. Resources are a subset of the overall volumetric assessment of development potential. The transition of resources to reserves is not barrel-for-barrel. Where development is successful the reserve barrels yielded will be substantially fewer than those that may have been recorded as resources primarily as a result of the application of economic assumptions to the technical resource volumes when assessing the viability of each individual play.

This development risk is mitigated by the diverse opportunities present within each of the company's licence areas that are prospective for unconventional oil and gas.

See strategy and business model pg.s 4–7

Timeframe

The company has an established annual budgeting and forecasting process related to forecasting the following year's planned operational and financial performance and capex needs. The budget for a given year is updated through the performance year as circumstances dictate.

The company also maintains a broad five-year plan that is also updated annually and also focused on business performance, cash generation and usage in operations together with capex spend. Because exploration and evaluation activities are speculative in nature, the forecast results and planned operational activities will be more specific in the near-term portion of the five-year plan.

Whilst there are various factors that need to be considered, unconventional opportunities typically become cash positive from operations and after capex over a three to four-year timeframe. Achieving this timeframe is predicated on the intense and sustained deployment of capital in a technically efficient manner over that period. Accordingly, in a normal operating environment, the board believes that the viability of the business should be assessed over a period of three years.

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. As a result of the fall in the demand for oil and the collapse in oil prices, the company has shut-in production of crude oil from its operated licences and is implementing a plan that involves a significant reduction in operating and administrative costs. The cost reduction actions being taken mean the company will be in a significantly better position to produce oil economically at lower oil prices and with a positive contribution to cash flow when production recommences. The company will then focus on the continued development of its unconventional assets.

To date, the funding required to support the activities of the group has been provided by Mercuria Energy Group. Mercuria has agreed to continue to provide support and is in discussions to restructure the existing loan agreement. If the company is unable to source funding to meet the development capex requirements, then it may not be able to ensure that various unconventional opportunities it is targeting will move through development to production and ultimately yield net cash from operations after capex.

Impact of COVID-19

The impact of COVID-19 on economic activity worldwide has had a profound effect on the oil and gas industry with certain capital-intensive projects rendered uneconomic in the current near record low price environment. The board expects that industrial activity and hence demand for energy will resume when the immediate threat of COVID-19 subsides.

It is not clear yet when this may occur or if activity levels, particularly related to discretionary travel, will resume to pre-COVID-19 levels.

Principal risks

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

- → Inability to restructure the terms of the existing loan agreement with Mercuria and secure additional funding from Mercuria or alternative sources
- → The current COVID-19 pandemic continuing for longer and with a greater impact than current forecasts from medical and scientific agencies
- → 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 access to key pipelines or other infrastructure to evacuate production

See principal risks and uncertainties pg.s 25–31

Sustainability review

Our people

Phoenix has responsibility for and owes a duty of care to the people who work for us and the contractors and suppliers that work alongside us in our operations. We are responsible for the health, wellbeing and personal safety of our people when they are with us as we 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. 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.

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. 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.

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 FCPA and the Argentinian Foreign Corrupt Practices Act.

Substantially all our operations and people are based in Argentina. For 2019, Transparency International's Corruption Perception Index ('CPI') ranked Argentina 66 out of 180 participating countries worldwide, up from number 85 in 2018. Argentina's CPI score has improved in 2019 and is now marked 66 compared to 40 in the prior year.

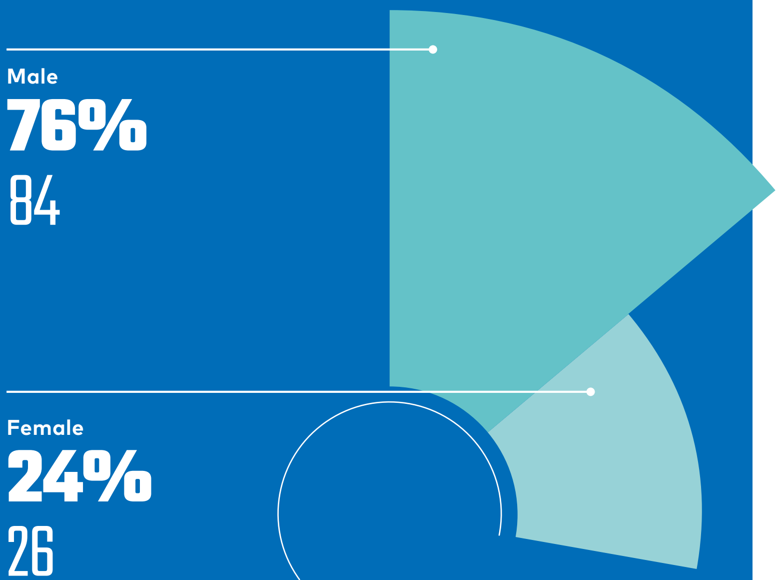
The CPI index assesses corruption perception in the public sector when ranking different countries. As with 2018, the UK and the US declined in terms of both their ranking and their CPI scores during 2019. The perceived potential for public sector corruption increases where democratic institutions are weakened, for instance, where political candidates and campaigns focus on public disillusionment and corruption scandals to advance their agenda.

As a business, Phoenix operates in a competitive market and faces competition in securing and maintaining licence interests with provinces, attracting and retaining the best service providers, and 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.

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

Gender diversity (total group[1])



1 Including directors

Sustainability review continued

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;
- whistleblowing.

We also maintain training materials in Spanish and English. The reporting processes, including whistleblowing, are dual language. 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.

Tendering and supply chain

Our focus on our tendering process and supplier management has increased as our high-value evaluation and development activity increased in the year. We have appointed a professional head of procurement who has progressively centralised and revised our tendering policies, processes and procedures.

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.

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 is mainly clearing scrub and levelling off ground to allow safe access. We seek to operate from compact drill sites to minimise disruption to the natural habitat and plan multiple wells from single well-pads, thereby reducing the number of locations that we prepare.

Water usage and conservation

Significant amounts of water are used in unconventional oil and gas operations. Together with our service providers, we have developed a fracture fluid system that recycles produced water that is a natural by-product of oil and gas production. This produced water is separated out and stored in tanks for use in unconventional operations. This system has meant we can reduce the use of fresh water in our completion operations.

2019 taxes paid in Argentina

US$23.4m

with more than

US$2.1m

paid at Federal level

We are 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. Automatic shut-off valves are installed at points where our lines cross rivers to automatically shut off the line when a drop in pressure is detected.

Health and safety

The health and safety of our employees, contractors and visitors to our sites is paramount with a new HSE policy implemented in2019. Anyone working at, or visiting, a Phoenix operational site is provided with personal protective equipment appropriate to the location and will also be allocated to a supervisor who is responsible for their safety while on site. When there are active operations taking place, such as drilling or facilities upgrade, 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/incidents and zero spills or leaks.

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.

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

In 2019 we paid more than US$23.4 million in cash taxes in Argentina with US$ 2.1 million paid at the Federal level and the balance in the provinces where we work.

The strategic report, from pages 2 to 34, was approved by the board and signed by order of the board by Nigel Duxbury, company secretary, on 26 June 2020.

Chairman's statement on Corporate Governance

A governance framework that reflects our ambition

We have consistently maintained a strong focus on governance, choosing to measure our governance arrangements against the requirements of the UK Corporate Governance Code (the 'Code'). In 2018, a change to the AIM Rules required companies to formally adopt a recognised governance framework. Given our focus on and previous commitment to the highest standards of governance, it felt appropriate that we continue to work with the framework that is widely recognised to be most comprehensive for UK listed companies. In addition, the Code was updated in 2018 and, among other changes, now includes specific provision around wider stakeholder engagement and the empowerment of employees.

The company's objective in 2019 continued to be full compliance with the provisions of the Code. Nevertheless, the directors recognise that there may be areas where full compliance is not yet possible or practical when considering the size of the company and the relatively early stage of its unconventional operations in Argentina.

The areas where we depart from the provisions of the Code are discussed in more detail in the corporate governance report together with the reasons for non-compliance, our views on mitigating factors and our plans to move to compliance where appropriate.

Corporate governance report on pg.s 39–42

The market for oil and gas companies has become very challenging in 2020. As part of our response and to safeguard the future of the company, we have made changes to the size of the board and have had to reduce headcount or furlough employees. Recognising this reduced capacity in the business, the board expects to adopt and report against the provisions of the Quoted Companies Alliance corporate governance code going forward. The QCA code provisions cover many of the same areas as the UK Corporate Governance Code but provides additional flexibility in the manner of reporting and the application of certain provisions.

How we manage our business and measure performance

Our segmental reporting has changed in 2019 reflecting changes in the way we manage assets operationally, prioritise resources and report performance internally. These changes bring a clearer distinction between operated and non-operated assets, development potential and long-term value expectation.

A dedicated non-operated asset manager was appointed in 2019 with responsibility over the whole non-operated portfolio and for our working relationships with partners. This appointment has been made recognising the potentially reduced level of influence the company has over non-operated activity and the manner in which we exert influence through joint management committees.

Focus on value potential

In the medium to long term the company's ambition is to be a leading producer of unconventional oil and gas in Argentina. Whilst we have current production from conventional assets, the board believes the greatest potential is in the unconventional portfolio.

In ranking our development prospects, the overall asset portfolio has been categorised as either core, prospective or non-core.

Core assets represent those with the greatest potential value in terms of production or acreage whether conventional or unconventional. Prospective are those that have unconventional development potential but that may be smaller in terms of total acreage or geographically further from areas where unconventional potential has been confirmed by others.

Our core assets have been defined as the Puesto Rojas area, Mata Mora, Corralera and Chachahuen. Our internal and external reporting has been redesigned and our operational activity focused to reflect the value potential we see in each asset.

Focus-driven decision making

The decision to market the Santa Cruz Sur and Tierra del Fuego assets for sale reflects this revised focus. Both these assets are non-operated, conventional gas assets located outside our primary operational hubs in Mendoza and Neuquén provinces.

Evolving your board

During the year we have made changes to the composition of your board to enhance stewardship. Tim Harrington (non-executive director) has taken the role of chair of the executive management committee, providing leadership and guidance to executive management until such time as a new CEO is appointed.

Partly in response to the over-boarding provisions of the Code, Garrett Soden stepped down from the board during the year to focus on his other commitments. Concurrently, Martin Bachmann joined the board, bringing extensive experience in oil and gas operations, including in Argentina.

I believe we have the right people, procedures and processes in place to navigate what is currently a very difficult operating environment.

Sir Michael Rake
26 June 2020

Chairman's statement on Corporate Governance continued

Requirement	Board response	
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 in 2019	Read more on pg. 39
Statement of directors' responsibilities	The directors have acknowledged their responsibilities as they relate to the annual report and accounts	Read more on pg. 65
Accountability and board roles	The roles of the directors are clearly defined and documented	Read more on pg. 41
Experience	The board is composed 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	Read more on pg.s 37–38
Independence	Excluding the shareholder representatives and the chairman, the board consists of 50% independent directors who are considered to be independent	Read more on pg.s 37–38
Composition of committees	The composition of each of the committees of the board is in compliance with the requirements of the Code	Read more on pg.s 37–38
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	Read more on pg.s 48–61
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	Read more on pg. 32
Internal audit	The board does not consider it appropriate to have a dedicated internal audit function at this time. Specific reviews may be commissioned as determined appropriate	Read more on pg. 46
Relationship agreement	A relationship agreement is in place between the company and Mercuria Energy Trading Group to protect the interests of the minority shareholders	Read more on pg. 62
Going concern statement	The directors have conducted their assessment of going concern and have made a positive statement	Read more on pg. 64
Attendance	The attendance of each of the board members at board and committee meetings is at an acceptable level for each meeting	Read more on pg.s 42, 43, 45

Board structure

Governance

Board of directors

Sir Michael Rake (age 72)
Non-executive chairman A N R

First appointed 19 September 2016

Skills and experience
Sir Michael Rake is the former chairman of BT Group plc, EasyJet plc, Worldpay Group plc and a director of S&P Global.

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; 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, Great Ormond Street Hospital
Chairman, New Day Ltd
Chairman, Wireless Logic
Chairman, Majid Al Futtaim Holdings LLC

Qualifications
Chartered accountant

Kevin Dennehy (age 61)
Chief financial officer

First appointed 1 October 2018
Resigned 21 May 2020

Skills and experience
Kevin is based in Buenos Aires and 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 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 joint venture and between 2013 and 2015 he was country manager of BP Iraq. In addition, he has held senior finance roles at BP in Iraq, Colombia, Russia, Angola, Kuwait, the UK and the United Stated. Prior to BP, Kevin worked for El Paso Natural Gas Company.

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

Kevin holds a B.S. Accounting with Honours degree from Thomas College, Maine, and an MBA from Houston Baptist University, Texas, and holds a CPA certification in Texas.

External appointments
None

Qualifications
B.S. Accounting (Hons) Thomas College
MBA Houston Baptist University
Certified Public Accountant, Texas

Tim Harrington (age 61)
Non-executive director and chair of the executive committee A R

First appointed 14 November 2018

Skills and experience
Tim Harrington has over 38 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 onshore L48 E&P business focused on unconventional resources. Since leaving BP, he has been working with private equity and various start-ups in the United States 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 DJR Energy LLC, TRP Energy LLC and EnergyFlo Chemical Applications LLC, three privately funded oil and gas industry related start-ups operating in the onshore United States.

He is also a member of the National Association of Corporate Directors ('NACD') in the United States and was a past director and executive committee member for the Texas Oil and Gas Association ('TXOGA'). Mr. Harrington holds a B.S. in Accounting from Miami University (Ohio), an MBA from Xavier University, and previously earned his CPA in Texas.

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)

Committee membership
A Audit and risk committee
N Nominations committee
R Remuneration committee
Chair
Observer

Strategic report
Governance
Financial statements
Other information

Board of directors continued

John Bentley (age 72)
Non-executive director (independent)
N R

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 Gencore's Brazilian mining company, Sea 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 became chief executive for the following five years. More recently he was 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 including deputy chairman of Wentworth Resources Ltd and non-executive director of Africa Energy Corp. John holds a degree in Metallurgy from Brunel University.

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

Qualifications
B.Tech (Hons) Metallurgy, Brunel University

Martin Bachmann (age 61)
Non-executive director (independent)

First appointed 1 September 2019

Skills and experience
Martin, a trained geophysicist, has more than 35 years' executive experience across the global oil and gas business. Most recently he was a member of Wintershall's board of executive directors for 10 years.

At Wintershall his responsibilities included managing its 70,000 boepd production company in Argentina where he gained experience in the unconventional space.

Previously he had a 25-year career with Shell, managing various businesses in the FSU, Spain, the Netherlands, the North Sea and the Middle East. Martin is Swiss and speaks German, English, Dutch, French and Spanish.

External appointments
Non-executive chairman of NEO Energy Holding Ltd
Non-executive director of Point Resources Holding AS

Qualifications
MSc (Geophysics) from the Swiss Federal Institute of Technology (ETH)

Daniel Jaeggi (age 59)
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 50)
Non-executive director
N R

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.

David Jackson (age 71)
Non-executive director (independent)
A R

First appointed 17 July 2012

Skills and experience
David Jackson 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 (1990–2008), where he was a managing director in London and Hong Kong, Scandinavian Bank (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, and Finance for Industry, now 3i, where he was a senior legal adviser (1973–1977).

David was non-executive chairman of Emergex Vaccines Holding Ltd (2016-2019). He holds a degree in Law (LL.B) from the University of Leeds and was called to the Bar in 1972.

External appointments
Director, Burges Grove Management Company Limited

Qualifications
LL.B (Hons), University of Leeds Barrister

Javier Alvarez (age 48)
Non-executive director (independent)
A N

First appointed 17 July 2012

Skills and experience
Javier is an Agricultural Engineer and has a master's 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.

In 2012, he joined the board of Andes Energia as a non-executive director.

External appointments
Overseas director, British Argentine Chamber of Commerce
Member of the board, British Argentine Chamber of Commerce

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

Corporate governance report

Corporate governance and the Code

In 2018, the governance arrangements expected of AIM companies and the AIM Rules for Companies were amended to require the application of a recognised corporate governance code. Following the rule change, AIM companies are required to explain how they comply with the code adopted and to discuss any departures from the selected code and the reasons for doing so.

Reflecting its commitment to the highest standards of governance and considering that Phoenix had measured its governance arrangements against the Code, the company elected to formally apply the UK Corporate Governance Code for 2019.

The Corporate Governance Code 2018

In July 2018 the UK Financial Reporting Council issued an updated Code that is to be applied in respect of financial years beginning on or after 1 January 2019. While the new Code applies specifically to companies with a premium listing on the main market of the London Stock Exchange, Phoenix has elected to continue to apply the Code in 2019 when assessing and updating its governance arrangements.

The new Code is based around five key areas of governance with an enhanced focus on culture, purpose and aligning a company's strategy and values with culture. The Code also focuses on stakeholder engagement and the requirements of section 172 of the Companies Act for the board to have a mechanism for workforce engagement. The new Code also brings a renewed focus on diversity and succession planning. The full text of the new Code can be found at www.frc.org.uk.

Board leadership and company purpose

The board is responsible for establishing the company's purpose, values and strategy and for satisfying itself that these and its culture are aligned.

The 2018 Code is arranged around five areas of governance, each of which contains a number of principles that are supported by specific provisions. The five areas addressed by the Code are:

1. **Board leadership and company purpose**
2. **Division of responsibilities**
3. **Composition, succession and evaluation**
4. **Audit, risk and internal control**
5. **Remuneration**

Compliance with the Code

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

→ **Code provision 5:** There is no workforce representative appointed to the board and no director has been specifically designated as liaison between the board and the workforce. John Bentley is the senior independent director and is available to employees should they have concerns.

→ **Code provision 21:** The performance of the board and of 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 to enhance the experience of unconventional oil and gas among the non-executive directors and to bring additional experience of oil and gas operations in Argentina.

→ **Code provision 24:** The chair of the board of directors is currently also a member of the audit committee.

Location of board meetings and site visits

The company organises a number of board meetings throughout the year and endeavours to rotate the primary physical location of meetings between its Mendoza, Buenos Aires and London offices.

Being physically present in our key locations gives the board members the opportunity to meet formally and informally with staff of all grades. Social activities, including management dinners, are arranged to coincide with board meetings where possible and give the directors the opportunity to spend time with team members. This informal interaction provides the opportunity for our team to give feedback on the board's position on the purpose, culture and values of the organisation and allows board members to take the temperature of the business directly.

Periodic site visits are organised when key operational projects are underway, providing the board the opportunity to spend time with and learn from operational teams and contractors.

Interaction with major shareholders and conflicts of interest

A representative of the company's major shareholder sits on the board and attends board meetings. In addition, the chairman and certain executive directors (primarily the CFO) and members of executive management (COO, head of subsurface and others as appropriate) meet periodically with representatives of the major shareholder.

These meetings typically take place in relation to major operational projects, on conclusion of the budget setting process and in advance of funding related and other strategic financing discussions. The meetings may also include representatives of the minority shareholders.

To mitigate against potential conflicts of interest that could arise from having a significant shareholder, one of the directors has been specifically designated as the minority shareholder representative to the board. The minority shareholder representative is available to minority shareholders to voice concerns or to provide feedback to the board.

Corporate governance report continued

Executive management committee

An executive management committee is in place and meets weekly. The meeting is currently chaired by Tim Harrington inhis interim role and is attended by Kevin Dennehy, the chief financial officer and Javier Vallesi, the chief operating officer, together with a designated senior representative from each of human resources, operations and finance management. The meeting provides an open forum with business and departmental updates given by participants and provides for two-way feedback between the executive directors and the management team.

Lunch and learn

Regular lunch and learn sessions are organised in our Mendoza and Buenos Aries offices and are based around a key business theme or topic. The sessions are presented by employees on a rotational basis and give the opportunity for knowledge sharing and questions. The sessions are held over the course of a lunch provided by the company and give an informal opportunity for both social and business-related interaction between and amongst our team.

ABC and whistleblowing policy

In addition to the formal and informal mechanisms to raise issues and provide feedback on the business, a formal whistleblowing policy is in place as part of the wider anti-bribery and corruption policies and procedures. The whistleblowing process provides achannel for employees to raise concerns or issues that may relate to suspicion or evidence of wrongdoing. An external legal contact is also provided should employees feel uncomfortable raising matters directly with management, the chairmen or the board.

Business model on pg.s 6–7
Principal risks and uncertainties on pg.s 25–31
Stakeholder engagement disclosures on pg.s 8–9

Division of responsibilities

Composition of the board

The board consists of nine members with diverse backgrounds, with each director bringing different experience to bear for the benefit of the company, its shareholders and other stakeholders. The primary collective experience of the board is focused around oil and gas industry experience and of operating in Argentina. However, the board also includes individuals with significant financial, legal and public company experience.

Sir Michael Rake serves as the chairman of the board and was independent of Phoenix on his appointment in September 2016. John Bentley has been appointed as the senior independent director to whom shareholders can raise any issues or concerns or provide feedback to the board.

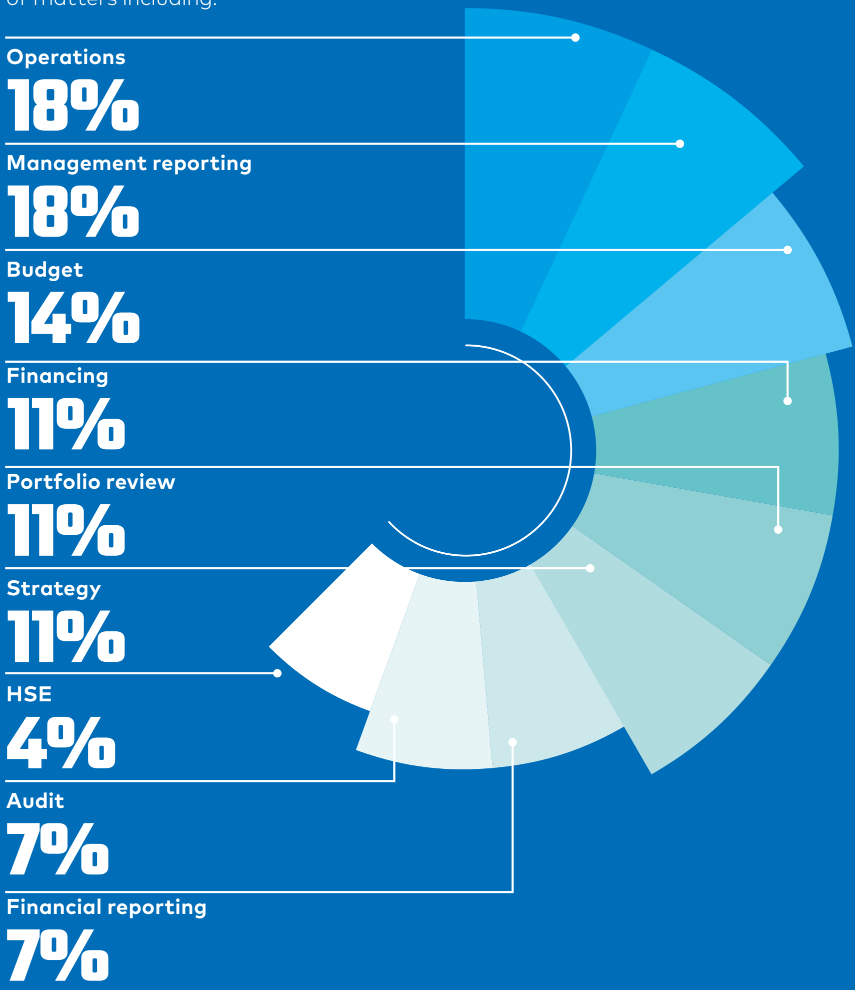
Board independence and building experience

Excluding the chairman, 50% of the board comprises independent non-executive directors. Martin Bachmann was appointed to the board in September 2019 and is considered by the board to be independent. Martin was appointed to the board to bring additional and extensive oil and gas experience together with experience of operating in the Argentine oil and gas sector.

In addition to his remuneration as an independent non-executive director, a consulting agreement is in place between the company and Martin under which he receives an additional fixed monthly retainer for providing industry expertise, support and advice to the company. The consulting agreement has no variable or incentive compensation element in its terms. The board is of the opinion that the consulting agreement does not impair Martin's independence.

What the board spent its time focusing on in 2019

In 2019 the board considered, assessed and debated a wide range of matters including:



Induction of new directors
On joining the group and similar to Tim Harrington in 2018, Martin Bachmann went through an induction process. This took place over two days in Buenos Aries where Martin met with Kevin Dennehy and key finance team members to discuss matters related to financial performance, funding and both internal and external relationships. These relationships include those with corporate advisers and joint venture partners.

Martin also met with Javier Vallesi, together with the head of subsurface to discuss technical matters related to unconventional exploration and evaluation activity, current operational performance, and the licences we hold. Key prospects, risks and mitigating factors were also discussed as part of the onboarding.

The induction did not include a site visit as no significant drilling or completion activities were ongoing at the time.

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 external commitments, including directorships of other companies as disclosed in the individual director biographies. The company is satisfied that these associated commitments have no measurable impact on the ability of directors to discharge their responsibilities to Phoenix effectively. Additional external commitments held by directors provide a benefit in terms of diverse experience that can be brought to bear for the benefit of the company.

Kevin Dennehy, the group CFO, is the only current executive director and holds no external appointments. Whilst not being a director of the company, Javier Vallesi, similarly does not hold any external appointments.

Board of directors on pg.s 37–38

Composition, succession and evaluation

Tenure of directors and nominations
All directors are proposed for reappointment annually at the company's AGM. The date of original appointment is shown in the respective director biographies. No director, including the chairman, has served on the board for a period of longer than nine years.

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 → 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
Chair of the executive committee	→ Provides broad leadership and promote collaboration across theorganisation → Provides individual and collective coaching to the executive team → Works with the executive team to maintain a robust HSE and operating management system → Works with the executive team on effective performance management processes → Assists the management team in development and implementation of strategy → Provides enhanced insights, learnings and challenges regarding successfully appraising and developing unconventional resources → Advises and assists the executive team and board in business development opportunities and activity → Interfaces with the chairman, stakeholders and board on matters of strategy and material events
Chief financial officer	→ Overall management of the financial risks of the group → Is 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
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 executive directors → Appoint and remove executive directors as required and review succession planning

Nominations committee report on pg.s 43–44

Corporate governance report continued

Evaluation of board performance

There has been no formal evaluation of board performance to date. The board has considered it appropriate, given the size and early stage of development of the company, that the evaluation of performance is undertaken on an informal basis and changes to board composition made when considered appropriate and in the best interests of the company.

During 2019, Garrett Soden stepped down from the board to focus on his other directorships. Concurrently, Martin Bachmann joined the board, bringing additional experience of unconventional oil and gas and of operating in the Argentina oil and gas sector.

Audit, risk and internal control

Responsibility for the annual report

The board has charged the audit and risk committee with the responsibility for reviewing the contents of the 2019 annual report to assess, when taken as a whole, if it is fair, balanced and understandable. The audit and risk committee 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 the annual report.

Internal control

The board has responsibility for the overall system of internal control and for reviewing its effectiveness. In making its determination of 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.

Internal audit

The group does not currently have a dedicated internal audit function. Because of the relatively small size of the group and the single focus of operations in terms of industry and location, the directors consider it appropriate to consult with competent, recognised consultants and specialists in relation to subjective or complex areas of operations, accounting or specific transactions.

Risk assessment and risk management

The directors have undertaken a robust assessment of the company's emerging and principal risks. The assessment includes a quantification of the likelihood, impact and potential financial exposure related to each identified risk together with mitigation factors or actions that can be taken to reduce the company's HSE, operational or financial exposure.

The company's risk management procedures are assessed annually, primarily as part of the annual report process. Risk assessments are also updated periodically during the year, for instance in advance of major field operations such as drilling and completion operations, construction, or seismic acquisition.

Safety drills including building evacuation, fire drills and spill containment simulations are performed periodically to ensure that employees remain up to date with response and safety protocols in the event of an actual incident arising. Safety drills may also include external parties such as provincial response units, other nearby operators and observers. Learnings from such drills are used to update company operating protocols and procedures.

Audit committee report on pg.s 45–47

Principal risks and uncertainties on pg.s 26–31

Viability statement on pg. 32

Remuneration

The remuneration committee is chaired by John Bentley, who is an experienced company director and who sits on the remuneration committee of at least one other company where he serves as non-executive director.

Alignment of remuneration to values and culture

The company has an incentive programme that all members of staff participate in. The primary outcome of the programme is to provide performance feedback against individual and corporate objectives and determine the level of bonus awarded to each employee for a given year.

An element of individual bonus is set by reference to company performance against a balanced scorecard that includes corporate goals and targets related to safety, operational and financial performance, as well as qualitative factors aimed at promoting company values and culture.

Individual's performance objectives are set and assessed annually and include a mixture of specific goals or target milestones as well as personal and professional development objectives consistent with the company's purpose, culture and working practices.

The individual's objectives are set to align with those of the head of their respective department (operations, finance, HR, etc.) which in turn are set to reflect the overall corporate objectives.

Board attendance	Role	Meetings attended
Sir Michael Rake	Non-executive chairman	5/5
Tim Harrington	Non-executive director	5/5
Kevin Dennehy	Chief financial officer	5/5
John Bentley	Independent non-executive director	5/5
David Jackson	Independent non-executive director	5/5
Javier Alvarez	Independent non-executive director	5/5
Martin Bachmann^	Non-executive director	2/2
Daniel Jaeggi	Non-executive director	2/5
Nico Mallo Huergo	Non-executive director	4/5
Matthieu Milandri*	Non-executive director	0/1
Anuj Sharma**	Chief executive officer	2/2
Garrett Soden***	Independent non-executive director	2/3

* Resigned 31 January 2019
** Resigned 23 April 2019
*** Resigned 12 September 2019
^ Appointed 1 September 2019

Nominations committee report

Membership

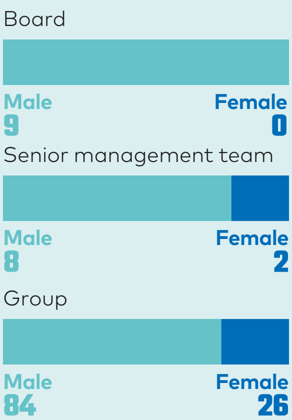
Members	Date appointed	Quorum
Sir Michael Rake (chair)	Aug 2017	2 members
Javier Alvarez	Aug 2017	
John Bentley	Aug 2017	
Nicolás Mallo Huergo	Aug 2017	(observer)

Nominations committee attendance	Role	Meetings attended
Sir Michael Rake	Chair	2/2
John Bentley	Member	2/2
Javier Alvarez	Member	1/2

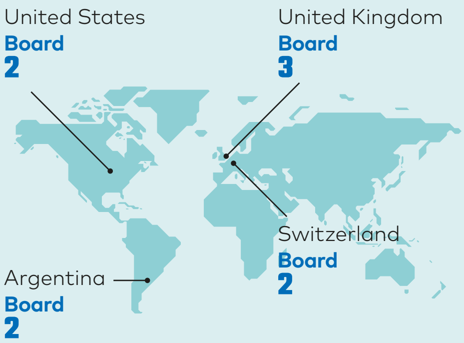
* Resigned 12 September 2019

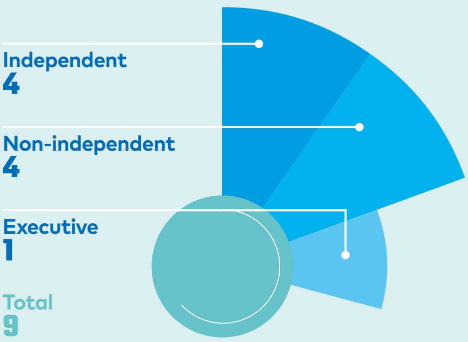
Diversity

Gender



Nationality





Phoenix recognises that the role of its nominations 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 nominations committee meets at least twice per year, and more frequently as necessary, and will report on its activities to the full board.

Purpose

The nominations 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 the nomination, selection and training of directors.

Membership

The nominations 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.

Responsibilities

The principal responsibilities of the nominations 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;

Nominations committee report continued

- 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.

Diversity

When considering board composition, the group policy continues to be to recruit 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 nominations committee and applied throughout the group. The experience of the board is very diverse and 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 2019

The committee continued the ongoing evaluation of board performance and of its competencies. The evaluation was informal though highlighted the need to further enhance technical oil and gas capability and experience of operating in the Argentina oil and gas industry.

Together with administrative support form the major shareholder, a search process was initiated and culminated with the appointment of Martin Bachmann to the board of directors. Martin has gained extensive oil and gas experience throughout his career and latterly was responsible for Wintershall Dea GmbH's operations in Argentina where he gained direct and significant experience of unconventional oil and gas operations.

The appointment of Martin increases the board's ability to effectively challenge and also support operational management in the development of the company's asset portfolio. Martin is also a fluent Spanish speaker.

Priorities for the coming year

In 2020, the committee will continue to assess the skills present on and the effectiveness of the Board and will make additional appointments as determined appropriate.

Over-boarding

We are aware of, and have considered, recent guidance from proxy organisations recommending that shareholders vote against the re-election of directors where they 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.

In 2019 and following a review of his other commitments, Garrett Soden stepped down from the board to focus his time on his other external commitments. The company would like to thank Garrett for his contributions in the two years that he was a Phoenix board member.

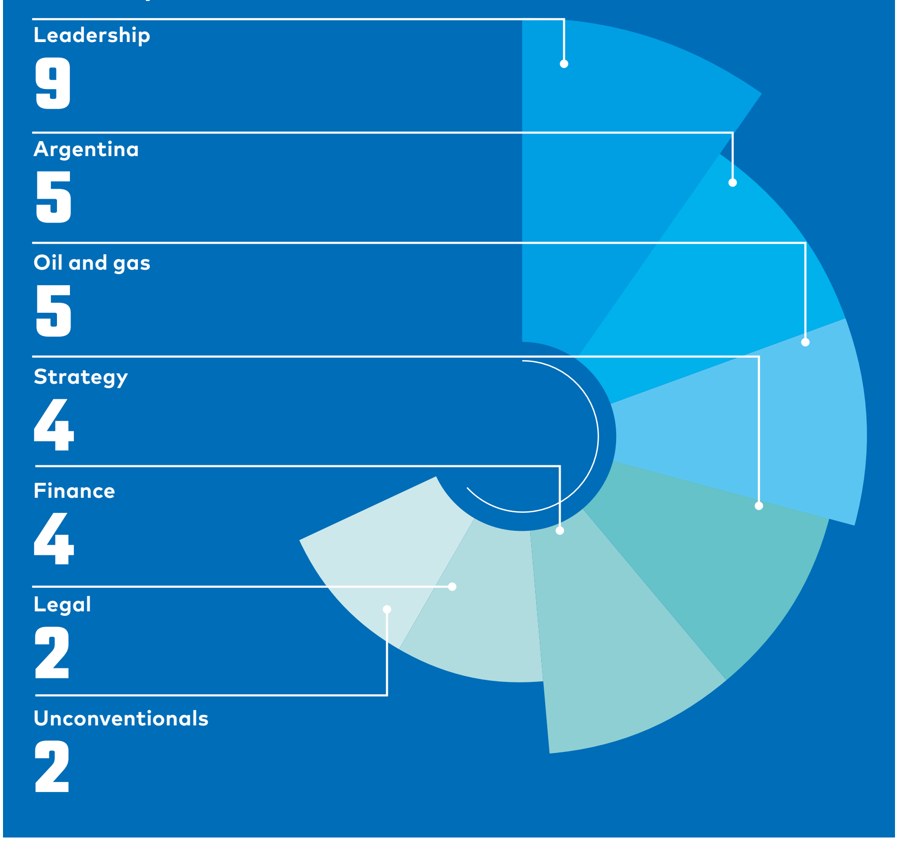
While we are satisfied that the current members of the board do have sufficient time to fulfil their duties, we recognise that some directors hold a number of external appointments. We will continue to monitor the workload and external commitments of our board members as the group's activities and the 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 responsibilities 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 to the company secretary details of any situations that might give rise to an actual or potential conflict of interest. The board monitors and reviews potential conflicts of interest on a regular basis.

Sir Michael Rake
Chairman, nominations committee
26 June 2020

Skills represented on the Phoenix board



Audit and risk committee report

Membership

Members	Date appointed	Quorum
David Jackson (chair)	Aug 2017	
Javier Alvarez	Aug 2017	2 members
Sir Michael Rake	Aug 2017	

Audit committee attendance	Role	Meetings attended
David Jackson**	Chair/member	4/4
Sir Michael Rake	Member	3/4
Javier Alvarez	Member	4/4
Garrett Soden*	Chair	3/3

* Resigned 12 September 2019
** Appointed chair 12 September 2019

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, only non-executive directors can serve on the audit and risk committee. 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 nominations committee and in consultation with the audit 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. Where the chair of the board sits on the audit committee, he or she cannot chair the committee. Sir Michael Rake currently sits on the audit and risk committee.

In accordance with Code provision 24, at least one member of the committee is required to have recent and relevant financial experience. The board is satisfied that David Jackson 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 and particularly those related to the external reporting cycle. 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, though will meet more frequently as circumstances dictate.

Audit and risk committee report continued

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;
- to review any other formal or informal reporting regarding the company's financial position or communications, 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 areas of judgement, 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. Such oversight includes that related to any 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);
- the maintenance of internal controls and risk management systems together with arrangements for internal audit; and
- to monitor policies and procedures related to ethics, fraud and whistleblowing.

Meeting frequency

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

In relation to the 2019 reporting cycle, the committee has met four times. A summary of the items discussed at each meeting is set out on pg. 47.

Internal audit and partner audit activity

The group does not currently have an internal audit function and no internal audit reviews were undertaken in 2019. The board had not commissioned any specific internal audit reviews in 2018 either.

The main operational activity in 2019 related to the drilling of the second horizontal well at Mata Mora and the unconventional completion of both wells. External technical advisers were included specifically related to the design and completion operations to provide guidance and challenge to management both in planning and executing the completion operation and through the management and evaluation of the initial production period on each of the wells.

In October 2019, the group appointed a dedicated joint venture manager to oversee our non-operated activities that are primarily with YPF at Chachahuen and with ROCH S.A. in relation to the Rio Cullen and Las Violetas properties with ROCH S.A. The appointment was made internally and the joint venture manager has significant prior experience of working with our partners.

The UTE (Unión Transitoria de Empresas) agreement that will govern the Chachahuen joint venture activity is due to be formed. This agreement includes detailed provisions for partner audit rights over the venture and exercisable by Phoenix. Until the UTE is in place the he main fora for exercising partner rights are the technical committee meetings that take place regularly and are attended by Phoenix representatives.

Given the current size of the group and its level of activity, it is likely that any operational or financial reviews that either management or the board consider appropriate during 2020 will be undertaken using a specialist provider of internal audit services.

External audit

PwC is the external auditor to the group in respect of the 2019 annual report and financial statements. 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 its appointment was reconsidered in light of the tendering requirements after each audit since and including 2016 and will be considered again on conclusion of the 2019 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. Fees for specific pieces of work are dependent on the type of service being proposed, the seniority of the consultants considered appropriate to deliver work and the circumstances related to the provision of the service.

No significant non-audit work was undertaken by PwC in 2019. One director used PwC to prepare his personal US tax filings for which the fees were settled by the director directly.

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 that it is proposed that the external auditor could provide is formally assessed in line with the revised Ethical Standard issued by the FRC prior to its commencement. In addition, the scope of individual projects is monitored throughout their delivery to identify any potential conflicts as work progresses.

David Jackson
Chairman, audit and risk committee
26 June 2020

2019 year-end significant accounting issues

The significant issues considered by the audit and risk committee in 2019 in relation to the financial statements and how each of these were addressed are shown in the table below:

Significant accounting issue	Consideration and conclusion
Viability statement and going concern assessment	The company is currently faced with several challenges. On a macro level it faces economic uncertainty in Argentina following a change of government in December 2019 and as a result of the continuing negotiations by the government to restructure the country's debt. This political and economic uncertainty has been compounded by the impact COVID-19 and the consequent governmental response that has led to a significant reduction in demand for fuel resulting in a collapse of oil prices in the first half of 2020. As a result of the fall in the demand for oil and the collapse in oil prices, the company has shut-in production of crude oil from its operated licences and is implementing a plan that involves a significant reduction in operating and administrative costs. The cost reduction actions being taken mean the company will be in a significantly better position to produce oil economically at lower oil prices and with a positive contribution to cash flow when production recommences. The company will then focus on the continued development of its unconventional assets. Our major shareholder, Mercuria, is supportive of the cost reduction plan and has extended short-term debt facilities to facilitate its implementation and execution. Mercuria has written to the company stating its intention to continue to provide financial support to the company of up to $37 million in order that the company may continue to operate and service the company's liabilities as they fall due in the next 12 months whilst the company assesses the timing of work plans and capital commitments. Mercuria has agreed to meet the company's cash needs for this period and not demand repayment of the existing loan within the next 12 months whilst in discussion with the company to restructure the existing loan agreement. This letter, which by its nature is not legally binding, represents a letter of comfort stating Mercuria's current intention to continue to provide support.
Impairment considerations	The company defines the key indicators of impairment in relation to its oil and gas assets within its accounting policies. When a specific impairment trigger is identified during a period, the company will complete an impairment review of the associated CGU. The company also assessed its licence interests for potential impairment on an annual basis 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. The NPV10 value is calculated based on a discounted cash flow model using a discount rate of 10%. The calculation includes several key assumptions, including oil and gas prices and reserve estimates, which the company defines as key impairment indicators within its accounting policy. 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 impairment test uses several assumptions but is most sensitive to assumptions related to oil and gas prices, discount rate and production volumes. The NPV10 impairment trigger assessment showed that the Atamisqui concession was potentially impaired. An impairment test was performed using a discounted cash flow model and an impairment charge of US$2.5 million was determined to be required at 31 December 2019. The impairment charge is reflective of the mature nature of the asset and the lower oil price environment observed towards the end of 2019.

What the audit committee spent its time focusing on in 2019

Letter from the remuneration committee chairman

Dear shareholders

As chairman of the remuneration committee, I present the directors' remuneration report for Phoenix for the year ended 31 December 2019.

This is presented at a time when we are having to deal with the uncertainties and challenges presented by the coronavirus ('COVID-19') and I can confirm that the committee will continually monitor business conditions and exercise judgement in applying discretion in relation to 2020 remuneration levels.

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, 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. However, recent events have caused the Company to reassess its position and whilst continuing to recognise the importance of standards of governance, the Company is considering, in the future, to apply the principals of the Quoted Companies Alliance Corporate Governance Code.

Our report for 2019 covers the following matters:

- how the company's executive remuneration policy has been implemented in the year ended 31 December 2019; and
- the company's intended policy for 2020 and beyond.

2019 and 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 continues to regularly review its approach to remuneration and its continued appropriateness considering market practice, regulatory requirements and corporate governance best practice as may be applicable to the company over time. Given the stage of the company's development, whilst target bonuses for 2019 were based on a combination of quantitative and subjective key performance indicators including corporate, operational, financial and personal performance, it was agreed that it would be appropriate to apply a certain amount of discretion in determining the amount of bonus awards. In addition, it was decided not to grant any awards under its Long-Term Incentive Plan ('LTIP').

Furthermore, given the inherent high level of uncertainty in the current challenging environment, the committee agreed that it would not be appropriate to award any bonuses for 2019, consistent with the treatment of all employees within the company.

The directors' remuneration policy set out on pages 50 to 57 was developed to reinforce the above objectives, but in light of recent events and the stage of the company's development, its appropriateness is currently under review.

Key decisions and pay outcomes in 2019

- During the year Anuj Sharma served notice on the company, which the company treated as a notice terminating his employment in accordance with the terms of his service agreement and resignation from his position as chief executive officer and a director of the company with effect from 23 April 2019. The committee applied the directors' remuneration policy and exit payment policy when determining the appropriate separation remuneration arrangement for Anuj Sharma.
- No annual bonuses were awarded for 2019.
- No awards were granted under the company's LTIP in 2019.

Looking ahead to 2020

Base salary

The CEO was not replaced in 2020 and no increase in the base salary is recommended for the CFO in 2020.

Executive director	Annual 2020 base salary (US$)	Annual 2019 base salary (US$)	% increase
CEO	N/A	620,000	0%
CFO	400,000	400,000	0%

Annual bonus

In the current environment any bonuses will primarily be determined on a discretionary basis.

LTIP awards

In the current environment it is unlikely any awards will be granted under the LTIP.

Non-executive director fees

No increases in annual fees are recommended in 2020.

	Annual 2020 fees (US$)	Annual 2019 fees (US$)	Increase
Non-executive chairman fee	204,347	204,347	0%
Non-executive director base fee	63,859	63,859	0%
Additional fees:			
Senior independent director	12,772	12,772	0%
Chairman of the audit and risk committee	12,772	12,772	0%
Chairman of the remuneration committee	12,772	12,772	0%

Workforce remuneration

The committee's main focus is to ensure that the company's remuneration policy is implemented and applied in 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 2020 the committee will be looking at ways of increasing and improving the committee's interaction with the wider workforce to facilitate this objective. However, in the current economic environment, the committee recognises the need to continually consider and take, as appropriate, actions to mitigate the impact of the COVID-19 crisis.

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 ended 31 December 2019, the committee's discretion was used, in line with the company's exit payment policy, in determining the payment to be made to Anuj Sharma who resigned from the board. Further details on the use of committee discretion are provided on page 60.

Given the high level of uncertainty created in the current environment, we trust that you understand the discretion we need in applying and implementing a remuneration policy that is in the best interests of the company and all its shareholders.

John Bentley
Chairman, remuneration committee
26 June 2020

Where applicable a rate of exchange of US$/£1.277 has been used for 2019 and 2020 and a rate of exchange of US$/£1.335 for 2018. 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.

Remuneration policy report

Although the company (being AIM quoted) is not subject to the Directors' Remuneration Regulations 2008 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 London Stock Exchange Main Market.

This section of the report sets out the remuneration policy for the directors that was developed to reflect our remuneration principles, but in light of recent events and the stage of the company's development, its appropriateness is currently under review. The basic principals were applied in 2017 and 2018, but in 2019 no bonuses were awarded, and no share awards granted under the LTIP.

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 theimplied 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 employees based in the United States. 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 considers 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 payout for on-target performance is normally 50% of maximum; threshold performance results in zero payout.	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.

Remuneration policy report continued

Purpose and link to strategy	Operation	Opportunity	Performance measures
Long-Term Incentive Plan			
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 2020.

In the current economic environment, the committee also recognises the need to continually consider and take actions to mitigate the impact of the COVID-19 crisis.

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

As no bonuses were paid in respect of 2019 and no share awards granted under the LTIP and the policy to be applied in 2020 is under review, the committee believes any pay-for-performance scenario analysis would be misleading.

Remuneration policy report continued

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 CEO has not at this time been replaced. The CFO's service contract is terminable on six months' notice from the group and six 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
Kevin Dennehy[2]	CFO	1 October 2018	8 August 2018

1 Resigned 23 April 2019
2 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.	N/a
Deferred bonus shares		
Resignation or dismissal for cause.	Awards normally lapse.	N/a
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.

Reason for cessation	Calculation of vesting/payment	Timing of vesting/payment
LTIP awards		
Resignation or dismissal for cause.	Awards normally lapse.	N/a
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 'buyout' 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 'buyout' 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 'buyout' 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 2020 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.

Remuneration policy report continued

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 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.	n/a

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 the 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[1]	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[2]	Non-executive director	21 August 2013	24 July 2017
Martin Bachmann[3]	Non-executive director	1 September 2019	30 August 2019

1 Resigned 12 September 2019
2 Resigned 31 January 2019
3 Appointed 1 September 2019

Annual report on remuneration

This section of the remuneration report provides details of how our remuneration policy was implemented during the year ending 31 December 2019 and how it will be implemented during the year ended 31 December 2020.

Committee membership in 2019

Members of the committee who served during the year include:

John Bentley – Committee chairman (independent)
Sir Michael Rake – Non-executive chairman
Garrett Soden – Non-executive director (independent) (resigned 12 September 2019)
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 ended 31 December 2019. 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	2/4
Garrett Soden	1/2
David Jackson	4/4

The committee operates within agreed terms of reference, which are available on our website at 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 persons attending its meetings do not participate in any discussion or decision on their own remuneration.

Advisers

The committee formally appointed Mercer as its independent adviser 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$55,263 (excluding expenses and VAT) for the year ended 31 December 2019, 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 who served during the year. Anuj Sharma was appointed as an executive director of Phoenix on 10 August 2017. Kevin Dennehy was appointed as an executive director on 1 October 2018. 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$'000	Total US$'000
Anuj Sharma[5]	2019	195	3	–	–	29	227
	2018	620	26	–	–	81	727
Kevin Dennehy	2019	400	220	–	–	67	687
	2018	100	33	100	–	17	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 2019, Anuj Sharma's base salary figure reflects his annualised salary of US$620,000, pro-rata for the period from the beginning of the year to 23 April 2019 (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. For 2018 Kevin Dennehy also 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 and US$100,000 in 2019 and in 2019 a housing allowance of US$75,360
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
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 Anuj Sharma resigned as CEO on 23 April 2019. His annualised base salary at the time of his resignation as CEO was US$620,000 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 who served during the year. As appointees of the group's substantial shareholder, Matthieu Milandri, Guillaume Vermersch and Daniel Jaeggi 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	2019	204	–	204
	2018	214	–	214
John Bentley[1]	2019	64	25	89
	2018	67	19	86
Garrett Soden[2, 3]	2019	45	9	54
	2018	67	13	80
Javier Alvarez	2019	64	–	64
	2018	67	–	67
David Jackson[4]	2019	64	4	68
	2018	67	–	67
Nicolás Mallo Huergo	2019	64	–	64
	2018	67	–	67
Matthieu Milandri[5, 9]	2019	–	–	–
	2018	–	–	–
Daniel Jaeggi[7, 9]	2019	–	–	–
	2018	–	–	–
Tim Harrington[7]	2019	64	–	64
	2018	9	–	9
Martin Bachmann[8]	2019	21	40	61
	2018	–	–	–

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 12 September 2019
4 Additional fees paid for his appointment as the chairman of the audit committee
5 Resigned 31 January 2019
6 Appointed 14 November 2018
7 Appointed 14 November 2018
8 Appointed 1 September 2019. Additional fees paid for consulting services.
9 Waived right to fees

Incentive outcomes for the year ended 31 December 2019

Annual bonus in respect of performance in the 2019 financial year

No annual bonus payments for the executive directors were awarded in 2019.

LTIP awards granted in 2019

No share awards were granted under the LTIP in 2019.

Annual report on remuneration continued

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

Share interests as at 19 June 2020 are set out below:

Director	Number of beneficially owned shares[1] No.	DBP awards subject to vesting No.	LTIP awards subject to conditions No.	Warrants (see note 15.3) No.	Total interests held as at 19 June 2020 No.	Total interests held as at 30 April 2019 No.
Sir Michael Rake	760,000	–	–	–	760,000	330,000
Anuj Sharma	42,000	–	–	–	42,000	8,340,104
Kevin Dennehy	40,000	152,537	1,465,335	–	1,657,872	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
Nicolás Mallo Huergo	966,323	–	–	–	966,323	1,572,323
Matthieu Milandri	–	–	–	–	–	–
Daniel Jaeggi[2]	–	–	–	–	–	–
Tim Harrington	–	–	–	–	–	–
Martin Bachmann	–	–	–	–	–	–

1 Beneficial interests include shares held directly or indirectly by connected persons
2 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 buy backs implemented or other significant distributions, payments or other uses of profit or cash flow in the 2019 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.

Anuj Sharma

On 23 April 2019, Anuj Sharma served a notice on the company, which the company is treated 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. His remuneration arrangements were in line with the provisions in his service contract, which entitled him to a payment on garden leave for a six-month period and a payment in lieu of notice for a further six-month period. The remuneration he received as an executive director is set out in the 2019 single figure table. Anuj Sharma was paid a cash bonus of £375,000 in respect of outstanding entitlements under the company's senior executive bonus schemes and all outstanding awards granted under the LTIP, DBP and 2018 Deed of Grant lapsed.

External appointments

The executive director does not currently hold any external appointments.

Review of past performance and CEO remuneration and percentage change in CEO remuneration

As no full year comparisons are available, any review of past performance and percentage change in CEO remuneration would not be meaningful.

Implementation of director remuneration policy for 2020

Executive directors' base salaries

Following a review of executive directors' salary levels, the committee does not recommend an increase in executive directors' salaries in 2020. The current 2020 salaries are as follows:

Director	Base salary US$'000
CEO[1]	n/a
CFO	400

1 Open position. To be determined.

In the current economic environment, the committee will continue to review current salary levels and recommend any adjustments as it considers appropriate to mitigate the impact of the COVID-19 crisis.

Executive directors' pensions

The CFO 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 an allowance, whilst 'out of country', to compensate for lost 401k plan benefits offered to all United States employees.

Non-executive directors' fees

Following a review of non-executive directors' fees, the committee does not recommend an increase in the non-executive chairman's fee in 2020. Separately, the non-executive chairman and executive directors similarly do not recommend an increase in the non-executive director fees. The fees for 2020 are as follows:

Director	Base fee US$'000
Sir Michael Rake	204
John Bentley	89
Javier Alvarez	64
David Jackson	77
Nicolás Mallo Huergo	64
Daniel Jaeggi	–
Tim Harrington	64
Martin Bachmann	64

In the current economic environment, the committee will continue to review current salary levels and recommend any adjustments as it considers appropriate to mitigate the impact of the COVID-19 crisis.

Annual bonus and LTIP

Given the inherent high level of uncertainty in the current challenging economic environment, the committee is reviewing the appropriateness of the company's remuneration policy.

In 2020, it is unlikely any awards will be granted under the LTIP and any bonuses will primarily be determined on a discretionary basis.

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

John Bentley
Chairman, remuneration committee
26 June 2020

Where applicable a rate of exchange of US$/£1.277 has been used for 2019 and 2020 and a rate of exchange of US$/£1.335 for 2018. 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.

Directors' report

Group directors' report for the year ended 31 December 2019

The directors of Phoenix Global Resources plc present their annual report and audited financial statements of the company and the group for the year ended 31 December 2019. These will be laid before the shareholders at a general meeting to be held on 30 July 2020.

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 one overseas branch in Mendoza (Argentina).

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

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 2019 there were 2,786,644,709 ordinary shares in issue.

Purchase of own shares

On 26 June 2019, the company acquired 2,000,000 of its own ordinary shares at a price of £0.225 per share. The purchase was made in accordance with the authority to make an off-market purchase of shares that was granted to it by the shareholders of the company at the annual general meeting held on 25 June 2019. The shares acquired by the company were transferred to treasury with the company's intention being to use these shares to satisfy its obligations under the employee share schemes rather than issuing new equity for this purpose.

Transfer of treasury shares

On 18 July 2019, 355,999 ordinary shares were transferred from treasury to the Phoenix Global Resources Employee Benefit Trust and a further 22,929 shares were transferred directly to certain participants of the company's deferred bonus plan in satisfaction of awards made under the plan that vested on 27 June 2019. Following these transfers, 1,621,072 shares are held in treasury.

At 15 June 2020, the company's issued share capital comprises 2,785,023,637 shares (excluding the 1,621,072 shares held as treasury shares). Consequently, the total number of outstanding shares with active voting rights is 2,785,023,637.

Substantial and significant interests in shares and warrants to subscribe for ordinary shares

Shares

At 18 June 2019[3], the major shareholders of the group were as follows:

Name	Number of ordinary shares[3]	As a % of the issued ordinary shares
Mercuria Energy Group Limited[1]	2,329,762,468	83.6%
José Luis Manzano and family[2]	111,446,470	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 (340,939,131 shares) and Mercuria Energy Asset Management B.V. (64,188,301 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 shares) and directly by José Luis Manzano (12,799,010 shares)
3 At 18 June 2019, being the date of the most recent TR-1 form received by the company

Outstanding warrants to subscribe for ordinary shares

In furtherance of the 2017 combination transaction that formed the group, Upstream Capital Partners VI Limited 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.

To date, Upstream Capital Partners VI Limited has exercised 10,228,089 of the warrants received by it as part of the combination transaction. No warrants were exercised by Upstream Capital Partners VI Limited during 2019 and no warrants have been exercised by Upstream Capital Partners VI Limited in the period to 19 June 2020.

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 the Mercuria Energy Group companies. This relationship agreement restricts shareholder rights with respect to board composition, voting in relation to the appointment or removal of directors and the day to day running of the business by the executive directors. Excluding the chair, 50% of the board of directors are independent non-executive directors.

Matters related to governance are discussed further in the corporate governance report on pg.s 39–42.

Contracts of significance

At 1 January 2019, the company was participant to the 'new convertible revolving credit facility' advanced by Mercuria Energy Group with aggregate value of US$185.0 million. The facility is used to fund the exploration, evaluation and development activities of the group and for general corporate and working capital purposes. As work progressed during 2019, the amount available under the new convertible rolling credit facility was increased by way of three additional tranches to US$285.0 million. In January 2020, the new convertible rolling credit facility was further extended by an amount of US$6.0 million to an aggregate value of US$291.0 million.

Significant contracts with related parties are discussed in note 30 to the consolidated financial statements. Further details of the new convertible rolling credit facility and the amount outstanding under the facility are discussed in note 18 and 22 to the consolidated financial statements.

Dividends

The directors do not recommend the payment of a dividend for the year (2018: nil).

Directors

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

Name	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	12 September 2019
Guillaume Vermersch	Non-executive	10 August 2017	n/a
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
Martin Bachmann	Non-executive (independent)	2 September 2019	n/a

The directors of the company are re-appointed annually. Accordingly, resolutions to reappoint each of the 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 60.

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 2019 (year ended 31 December 2018: nil).

Auditor 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.

Directors' report continued

Corporate governance

The company's statement on corporate governance can be found in the corporate governance report on pg.s 39–42 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 the offices of the company at 6th Floor, King's House, 10 Haymarket, London SW1Y 4BP on 30 July 2020. 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 phoenixglobalresources.com.

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. To date, the funding required to support the activities of the group has been provided by Mercuria Energy Group.

The company is currently faced with several challenges. On a macro level it faces economic uncertainty in Argentina following a change of government in December 2019 and as a result of the continuing negotiations by the government to restructure the country's debt. This political and economic uncertainty has been compounded by the impact of COVID-19 and the global collapse in demand for oil that caused oil prices to collapse in the first half of 2020.

The company has currently shut-in production of crude oil from its operated licences due to demand constraints. The company has developed and is progressively implementing a plan that involves a significant reduction in both operating and administrative costs. The cost reduction actions being taken mean the company will be in a significantly better position to produce oil economically at lower oil prices and with a positive contribution to cash flow when production recommences. The company will then focus on the continued development of its unconventional assets.

Our major shareholder, Mercuria, is supportive of the cost reduction plan and has extended short-term debt facilities to facilitate its implementation and execution. Mercuria has written to the company stating its intention to continue to provide financial support to the company of up to $37 million in order that the company may continue to operate and service the company's liabilities as they fall due in the next 12 months whilst the company assesses the timing of work plans and capital commitments. Mercuria has agreed to meet the company's cash needs for this period and not demand repayment of the existing loan within the next 12 months whilst in discussion with the company to restructure the existing loan agreement. This letter, which by its nature is not legally binding, represents a letter of comfort stating Mercuria's current intention to continue to provide support.

The directors believe they will be able to agree the restructure of the existing debt with Mercuria and formalise an agreement for new funding and that the group and company can continue as a going concern for the foreseeable future. The application of the going concern basis of preparation of the financial statements included in this annual report is based on the letter that has been received from Mercuria and the ongoing discussions with the Mercuria principals and accordingly, the directors continue to adopt the going concern basis for accounting in preparing the 2019 financial statements. However, the directors recognise that if financial support over the next 12 months from Mercuria were not to be available and the company is unable to restructure the existing loan agreement from Mercuria or obtain funding from alternative sources, this gives rise to a material uncertainty that may cast significant doubt on the group's and company's ability to continue as a going concern.

The financial statements do not include any adjustments that would be required if the group and company were unable to continue as a going concern.

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	Pg. number
Future developments	pg.s 6–7
Stakeholder engagement	pg.s 8–9
Acquisitions and disposals	pg.s 91–97
Anti-slavery disclosure	pg. 33
Corporate governance statement	pg.s 39–42
Gender diversity	pg. 33
Financial risk and financial instruments	pg.s 103–106
Important events subsequent to the year end	pg. 112

By order of the board

Nigel Duxbury
Company secretary
26 June 2020

Statement of directors' responsibilities in respect of the financial statements

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's) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

→ select suitable accounting policies and then apply them consistently;

→ state whether applicable IFRSs as adopted by the European Union have been followed in respect of each of the group and company financial statements, subject to any material departures disclosed and explained in the financial statements;

→ make judgements and accounting estimates that are reasonable and prudent; and

→ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and 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 of Phoenix Global Resources plc are responsible for the maintenance and integrity of the of the company'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 auditor 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 auditor are aware of that information.

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 2019 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 2019 (the "annual report"), which comprise: the consolidated and company statements of financial position as at 31 December 2019; 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.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the group's and company's ability to continue as a going concern. The group has not completed the renegotiation of its current debt repayments with its primary lender, Mercuria Energy Group Limited ("Mercuria"), who is also the major shareholder of the group and the funding plan for FY2021 has not yet been agreed. The ultimate form of this funding could be significantly different to what is currently being discussed with the lender, which in turn could lead to a lack of future funding for capital and operating expenditures which would ensure the continued development of the assets.

These conditions, along with the other matters explained in note 2 to the group financial statements and note 1 to the company financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

Explanation of material uncertainty

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 directors have already taken significant steps to reduce the cost base of the business and manage its capital structure to ensure the group will be viable at lower long term oil prices. A combination of the above risks may require additional measures to be taken such as further cost reductions.

The group is dependent on the willingness of Mercuria, 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 expenditure requirements which underpin this.

Due to the level of funding requirements in the next 12 months for operational expenses and to appraise the contingent and prospective resources, the major shareholder, Mercuria Energy Group Limited, has expressed its current intention 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 2020 and into 2021. This support is not legally binding. If the company is unable to access funding from its major shareholder, or from alternative sources, to meet the operational and development capex requirements, then it may not be able to ensure that the various unconventional opportunities it is targeting will move through development and into production.

The directors believe that they will be able to complete the renegotiation of the current debt and agree on further funding such that the group and company can continue as a going concern for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis of accounting in preparing these financial statements. However, given the risks associated with the matters outlined above, the directors have drawn attention to this in disclosing a material uncertainty relating to going concern in the basis of preparation to the financial statements.

What audit procedures we performed:
In concluding there is a material uncertainty, our audit procedures assessed the ability and intention of the major shareholder to continue to finance the ongoing exploration commitments, whilst management assesses the timing of work plans and capital commitments. In assessing the impact of the above scenarios, which are referred to in note 2 to the group financial statements and note 1 to the company financial statements, we performed the following procedures on the directors' assessment that the group and company will continue as a going concern:

- We obtained management's cash flow forecast for 2020 and 2021, which supports their use of the going concern basis of accounting for the financial statements. We tested the integrity of the forecast, including mathematical accuracy. The model includes several key assumptions such as sales revenues, operating costs and capital expenditure as well as successful exploration results transforming into production.
- We 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.
- The company has been provided with a letter of support from Mercuria to provide additional funding as required for a period not less than the 12 months from the date of approval of the financial statements. We read this letter and considered the ability of Mercuria to support the group from discussions with them and reviewed their financial position. Based on the results of the procedures performed, we are satisfied about their ability to support the group.

Our audit approach
Context
In establishing the overall approach to the group audit, we determined the type of work required 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 located 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 required 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 included 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 company, the intermediate holding companies as well as the consolidation.

We identified four entities which, in our view, required an audit of their complete financial information, either due to their size or risk characteristics. These included the three main operating subsidiaries in Argentina, as well as the parent company in the United Kingdom. The above gave us coverage of 95% over consolidated revenue, 88% of consolidated total assets and 91% of absolute 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.

Overview
- Overall group materiality: US$3.3million (2018: US$3.4million), based on 0.5% of total assets.
- Overall company materiality: US$2.3million (2018: US$1.1million), based on 0.5% of total assets.

- 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 95% coverage of consolidated revenue, 88% of consolidated total assets and 91% of absolute consolidated net assets for the group.

- Impairment of long-term assets and goodwill (group)
- Impairment of investments (company)
- Impact of COVID-19 (group and company)
- Ability to continue as a going concern (group and company)

Independent Auditors' Report continued

The scope of our audit

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
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 asset balances. As disclosed in note 13 and note 14, the group has property, plant and equipment of US$324.2 million and exploration and evaluation assets of US$210.7 million at 31 December 2019. The group also has goodwill of US$35.8 million which arose as part of the reverse takeover 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 identified impairment triggers for Atamisqui and Chachahuen CGUs and as such performed a discounted cash flow model for each asset, considering factors such as long-term prices, interest rates, reserves and production. When comparing to these cashflows, an impairment charge of US$2.5million was booked against the value of Atamisqui. No impairment was required in relation to Chachahuen.	For the Chachahuen and Atamisqui CGUs, 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. We confirmed the goodwill balance allocated to Chachahuen and confirmed this was recoverable based on underlying reasonable cash flows. 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 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, with the exception of Atamisqui and Chachahuen, there were no other triggers identified during the year to 31 December 2019 and based on the results of our procedures performed, we concluded that the impairments recorded were appropriate. We have tested management's sensitivities disclosed within the accounts in note 13 and have confirmed these are appropriate.

Key audit matter	How our audit addressed the key audit matter
Impairment of investments (company) 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 US895 million after current year impairment charges of US$169 million at 31 December 2019. 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$157.2 million has been recognised in respect of Trefoil Holdings B.V and US$12.2 million in respect of CHPPC Andes S.R.L. 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 Trefoil Holdings B.V. and CHPPC Andes S.R.L. 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.
Impact of COVID-19 (group and company) Refer to Note 2 to the group financial statements and note 2 to the company financial statements for the directors' disclosures of going concern. Management has considered the potential impact of the non-adjusting post balance sheet events that have been caused by the pandemic, COVID-19, on the current and future operations of the group and the company. The virus may result in a sustained low oil price and short term decline in oil demand from customers which may negatively impact future cash flows and the Group's ability to continue as a going concern. Refer to the material uncertainty section above.	In assessing the directors' consideration of the potential impact of COVID-19, our audit procedures included: → Testing management's going concern assessment and related disclosures in the financial statements, as explained in the material uncertainties related to going concern section above; and → Evaluated the completeness and appropriateness of management's disclosures in the financial statements related to the impact of the COVID-19 virus. Based on the results of the procedures performed, and on the information available at the date of the directors' approval of the financial statements and of our audit report, we concluded that a material uncertainty exists which may cast significant doubt over the ability of the group and the company to continue as a going concern, as described in the material uncertainty related to going concern section above.

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.

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	US$3.3million (2018: US$3.4million).	US$2.3million (2018: US$1.1million).
How we determined it	0.5% of Total Assets.	0.5% of Total Assets.
Rationale for benchmark applied	We have concluded that total assets is 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 total assets.

Independent Auditors' Report continued

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 US$1.4million and US$2.8million. 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 US$165k (group audit) (2018: US$168k) and US$113k (Company audit) (2018: US$53k) 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 other than the material uncertainty we have described in the material uncertainty related to going concern section above. 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.

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, directors' report and corporate governance statement, 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 2019 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' 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 25 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 32 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' 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 65, 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 45 to 47 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 65, 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.

Richard Spilsbury (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 June 2020

Consolidated income statement
For the year ended 31 December 2019

	Note	2019 US$'000	2018 US$'000
Revenue	7	**129,417**	176,972
Cost of sales	8	**(144,813)**	(155,638)
Gross (loss)/profit		**(15,396)**	21,334
Selling and distribution expenses		**(5,230)**	(5,758)
Exploration expenses	13, 14	**(4,240)**	(9,359)
Loss on termination of licences and other impairment charges	13, 14	**(27,753)**	–
Loss on sale of non-current assets	15	**(28,971)**	(1,125)
Administrative expenses	9	**(27,144)**	(24,561)
Other operating expenses	10	**(1,417)**	(15,443)
Operating loss		**(110,151)**	(34,912)
Presented as:			
Operating loss		**(110,151)**	(34,912)
Add back:			
Depreciation, depletion and amortisation	13	**66,057**	64,726
Exploration cost written off		**4,240**	9,359
EBITDAX		**(39,854)**	39,173
Non-recurring expenses	13, 14, 15	**56,724**	–
Adjusted EBITDAX		**16,870**	39,173
Finance income	16	**1,577**	4,098
Finance costs	16	**(26,247)**	(30,702)
Loss before taxation		**(134,821)**	(61,516)
Taxation	17	**21,011**	(16,797)
Loss for the year		**(113,810)**	(78,313)
Loss per ordinary share		**US$**	**US$**
Basic and diluted loss per share	31	**(0.04)**	(0.03)

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

Financial statements

Consolidated statement of comprehensive income
For the year ended 31 December 2019

	2019 US$'000	2018 US$'000
Loss for the year	**(113,810)**	(78,313)
Translation differences	**–**	(361)
Total comprehensive loss for the year	**(113,810)**	(78,674)

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 2019

	Note	2019 US$'000	2018 US$'000
Non-current assets			
Property, plant and equipment	13	**324,249**	366,191
Intangible assets and goodwill	14	**246,540**	261,010
Other receivables	19	**4,744**	5,085
Deferred tax assets	26	**18,534**	9,001
Total non-current assets		**594,067**	641,287
Current assets			
Assets held for sale	13	**18,208**	–
Inventories	27	**18,202**	17,279
Trade and other receivables	19	**34,527**	30,407
Cash and cash equivalents	20	**11,002**	21,085
Total current assets		**81,939**	68,771
Total assets		**676,006**	710,058
Non-current liabilities			
Trade and other payables	21	**5,370**	3,256
Borrowings	22	**146,751**	135,919
Deferred tax liabilities	26	**87,636**	99,374
Provisions	28	**15,784**	16,236
Total non-current liabilities		**255,541**	254,785
Current liabilities			
Liabilities held for sale		**447**	–
Trade and other payables	21	**39,446**	51,410
Income tax liability		**870**	1,595
Borrowings	22	**156,865**	64,365
Provisions	28	**120**	1,733
Total current liabilities		**197,748**	119,103
Total liabilities		**453,289**	373,888
Net assets		**222,717**	336,170
Equity			
Share capital and share premium		**456,734**	457,198
Other reserves		**(112,150)**	(112,150)
Retained deficit		**(121,867)**	(8,878)
Total equity		**222,717**	336,170

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

The financial statements on pages 72-112 were approved by the board of directors and authorised for issue on 26 June 2020 and were signed on its behalf by:

Sir Michael Rake
Director

Consolidated statement of changes in equity
For the year ended 31 December 2019

Capital and reserves	Called up share capital US$'000	Share premium US$'000	Treasury shares US$'000	Retained (deficit)/ earnings US$'000	Other reserves US$'000	Total equity US$'000
At 1 January 2018	**329,877**	**–**	**–**	**68,896**	**(116,299)**	**282,474**
Loss for the year	–	–	–	(78,313)	–	(78,313)
Other comprehensive loss	–	–	–	–	(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**
Loss for the year	–	–	–	(113,810)	–	(113,810)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	(113,810)	–	(113,810)
Purchase of own shares	–	–	(572)	–	–	(572)
Issue of employee share options	–	–	108	(126)	–	(18)
Cash settlement of employee share options	–	–	–	(154)	–	(154)
Fair value of share based payments	–	–	–	971	–	971
Fair value of warrants	–	–	–	130	–	130
At 31 December 2019	**364,175**	**93,023**	**(464)**	**(121,867)**	**(112,150)**	**222,717**

Other reserves	Merger reserve US$'000	Warrant reserve US$'000	Translation reserve US$'000	Total other reserves US$'000
At 1 January 2018	**(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)**
At 31 December 2019	**(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 2019

	Note	2019 US$'000	2018 US$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	32	**(16,280)**	21,014
Income taxes paid		**(144)**	(842)
Net cash (outflow)/inflow from operating activities		**(16,424)**	20,172
Cash flows from investing activities			
Payments for property, plant and equipment		**(46,375)**	(80,531)
Payments for intangibles		**(38,852)**	(43,188)
Proceeds from sale of non-current assets	15	**7,563**	39
Recovery of restricted cash		**–**	377
Net cash outflow from investing activities		**(77,664)**	(123,303)
Cash flows from financing activities			
Proceeds from issues of shares and other equity instruments		**–**	4,925
Proceeds from borrowings		**96,000**	116,210
Repayment of borrowings		**(8,000)**	(7,556)
Interest paid		**(1,548)**	(8,852)
Principle lease payments		**(1,419)**	–
Net cash inflow from financing activities		**85,033**	104,727
Net (decrease)/increase in cash and cash equivalents		**(9,055)**	1,596
Cash and cash equivalents at the beginning of the financial year		**21,085**	23,696
Effects of exchange rates on cash and cash equivalents		**(1,028)**	(4,207)
Cash and cash equivalents at end of year	20	**11,002**	21,085

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

Notes to the consolidated financial statements

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. To date, the funding required to support the activities of the group has been provided by Mercuria Energy Group.

The company is currently faced with several challenges. On a macro level it faces economic uncertainty in Argentina following a change of government in December 2019 and as a result of the continuing negotiations by the government to restructure the country's debt. This political and economic uncertainty has been compounded by the impact of COVID-19 and the global collapse in demand for oil that caused oil prices to collapse in the first half of 2020.

As a result of the fall in the demand for oil and the collapse in oil prices, the company has shut-in production of crude oil from its operated licences. The company has developed and is progressively implementing a plan that involves a significant reduction in both operating and administrative costs. The cost reduction actions being taken mean the company will be in a significantly better position to produce oil economically at lower oil prices and with a positive contribution to cash flow when production recommences. The company will then focus on the continued development of its unconventional assets.

Our major shareholder, Mercuria, is supportive of the cost reduction plan and has extended short-term debt facilities to facilitate its implementation and execution. Mercuria has written to the company stating its intention to continue to provide financial support to the company of up to $37 million in order that the company may continue to operate and service its liabilities as they fall due in the next 12 months whilst it assesses the timing of work plans and capital commitments and has agreed to meet the company's cash needs for this period and not demand repayment of the existing loan within the next 12 months whilst in discussion with the company to restructure the existing loan agreement. This letter, which by its nature is not legally binding, represents a letter of comfort stating Mercuria's current intention to continue to provide support.

The directors believe they will be able to agree the restructure of the existing debt with Mercuria and formalise an agreement for new funding and that the group and company can continue as a going concern for the foreseeable future. The application of the going concern basis of preparation of the financial statements included in this annual report is based on the letter that has been received from Mercuria and the ongoing discussions with the Mercuria principals and accordingly, the directors continue to adopt the going concern basis for accounting in preparing the 2019 financial statements. However, the directors recognise that if financial support over the next 12 months from Mercuria were not to be available and the company is unable to restructure the existing loan agreement from Mercuria or obtain funding from alternative sources, this gives rise to a material uncertainty that may cast significant doubt on the group's and company's ability to continue as a going concern.

The financial statements do not include any adjustments that would be required if the group and company were unable to continue as a going concern.

Foreign currency

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

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 operation or, in some circumstances, it can be determined by other key factors, such as when significant contracts (sales, services, funding, etc.) are denominated in or by reference to a currency. 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. 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.

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).

Notes to the consolidated financial statements continued

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 made up to 31 December each year.

Non-controlling interests

There is no non-controlling interest at either 31 December 2018 or 2019.

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 14-19 and typically represent a percentage-based working interest in the joint operation.

3. Significant accounting policies

3.1 New standards, amendments and interpretations effective and adopted by the group in 2019

The company has applied the following new accounting standards, amendments and interpretations for the first time for the annual reporting period commencing 1 January 2019:

- IFRS 16: Leases;
- Prepayment Features with Negative Compensation (Amendments to IFRS 9);
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Annual Improvements to IFRS 2015-2017 Cycle;
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19); and
- IFRIC 23 'Uncertainty over Income Tax Treatments'.

The adoption of IFRS 16 has required the group to change its accounting policies and has been detailed below. The other amendments listed above have not had any material impact on the disclosures or on the amounts reported in the financial statements, nor are they expected to significantly affect future periods.

IFRS 16: Leases ('IFRS 16')

Overview

IFRS 16 became effective for accounting periods that started on or after 1 January 2019 and the group adopted the standard from this date.

The standard seeks to clarify the accounting treatment for leased assets that are accounted for under IAS 17 'Leases' as either finance leases or operating leases. Under IAS 17 accounting rules for finance leases, leased assets and corresponding lease obligations were capitalised in the statement of financial position and amortised over the life of the lease contract. Operating leases were accounted for based 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 were very specific and involved the application of a number of 'bright line' rules that determine the final treatment. This specificity resulted in the opportunity to specifically design contracts for rental which, while substantially similar, could 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 result in more leased assets and lease obligations being capitalised in companies' statements of financial position.

How the standard applies to Phoenix Global Resources plc

The group has assessed its lease and rental arrangements, and arrangements where regular payments of consistent amounts are paid to a supplier of goods or services, in line with the rules of the new standard. This assessment concluded 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.

3. Significant accounting policies continued

3.1 New standards, amendments and interpretations adopted in 2019 continued

Conclusion

On adoption of IFRS 16 the group was required to recognise lease liabilities on the balance sheet in relation to leases which had previously been classified as operating leases under the principles of IAS 17 'Leases'. These leases all relate to office space. The liabilities were measured at the present value of the remaining lease payments, discounted using the group's incremental borrowing rate as of 1 January 2019. The borrowing rate applied to the lease liabilities was 6.33%. The impact on the balance sheet at 1 January 2019 was immaterial and is disclosed in the table below. The group has adopted the modified retrospective approach permitted under the standard and as such has not restated the comparative figures for the 2018 reporting period.

	USD $'000
Operating lease commitments held at 31 December 2018:	**800**
Impact of discounting using the incremental borrowing rate on transition	(76)
Adjustments resulting from different treatment of certain lease clauses	145
Lease liability recognised at 1 January 2019	**869**
Of which:	
Current lease liabilities	391
Non-current lease liabilities	478

The corresponding US$0.9 million right-of-use asset was included within other fixed assets in property, plant and equipment at the transition date. The asset will be depreciated on a straight-line basis over the life of the underlying lease contracts.

3.2 New accounting standards issued but not yet effective or adopted by the group in 2019

Certain new and amended accounting standards and interpretations have been published that are not mandatory for the period ended 31 December 2019, nor have they been early adopted by the group. These standards and interpretations are not expected to have a material impact on the group's consolidated financial statements in the current or future reporting periods.

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.

4.1 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 by examining the specific circumstances of each entity. 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.

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 priced by reference to the US Dollar.

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'. 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.

Notes to the consolidated financial statements continued

4. Critical accounting estimates and judgements continued

4.1 Critical judgements continued

Determination of functional currency continued

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 the US Dollar, Euro or Swiss Franc 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.

4.2 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 2019 and 2018 are included in the segment information in note 6.

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.

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.

Estimation of oil and gas reserve volumes continued

The estimation of reserve volumes is inherently imprecise, requires the application of judgement and is subject to future revision. Variations in future sales prices, cost estimates or actual production volumes can cause actual results to differ from the estimates and affect the absolute quantity of estimated commercial reserve volumes from one period to the next. Variations can be positive or negative. Subsurface conditions and other engineering factors can also affect estimated reserve volumes.

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 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.

4. Critical accounting estimates and judgements continued

4.2 Critical estimates continued

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 in note 13. Reserve volumes are also used to assess fair value in business combinations and in calculating whether an impairment charge should be recorded where an impairment indicator exists.

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 judgement. 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 28.

Recognition of deferred tax assets

Assumptions about the generation of future taxable profits depend on management's estimates of cash flows and taxable income. These estimates are primarily based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and gas prices, oil and gas reserves and operating costs), as well as decommissioning estimates, forecast future capital expenditure and the expected capital structure of the group. The critical estimates applied to management's cash flow and taxable income estimates are discussed in the section below.

Should future cash flows and/or taxable income differ significantly from these estimates, the ability of the group to realise the deferred tax assets recorded at the reporting date could be impacted. Management is therefore required to apply significant judgement in assessing the extent to which future taxable profits are included in the assessment of recoverability.

Details of the deferred tax asset together with movements recognised in the year are included in the analysis of deferred tax in note 26.

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 oil and gas sales is calculated by multiplying actual delivery volume by the contracted price of the specific commodity on the day of delivery.

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. Sales contracts usually 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 therefore a single performance obligation being physical delivery at a specified point.

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.

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 cost 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.

Notes to the consolidated financial statements continued

5. Accounting policies continued

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.

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 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.

The grant by the company of equity instruments to the employees of subsidiary undertakings in the group is treated as an intercompany transaction. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an intercompany loan, 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.

5.4 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

5.4 Taxes continued

Minimum notional income tax – Argentina

Argentine tax law applicable in 2018 required 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.

The minimum notional income tax legislation was repealed during the period, with effect from 1 January 2019.

5.5 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 ('CGU') in a systematic manner reflective of how the group expects to recover the value of the goodwill and how it will be monitored. The group's policy is to monitor goodwill at an operating segment level before combining segments for reporting.

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.

5.6 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. Where the results of exploration drilling do not indicate that hydrocarbon reserves exist or 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.

Impairment

Capitalised 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 its CGU and the recoverable amount of the CGU is determined. The recoverable amount of the CGU 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 CGU is the result of future exploration drilling, which will ultimately determine the licence area's future economic potential.

Notes to the consolidated financial statements continued

5. Accounting policies continued

5.7 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 have 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 WTI;
- an increase in cash operating costs;
- a significant downward revision to the estimated 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 review of development and production assets is undertaken on a CGU basis and involves comparing the carrying value of an asset with its recoverable amount. The CGU is typically applied at the field or licence level, unless a number of field interests are determined to be interdependent. 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.

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.

5.8 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.

5. Accounting policies continued

5.8 Decommissioning continued

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, recorded in operating expenses; and
- the unwind of the discount on the decommissioning provision that is recorded as a finance cost 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.

5.9 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:

→ Property	10% to 20%
→ Fixtures and fittings	20% to 33%
→ Vehicles	20%
→ Other equipment	20% to 33%

5.10 Non-current assets held for sale

Non-current assets or disposal groups classified as held for sale are measured at the lower of their net book value and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management views the trigger for recognition either as signature of a sales and purchase agreement or board approval. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets classified as held for sale and the corresponding liabilities are classified in current assets and liabilities on a separate line in the balance sheet.

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. The fair value assessment will include certain assumptions, such as 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.

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 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 is allocated to the CGUs or groups of CGUs that are expected to benefit from the business combination and is subject to annual impairment testing.

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.

Notes to the consolidated financial statements continued

5. Accounting policies continued

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 ('OCI'); and
- financial assets measured at fair value through profit or loss ('FV-P&L').

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 OCI 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 P&L 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 held at fair value through profit or loss is included in net operating gains/(losses). Interest on assets held at amortised cost is calculated using the effective interest method and is recognised in the statement of profit or loss in finance gains/(losses).

Impairment – general

Credit risk arises from the group's financial assets which are carried at amortised cost, at fair value through OCI and at fair value through P&L, 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.

Impairment – assets carried at amortised cost

For loans and receivables, the group applies the IFRS 9 simplified approach to measuring expected credit losses that 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/(loss). Subsequent recoveries of amounts previously written off are credited against the same line item.

Impairment – other short-term investments

All of the group's 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.

5. Accounting policies continued

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.

5.16 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. Trade payables 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.

5.18 Leases

On inception of a contract the group assesses whether it contains a lease. The contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the use of an identified asset is determined based on whether the group has the right to obtain all of the economic benefits from the use of the asset throughout the period of use, and if the group has the right to direct the use of the asset.

Lease obligations are recognised as a liability with a corresponding right-of-use asset at the commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the lease commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate.

The corresponding right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of costs required to remove or restore the underlying asset, less any lease incentives received. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee or if the group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, those leases with a remaining lease term of less than 12 months as at 1 January 2019 and leases of low-value assets with an annual cost of US$5,000 or less. The group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes to the consolidated financial statements continued

6. Segment information

The group's executive management team comprising the interim chair of the executive committee, 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 split between those assets which are operated by the group and those which are not.

The strategy of the group is focused on the development of its unconventional operated assets in the Vaca Muerta and other unconventional opportunities in Argentina, while optimising its operated conventional production assets. The group also participates in joint arrangements as a non-operated partner. The group identifies its non-operated assets which are focused on the exploitation and development of the Vaca Muerta as core to its operations, with those focused on exploiting conventional oil and gas resources as non-core. Operated and non-operated assets of the group have therefore been determined to represent the reportable segments of the business. The third segment 'corporate', primarily relates to administrative costs, financing costs and taxation incurred in running the business which are not directly attributable to one of the identified segments.

In 2019, the group redefined its segments to better reflect how the executive management team receives and reviews information on the business. As such, the 2018 comparatives have been restated in the period to match the updated definition.

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 executive management team also receives information about segment revenue and capital expenditure on a monthly basis.

2019	Operated US$'000	Non-operated US$'000	Corporate US$'000	Total US$'000
Revenue	**49,355**	**80,062**	**–**	**129,417**
Loss for the year	**(32,952)**	**(50,611)**	**(30,247)**	**(113,810)**
Add: depreciation, depletion and amortisation	32,470	31,954	1,633	66,057
Add: exploration costs written off	3,665	575	–	4,240
Less: finance income	–	–	(1,577)	(1,577)
Add: finance costs	381	465	25,401	26,247
Less: taxation	–	–	(21,011)	(21,011)
EBITDAX	**3,564**	**(17,617)**	**(25,801)**	**(39,854)**
Oil revenues	**49,341**	**65,311**	**–**	**114,652**
bbls sold	1,050,157	1,340,561	–	2,390,718
Realised price (US$/bbl)	46.98	48.72	–	47.96
Gas revenues	**14**	**14,751**	**–**	**14,765**
MMcf sold	5.43	4,448.47	–	4,453.90
Realised price (US$/MMcf)	2.58	3.32	–	3.32
Capital expenditure				
Property, plant and equipment	34,630	19,015	3,774	57,419
Intangible exploration and evaluation assets	36,915	2,139	–	39,054
Total capital expenditure	**71,545**	**21,154**	**3,774**	**96,473**

Exploration costs incurred in the operated segment include US$3.4 million related to the write-off of an unsuccessful exploration well at the Atamisqui concession which was previously being held as suspended. Exploration costs in the non-operated segment include US$0.4 million related to geological or geophysical work at the Chachahuen concession that is not related to a specific prospect and is general in nature.

6. Segment information continued

2018	Operated (restated) US$'000	Non-operated (restated) US$'000	Corporate (restated) US$'000	Total (restated) US$'000
Revenue	64,806	112,166	–	176,972
Profit/(loss) for the year	910	3,282	(82,505)	(78,313)
Add: depreciation, depletion and amortisation	24,445	39,547	734	64,726
Add: exploration costs written off	5,607	3,752	–	9,359
Less: finance income	–	–	(4,098)	(4,098)
Add: finance costs	452	408	29,842	30,702
Add: taxation	–	–	16,797	16,797
EBITDAX	31,414	46,989	(39,230)	39,173
Oil revenues	64,785	89,690	–	154,475
bbls sold	1,099,618	1,507,137	–	2,606,755
Realised price (US$/bbl)	58.92	59.51	–	59.26
Gas revenues	21	22,476	–	22,497
MMcf sold	5.36	5,488.19	–	5,494
Realised price (US$/MMcf)	3.92	4.10	–	4.10
Capital expenditure				
Property, plant and equipment	54,288	26,286	918	81,492
Intangible exploration and evaluation assets	57,224	344	–	57,568
Total capital expenditure	111,512	26,630	918	139,060

Exploration costs incurred in the operated segment included 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 operated segment related to geological or geophysical work that was not related to a specific prospect or area and was general in nature.

Exploration costs incurred in the non-operated segment 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.

There are no intersegment revenues in either period presented. The significant majority of oil and gas sales are made to the Argentina state-owned oil company, YPF.

7. Revenue

	2019 US$'000	2018 US$'000
Crude oil revenue	**114,652**	154,475
Gas revenue	**14,765**	22,497
Total revenue	**129,417**	176,972

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. Approximately 70% of gas production was sold to three separate external customers in the period.

8. Cost of sales

	2019 US$'000	2018 US$'000
Production costs	**78,960**	89,892
Depreciation of oil and gas assets	**66,057**	64,726
Movements in crude inventory	**(204)**	1,020
Total cost of sales	**144,813**	155,638

Notes to the consolidated financial statements continued

9. Administrative expenses

	2019 US$'000	2018 US$'000
Staff costs	**14,722**	13,413
Professional fees	**5,265**	5,181
Other general and administrative expenses	**7,157**	5,967
Total administrative expenses	**27,144**	24,561

10. Other operating income and expenses

	2019 US$'000	2018 US$'000
Income		
Staff seconded to joint operations	**780**	423
Reversed provisions	**572**	890
Other income	**–**	364
Expense		
Hedging loss	**–**	(7,632)
Share based payment	**–**	(5,451)
Argentine bank transaction taxes	**(2,285)**	(2,487)
Other expenses	**(484)**	(1,550)
Total other operating income or expense	**(1,417)**	(15,443)

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 2018 production.

Through much of 2017 Brent pricing had been soft and fluctuated between US$40.00/bbl and US$60.00/bbl. In January 2018, as the Brent benchmark breached the US$65.00/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 into monthly delivery volumes.

A loss was recognised in relation to the hedge agreement in 2018 as the Brent benchmark price exceeded the US$65.97/bbl contract price for much of the year. 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.

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 2018.

11. Auditor's remuneration

	2019 US$'000	2018 US$'000
Fees payable to the company's auditor and its associates for the audit of the parent company and consolidated financial statements	**239**	230
Fees payable to the company's auditor and its associates for other services:		
The audit of the company's subsidiaries	**235**	276
Review of the interim financial statements	**62**	61
Tax compliance services	**–**	4
Other taxation services	**–**	8
Other services	**–**	15
Total auditor's remuneration	**536**	594

The group has a policy in place for the award of non-audit work to the auditor which requires audit committee approval (refer to the audit committee report on pg.s 45-47).

12. Staff costs and headcount

Staff costs	2019 US$'000	2018 US$'000
Wages and salaries	**16,563**	16,555
Social security costs	**2,428**	2,495
Other benefits	**1,592**	810
Share-based payments	**893**	305
Total staff costs	**21,476**	20,165

Average headcount	2019 No.	2018 No.
Argentina	**104**	100
United Kingdom	**4**	4
United States of America	**6**	5
	114	109

Key management compensation	2019 US$'000	2018 US$'000
Short-term employee benefits	**1,713**	2,258
Post-employment benefits	**36**	98
Termination benefits[1]	**850**	421
Total key management compensation	**2,599**	2,777

1 2018 termination benefits restated.

Detailed remuneration disclosures are provided in the remuneration report on pg.s 48-61.

13. Property, plant and equipment

Property, plant and equipment	Other fixed assets US$'000	Development and production assets US$'000	Assets under construction US$'000	Total US$'000
At 1 January 2019				
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**
Year ended 31 December 2019				
Opening net book amount	**3,751**	**356,370**	**6,070**	**366,191**
Additions	**3,990**	**18,078**	**35,351**	**57,419**
Transfers	**–**	**34,131**	**(34,131)**	**–**
Transfers from intangible assets	**–**	**43,287**	**–**	**43,287**
Transfers to assets held for sale – cost	**(349)**	**(67,233)**	**–**	**(67,582)**
Disposal of assets – cost	**–**	**(126,950)**	**–**	**(126,950)**
Termination of licences – cost	**–**	**(53,334)**	**–**	**(53,334)**
Exploration costs written off	**–**	**(3,626)**	**–**	**(3,626)**
Depreciation charge	**(1,788)**	**(64,269)**	**–**	**(66,057)**
Impairment charge	**–**	**(2,500)**	**–**	**(2,500)**
Transfers to assets held for sale – accumulated DD&A	**309**	**49,682**	**–**	**49,991**
Disposal of assets – accumulated DD&A	**–**	**89,922**	**–**	**89,922**
Termination of licences – accumulated DD&A	**–**	**37,488**	**–**	**37,488**
Closing net book amount	**5,913**	**311,046**	**7,290**	**324,249**
At 31 December 2019				
Cost	**13,072**	**539,100**	**7,290**	**559,462**
Accumulated depreciation and impairment	**(7,159)**	**(228,054)**	**–**	**(235,213)**
Net book amount	**5,913**	**311,046**	**7,290**	**324,249**

Notes to the consolidated financial statements continued

13. Property, plant and equipment continued

Additions

An amount of US$0.9 million has been capitalised to other fixed assets in the period in relation to the right-of-use asset calculated on the adoption of IFRS 16 in the period. The asset will be depreciated on a straight-line basis over the life of the underlying lease contracts.

In August 2019, the company entered a new finance lease contract for the provision of power generators at the Puesto Rojas concession. An amount of US$5.9 million was capitalised as a right-of-use asset to assets under construction on commencement of the lease. The right-of-use asset will be transferred to development and production assets and depreciated following completion of the asset in 2020. Refer to note 25 for additional details on the company's leased assets.

Additions to property, plant and equipment in the year ended 31 December 2019 include US$0.3 million of interest capitalised in respect of qualifying assets (2018: US$0.7 million). The total amount of interest capitalised within property, plant and equipment at 31 December 2019 is US$3.1 million (2018: US$2.8 million).

Exploration costs

Exploration costs written off in 2019 include US$3.4 million related to the write-off of an unsuccessful exploration well in the operated segment that was previously being held as suspended.

Termination of licences

In May 2019, the Province of Mendoza issued a decree terminating the concession for the Chañares Herrados block held by the company's joint venture partner, Chañares Energía S.A., as a result of its failure to fulfil work commitments. The decree took immediate effect and the company has no intention of participating in the re-tender process. The carrying value of the asset has consequently been written off at 31 December 2019, causing a US$15.8 million loss to be realised in the non-operated segment.

Disposals

In November 2019, the company sold its 70% working interest in the Santa Cruz Sur ('SCS') licences to Echo Energy plc ('Echo'). SCS forms part of the group's non-operated asset portfolio, being conventional oil production operated by ROCH S.A. On sale, the net non-current assets related to SCS of US$34.2 million were written off to the gain/loss on sale calculation. Details of the sale transaction are described in note 15.

Assets held for sale

Assets held for sale relate to certain non-core development and production assets in the non-operated segment with a net book value of US$17.6 million and exploration and evaluation assets held within intangible assets with a net book value of US$0.6 million (see note 14). An additional amount of US$0.4 million has been disclosed as held for sale in current liabilities in relation to the ARO provision associated with these assets. Board approval for the sale of these assets has been given and the company has engaged in an active programme for the sale of the assets within 12 months of the reporting date.

Property, plant and equipment	Other fixed assets 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 and impairment	(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

13. Property, plant and equipment continued

Exploration costs

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 non-operated segment in 2018.

Impairment

The company defines the key indicators of impairment in relation to its oil and gas assets within its accounting policies. When a specific impairment trigger is identified during a period, the company will complete an impairment review of the associated CGU.

The company also assessed its licence interests for potential impairment on an annual basis 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. The NPV10 value is calculated based on a discounted cash flow model using a discount rate of 10%.

The calculation includes several key assumptions, including oil and gas prices and reserve estimates, which the company defines as key impairment indicators within its accounting policy. 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 impairment test uses several assumptions but is most sensitive to assumptions related to oil and gas prices, discount rate and production volumes.

The NPV10 impairment trigger assessment showed that the Atamisqui concession was potentially impaired. An impairment test was performed using a discounted cash flow model and an impairment charge of US$2.5 million was determined to be required at 31 December 2019. The impairment charge is reflective of the mature nature of the asset and the lower oil price environment observed towards the end of 2019.

In the prior year, a potential impairment was identified at the La Brea concession, however following completion of an impairment review, no impairment charge was considered necessary. During 2019, it was identified that the La Brea concession will share a single offtake point for production with Puesto Rojas and therefore it has been included in the same CGU as Puesto Rojas in 2019. The NPV10 impairment trigger assessment completed for this CGU during 2019 did not indicate any potential impairment.

Post year-end considerations

During 2020, the Brent crude benchmark price has fallen dramatically, primarily due to a significant reduction in demand for fuel caused by the COVID-19 pandemic and consequent travel and economic restrictions introduced. The Brent price recovered somewhat during May and June 2020, though current pricing remains significantly lower than the 2019 full year average Brent price of US$64.30/bbl.

In assessing for potential impairment conditions at 31 December 2019, we considered, amongst other factors, Gaffney, Cline and Associates' 2019 2P NPV10 calculations provided as part of their independent assessment of reserves and resources at 31 December 2019. The 2P NPV10 values were taken as a proxy for fair value and compared to the carrying value of the company's oil and gas assets on a CGU-by-CGU basis. A deficit of NPV10 compared to carrying value could be an indicator of impairment. These calculations were based on a US$65.00/bbl Brent reference price with a 1.5% accretion over time.

Because of the current lower oil price environment brought about by the COVID-19 situation, the company has carried additional 2019 2P NPV10 calculations and has performed sensitivity analysis based on a change in oil price, whilst maintaining the consistency of other inputs into the model. There are many other variables to consider in these calculations when undertaking a formal impairment review and hence the outcome of the sensitivity analysis performed is not necessarily indicative of potential impairment in the same amount.

In May 2020, the Argentine government issued a decree establishing a fixed realised Medanito price of US$45.00/bbl. This pricing will remain in place in the Argentine domestic market until the Brent crude benchmark sustains a price of US$45.00/bbl or above for 10 consecutive days. The company has, therefore, performed a sensitivity to evaluate the potential impact on asset carrying values if a flat long term US$45.00/bbl price was applied in the 2019 NPV10 calculations. Applying the revised flat pricing assumption gives a 2P NPV10 value that is approximately US$300 million lower than the comparable measure included in the independent assessment of reserves and resources at 31 December 2019.

Notwithstanding, it should be noted that the sensitivity analysis performed is a mathematical exercise and focuses only on a change in price and, for instance, does not take into account potential cost reductions, efficiencies or deferrals that could be achieved. In addition, the medium to long-term forward curve for Brent pricing currently shows future prices significantly above the US$45/bbl used in the sensitivity analysis. Therefore, the results of this analysis should not be taken as indicating actual potential impairment of an equivalent amount.

The company will be carrying out a full impairment assessment at 30 June 2020 as part of its preparation of its half year results.

Notes to the consolidated financial statements continued

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.

Intangible assets	Goodwill US$'000	Exploration and evaluation assets US$'000	Total US$'000
At 1 January 2019			
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
Year ended 31 December 2019			
Opening net book amount	35,838	225,172	261,010
Additions	–	39,054	39,054
Transfers from property, plant and equipment	–	(43,287)	(43,287)
Transfers to assets held for sale	–	(616)	(616)
Exploration cost written off	–	(230)	(230)
Impairment charge	–	(5,057)	(5,057)
Disposal of assets – cost	–	(4,334)	(4,334)
Closing net book amount	35,838	210,702	246,540
At 31 December 2019			
Cost	260,007	215,759	475,766
Accumulated amortisation and impairment charges	(224,169)	(5,057)	(229,226)
Net book amount	35,838	210,702	246,540

Additions

Additions to intangible assets during the period predominately relate to the conclusion of the drilling of the MMx-1001 well, the drilling of the MMx-1002 well and subsequent flowback and other testing and completion works completed at Mata Mora. Additions also included costs associated with securing the group's interest in the Corralera Noroeste concession.

The costs associated with the MMx-1001 and MMx-1002 wells were transferred to development and production assets within property, plant and equipment on completion of flowback and determination of commercial reserves. The remaining exploration and evaluation costs associated with the Mata Mora licence will be held as intangibles until the license area is commercially developed.

Disposals

A US$2.3 million loss on relinquishment has been recognised in respect to the Vega Grande concession in the operated segment. The licence area is not part of the company's core operations and is currently not producing. Management therefore made the decision not to request the extension of the concession when it became due for renewal during the period.

An additional US$2.0 million loss on relinquishment has been recognised in respect to the Malagüe concession in the non-operated segment. In May 2019, the Province of Mendoza ratified its decision to deny the application for the second exploration permit for the area with the current operator, YPF. The company subsequently appealed the decision and made a separate application for the exploration permit, in which the company would assume operatorship on the licence. In Q4 2019, this application was also denied, following which management elected to write off the asset.

Impairment

The impairment charge of US$5.1 million recorded in the period related to certain licences held on the balance sheet at the business combination date in 2017 which have subsequently been relinquished.

14. Intangible assets continued

Intangible 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

Additions to intangible assets during 2018 related 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 2018 also included 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

Exploration costs written off in 2018 included 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 goodwill allocation is presented below.

At acquisition	Operated US$'000	Non-operated US$'000	Corporate US$'000	Total US$'000
Chachahuen & Cerro Morado Este	–	15,223	–	15,223
Corralera	16,780	–	–	16,780
Mata Mora	3,835	–	–	3,835
Total goodwill	20,615	15,223	–	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 on 10 August 2017. 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.

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 12.0% (2018: 14.0%). Prices used in the assessment were the Energy Information Administration's forecast of Brent crude prices based on a US$65.00/bbl price with a 1.5% accretion over time and consistent with those used in completing the impairment assessment for the development and production assets.

The assessment determined that the fair value of the assets to which goodwill has been allocated was in excess of their carrying values as at 31 December 2019 and consequently no impairment charge has been recorded in 2019.

Notes to the consolidated financial statements continued

15. Disposal of non-current assets

Loss on sale of non-current assets in the year was US$29.0 million (2018: US$1.1 million) and is broken down in the table below. Refer to section 15.1 for further details on the disposal of the Santa Cruz Sur licences. The details of the disposal of Andes Energia Argentina S.A. made in 2018 have been disclosed in section 15.2.

Gain/(loss) on sale of non-current assets	2019 USD $'000
Disposal of Santa Cruz Sur	(29,609)
Disposal of Sur Rio Desde licence	550
Disposal of vehicles	88
Loss on sale of non-current assets	**(28,971)**

15.1. Disposal of Santa Cruz Sur

In November 2019, the company sold its 70% working interest in the Santa Cruz Sur ('SCS') licences to Echo Energy plc ('Echo'). SCS forms part of the group's non-operated asset portfolio, being conventional oil production operated by ROCH S.A.

Consideration received from Echo for the SCS assets was US$8.5 million, spilt between cash receipts of US$7.0 million plus an additional US$1.5 million settled through the issue of 39,958,443 new ordinary shares in Echo at a price of 2.9 pence per share. The realised loss on sale recognised in the consolidated income statement is US$29.6 million, which is broken down per the table below:

Loss on sale	2019 USD $'000
Consideration	8,500
Costs to sell	(1,410)
Fair value less costs to sell of total consideration	**7,090**
Net assets of SCS at sale date	(34,248)
Working capital outstanding at the sale date	(2,658)
Other adjustments	207
Loss on sale of Santa Cruz Sur	**(29,609)**

Costs to sell included US$1.2 million in relation to the expected future cost to the company of the Campo Limite work commitment. This commitment relates to the drilling of the Campo Limite well which forms part of the work commitment pursuant to the licence clauses for the SCS area held with the Province of Santa Cruz. Under the terms of the sales and purchase agreement ('SPA'), it was agreed that the company would be liable to pay, pro-rated to its 70% WI, for the costs of drilling the commitment well. Echo will then reimburse the company for 60% of the total incurred cost, up to a maximum value of US$1.1 million. The US$1.2 million cost included in the loss on sale calculation represents the total cost which the company estimates that it will be liable to pay in relation to the work commitment after the US$1.1 million cost reimbursement has been recovered from Echo. At 31 December 2019, works had begun on the commitment and it is expected that the commitment will be completed in H1 2020.

15.2. Disposal of Andes Energia Argentina S.A.

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 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.

15. Disposal of non-current assets continued

15.2. Disposal of Andes Energia Argentina S.A. continued

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	2018 USD $'000
Consideration	900
Contingent consideration	1,742
Costs to sell	(1,124)
Fair value less costs to sell of total consideration	**1,518**
Net assets of AEA S.A.	(2,643)
Loss on sale of AEA S.A.	**(1,125)**

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 dependent 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 20) 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.

16. Finance income and costs

	2019 US$'000	2018 US$'000
Finance income		
Interest income	**370**	321
Income from short-term investments	**753**	390
Net exchange gains on foreign currency borrowings	**12**	2,743
Other finance gains	**442**	644
Total finance income	**1,577**	4,098
Finance costs		
Interest on borrowings	**(16,627)**	(11,335)
Accretion of discount on asset retirement obligation	**(846)**	(860)
Loan arrangement fees	**(1,500)**	(1,875)
Other finance costs	**(2,117)**	(5,227)
Exchange differences	**(5,157)**	(11,405)
Total finance cost	**(26,247)**	(30,702)
Net finance cost	**(24,670)**	(26,604)

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 6.9% for US Dollar denominated secured bank loans (2018: 6.41%).

In the year to 31 December 2019, US$0.3 million (2018: US$0.7 million) of interest expense in respect of qualifying assets was capitalised as part of additions to property, plant and equipment.

Notes to the consolidated financial statements continued

17. Income tax expense

	2019 US$'000	2018 US$'000
Current tax		
Current tax (expense)/credit on profits for the year	**(260)**	201
Total current tax expense	**(260)**	201
Deferred income tax		
Movement in deferred tax	**21,271**	(16,998)
Total deferred tax benefit/(expense)	**21,271**	(16,998)
Income tax benefit/(expense)	**21,011**	(16,797)

Reconciliation of income tax expense to notional tax credit/(charge) calculated using corporate tax rate

	2019 US$'000	2018 US$'000
Loss from continuing operations before income tax expense	**(134,821)**	(61,516)
Tax at the Argentina tax rate of 30% (2018: 30%)	**40,446**	18,455
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Effect of currency translation on tax values	**(7,875)**	(26,556)
Effect of change in tax rate	**(7,989)**	3,400
Disposal of assets	**12,028**	–
Expenses not deductible for taxation	**(523)**	343
Deferred tax assets not recognised	**(6,308)**	(10,904)
Inflation adjustment	**(7,481)**	–
Other	**(1,287)**	(1,535)
Total income tax benefit/(expense)	**21,011**	(16,797)

The corporate income tax rate in Argentina in 2019 was 30% (2018: 30%) and applies to profits earned and losses suffered in the year to 31 December 2019.

Under the December 2017 tax reform plan implemented by the Argentina tax authorities, (the Administratión Federal de Ingresos Públicos or 'AFIP'), the corporate income tax rate was to be further reduced to 25% for years ending 31 December 2020 and forward. In December 2019 however, new tax reforms were implemented by the incoming government under Law 27,541. Under the new legislation, it was established that the reduced corporate rate of 25% would not be applicable until the year ending 31 December 2022 and forward.

An additional tax rate of 7% is applied to dividends when the corporate income tax rate is 30%. This additional dividend tax will be increased to 13% when the corporate tax rate is reduced to 25% in 2022.

18. Financial assets and liabilities

Financial assets 2019	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	–	2,648	19,950	22,598
Cash and cash equivalents	–	–	11,002	11,002
Total financial assets	**–**	**2,648**	**30,952**	**33,600**

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
Total financial assets	**–**	**794**	**41,745**	**42,539**

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.

18. Financial assets and liabilities continued

Financial liabilities 2019	Derivatives: FV-P&L US$'000	Derivatives: hedging US$'000	Liabilities at amortised cost US$'000	Total US$'000
Trade and other payables	–	–	44,816	44,816
Borrowings	–	–	303,616	303,616
Total financial liabilities	**–**	**–**	**348,432**	**348,432**

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
Total financial liabilities	**–**	**–**	**254,950**	**254,950**

In 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 or at 31 December 2019.

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.

At 31 December 2019, the group held US$1.3 million of financial assets related to equity instruments whose fair value is assessed by reference to Level 1 inputs in the fair value hierarchy. All other financial instruments held by the group at period end were assessed by reference to Level 3 inputs. In 2018, the group did not hold any financial instruments whose fair value was assessed by reference to Level 1 or Level 2 inputs.

The group's maximum exposure to various risks associated with the financial instruments is discussed in note 24.

19. Trade and other receivables

	2019			2018		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Equity investments	**1,303**	**–**	**1,303**	–	–	–
Contingent consideration	**1,345**	**–**	**1,345**	794	–	794
Financial assets at fair value through profit and loss	**2,648**	**–**	**2,648**	794	–	794
Trade receivables	**17,255**	**–**	**17,255**	21,152	–	21,152
Less: provision for impairment	**(447)**	**–**	**(447)**	(3,651)	–	(3,651)
	16,808	**–**	**16,808**	17,501	–	17,501
Other receivables	**1,962**	**1,180**	**3,142**	1,403	1,756	3,159
Financial assets at amortised cost	**18,770**	**1,180**	**19,950**	18,904	1,756	20,660
Prepayments and other receivables	**1,587**	**68**	**1,655**	1,404	–	1,404
Tax credits	**11,522**	**3,496**	**15,018**	9,305	3,329	12,634
Total trade and other receivables	**34,527**	**4,744**	**39,271**	30,407	5,085	35,492

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 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, prepayments 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.

Notes to the consolidated financial statements continued

19. Trade and other receivables continued

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 2019 and 1 January 2019 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 2019 was determined to be 0.4% of total sales (2018: 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.

Contingent consideration

Contingent consideration was recognised on 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.

At 31 December 2018, the funds held in escrow in respect of the Colombian licences were 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. was recognised in other receivables at 31 December 2018, with the element related to the account maintained by the company held in restricted cash.

During the period, the funds in escrow held in the bank account maintained by the company were transferred to the bank account maintained by AEA S.A., allowing the company to pass full title of the escrow funds to AEA S.A. and ultimately OES. As a result, the full contingent consideration balance is now presented in other receivables at the balance sheet date. Refer to note 15.2 for further details on the sale transaction.

20. Cash and cash equivalents

	2019 US$'000	2018 US$'000
Cash at bank and in hand	**8,832**	16,497
Short-term investments	**2,170**	796
Restricted cash	**–**	3,792
Total cash and cash equivalents	**11,002**	21,085

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 held in 2018 comprised the fair value of the cash held in escrow in respect of the licence guarantees in Colombia held in favour of the ANH. 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 recognised its share of expected receipts based on details received from OES regarding work to be performed. A payable was also recorded related to the element owed to OES should the commitments be fulfilled. Any restricted funds released from this account would initially be received by the company and then be allocated 75% to OES with the remaining 25% retained by the company.

During the period, the funds in escrow held in the bank account maintained by the company were transferred to a bank account maintained by AEA S.A., allowing the company to pass full title of the escrow funds to AEA S.A. and ultimately OES. As a result, no restricted funds were held by the company at the balance sheet date. The fair value of the expected future receipts of these restricted funds has been reclassified as contingent consideration at 31 December 2019. Refer to note 15.2 for further details on the sale transaction.

21. Trade and other payables

	2019			2018		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Trade payables	**16,869**	**–**	**16,869**	20,720	–	20,720
Accrued staff costs	**3,271**	**–**	**3,271**	4,356	–	4,356
Social security and other taxes	**2,922**	**1,278**	**4,200**	3,579	3,256	6,835
Royalties	**1,172**	**–**	**1,172**	1,390	–	1,390
Lease obligations	**1,281**	**4,092**	**5,373**	–	–	–
Accrued expenses	**9,901**	**–**	**9,901**	15,257	–	15,257
Other payables	**4,030**	**–**	**4,030**	6,108	–	6,108
Total trade and other payables	**39,446**	**5,370**	**44,816**	51,410	3,256	54,666

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 AFIP, the Argentine 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 2019, with the remaining obligations presented as non-current.

22. Borrowings

	2019			2018		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Secured						
Bank loans	**10,055**	**–**	**10,055**	17,523	–	17,523
Total secured borrowings	**10,055**	**–**	**10,055**	17,523	–	17,523
Unsecured						
Bank loans	**–**	**–**	**–**	709	–	709
Loans from related parties	**146,782**	**146,751**	**293,533**	46,090	135,919	182,009
Other loans	**28**	**–**	**28**	43	–	43
Total unsecured borrowings	**146,810**	**146,751**	**293,561**	46,842	135,919	182,761
Total borrowings	**156,865**	**146,751**	**303,616**	64,365	135,919	200,284

Secured liabilities and assets pledged as security

Secured liabilities relate to US Dollar denominated loans at a fixed interest rate of 8.0% (2018: interest rate range from 6.2% to 8.25%). At 31 December 2019 the group held no material Argentine Peso denominated loans (2018: US$nil).

Loans from related parties

The related party loan at 31 December 2019 relates to a convertible rolling credit facility ('RCF') provided to the group by Mercuria Energy Netherlands B.V., a subsidiary of the Mercuria Energy Group Limited ('Mercuria').

In February 2018, US$100.0 million of the original Mercuria facility was converted to equity of the company at a price of £0.37 per share. At the same time the facility was restructured as a new convertible RCF in the amount of US$160.0 million with an additional US$100.0 million of new funds made available to the company.

In December 2018, Mercuria advanced an additional US$25.0 million as a Facility B element to the RCF. In February 2019, a further US$50.0 million was made available under this Facility B element. The original loan of US$160.0 million became Facility A.

Notes to the consolidated financial statements continued

22. Borrowings continued

Loans from related parties continued

In May 2019, the amended convertible RCF was further extended to add a Facility C commitment of US$40 million. Facility C was extended in November 2019 by an additional US$10.0 million.

At 31 December 2019, a total facility of US$285.0 million was available to the company, with a total of US$278.0 million drawn down under the facility. All funds drawn down under the amended convertible RCF facility bear interest at three-month LIBOR+4% and are repayable by 31 December 2021.

Mercuria Group has the right to convert all or part of the outstanding principal of Facility 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 of Facility A. A similar conversion feature exists in relation to Facility B at a price of £0.28 per share exercisable from 30 June 2019 until 10 business days prior to the maturity date and in relation to Facility C at a price of £0.23 per share exercisable from 30 June 2020 until 10 business days prior to the maturity date.

The amended convertible RCF provides for a grace period (interest and principal) from 1 January 2019 to 29 February 2020 and the loan will be amortised in equal quarterly repayment instalments from 31 March 2020 until maturity. The rights to convert Facility B and Facility C are 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.

Refer to note 33 for changes since the year end.

Fair value

The fair values of the majority of the borrowings held by the group 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:

	2019		2018	
	Carrying amount US$'000	Fair value US$'000	Carrying amount US$'000	Fair value US$'000
Bank loans	**10,055**	**10,018**	18,232	17,924
Other loans	**28**	**28**	43	43
Loans from related parties	**293,533**	**288,668**	182,009	182,009
	303,616	**298,714**	200,284	199,976

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. Changes in liabilities arising from financing activities

				Non-cash changes				
	31 December 2018 US$'000	Cash flows US$'000	Interest paid US$'000	Movements from non-current to current US$'000	Interest charge US$'000	Capitalised interest US$'000	Foreign exchange US$'000	31 December 2019 US$'000
Current liabilities								
Borrowings	64,365	(8,000)	(1,299)	100,692	854	265	(12)	**156,865**
Non-current liabilities								
Borrowings	135,919	96,000	(249)	(100,692)	15,773	–	–	**146,751**
Total borrowings	200,284	88,000	(1,548)	–	16,627	265	(12)	**303,616**

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 thefunctional currency of the operating subsidiaries and the parent. This determination also reduces the exposure to foreign exchange 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.

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 (or '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 and commodity controls that have prevented effective currency and commodity price management.

Historic exchange controls were lifted in December 2015; however, following significant devaluation of the Peso during 2019 the government re-introduced some exchange controls in H2 2019. The main impact on the group has been the 30% transaction tax that was levied on foreign currency transactions, including payments made overseas. The group has been able to manage this risk through accounts payable management, ensuring that payments made against US Dollar denominated contracts are transacted by the UK listed entity.

Overall, although the group is exposed to the Peso the foreign exchange risk is determined to be low. Despite being priced by reference to the US Dollar, oil sales invoices are physically settled in Pesos. Therefore, the company typically generates enough Pesos from oil sales contracts to enable it to settle all its operating costs in Argentina and to contribute toward the cost of capex activity.

The group did not use derivative financial instruments to manage currency risk in the year ended 31 December 2019 or in the prior year.

Commodity price controls were progressively reduced in 2017 until the domestic price for crude floated in line with international Brent prices from October 2017. In May 2018 however, the government imposed capped prices for domestic crude for May, June and July 2018 deliveries. The re-introduction of price caps was in response to the increase in the Brent crude benchmark and the consequential pressure on Argentine refined product pricing that is linked to Brent. Capped pricing was removed in August 2018, following which an export retention tax was implemented in September 2018, which has equated to an approximate downward impact of 10% on crude prices throughout 2019.

During 2019 Brent crude prices continued to rise, averaging US$66.1/bbl in H1 2019 and US$62.6/bbl in H2 2019. The continued upward pressure on prices combined with the devaluation of the Peso resulted in the Argentinian government further intervening in H2 2019, issuing a number of decrees that fixed the Brent reference price for sales at US$59.0/bbl and the Dollar to Peso exchange rate at 45.2 rising to 51.2 in three dated stages. The existence of these commodity price controls in Argentina reduces the group's ability to manage commodity price risk effectively.

Notes to the consolidated financial statements continued

24. Financial risk management continued

Market risk – foreign exchange risk and commodity price risk continued

In January 2018, the company entered into a swap agreement over a fixed amount of 2018 production to support planned capital expenditure which expired in December 2018. The increase in the Brent price from March 2018 combined with the price cap 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 US$65.97/bbl swap price. As a result, the company recognised a net cash loss in respect of barrels subject to the agreement in 2018 of US$7.6 million.

The continued existence of government intervention in crude pricing in 2019 has meant that the relationship between realised prices and the Brent crude benchmark has remained imperfect, and as such the design of effective hedge protection against commodity risk is difficult. The group therefore did not take out any derivative commodity contracts during the period.

The group is primarily exposed to foreign exchange risk related to bank deposits, debtors or creditors that are denominated in Argentine Pesos or Pounds 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	1,535	32,774
Cash and cash equivalents	17	5,044
Trade and other payables	(1,294)	(22,714)
Borrowings	–	(28)
	258	15,076

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 derivative financial instruments, such as hedging instruments, where currency gains and losses would be recognised in other comprehensive income (2018: none).

	Impact on post-tax profit and loss		Impact on other components of equity	
	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
US$/AR$ exchange rate increase by 10%[1]	**1,508**	(547)	**–**	–
US$/AR$ exchange rate decrease by 10%[1]	**(1,508)**	547	**–**	–

1 Assumes all other variables held constant

Sensitivity – commodity prices

The impact of an increase or decrease in commodity prices on the group's oil and gas revenues is as follows:

	Impact on revenue – crude oil prices		Impact on revenue – natural gas prices	
	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
Increase by 10%[1]	**11,465**	15,448	**1,477**	2,250
Decrease by 10%[1]	**(11,465)**	(15,448)	**(1,477)**	(2,250)

1 Assumes all other variables held constant

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 material portion of the group's borrowings are in US Dollar.

Argentina has historically been subject to high levels of currency devaluation as well as high inflation. The group therefore maintains the majority of its borrowings in US Dollar and only translates borrowings into Argentine Peso when the group has an operating cash need for this currency. This allows the group 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.

24. Financial risk management continued

Market risk – cash flow and fair value interest rate risk continued

The exposure of the group's borrowings to interest rate changes is as follows:

	2019 US$'000	% of total loans US$'000	2018 US$'000	% of total loans US$'000
Variable rate borrowings	**293,502**	**97**	182,000	91

Sensitivity – interest rate risk

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	
	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
Interest rate increase by 100 basis points[1]	**1,689**	2,003	**–**	–
Interest rate decrease by 100 basis points[1]	**(1,689)**	(2,003)	**–**	–

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. The group aims to only place funds on deposit with institutions with a minimum credit rating of B2 (Moody's). At 31 December 2019, US$5.0 million was held on deposit with institutions with a credit rating of Caa1 or Caa2. These deposits relate solely to amounts held on deposit with financial institutions in Argentina. During 2019 the Argentine economy experienced high volatility, with significant devaluation of the Peso and full-year price inflation exceeding 50%. Due to continued market uncertainty in H2 2019 the Moody's Argentine bond credit rating was downgraded to Caa2. This impacted many of the domestic financial institutions whose credit ratings were reduced concurrently.

The group continues to monitor this situation and aims to only hold cash deposits in Argentina which are needed to cover operating costs for a specific month. Monthly cash calls are completed whereby the Argentine entities request US Dollars from the parent company based on an assessment of expected cash inflows and outflows for that month. This helps the group to manage credit risk.

The group sells substantially all of its oil production to the Argentina state-owned oil company, YPF. At 31 December 2019 YPF had a credit rating of Caa2 (Moody's), a downgrade from the credit rating held in 2018 of B2. This downgrade also resulted from the market volatility in Argentina during 2019 and mirrored the downgrade of the Argentine bond rating. The credit rating of Caa2 would indicate that a credit risk loss should be recorded in respect of sales made to YPF; however, there is no recent history of credit loss, non-payment or default by YPF in relation to oil and gas sales. The calculated amount of the potential 12-month credit risk loss is therefore not material and no credit loss was recorded at 31 December 2019.

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.

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.

Trade receivables – counterparty without external credit rating[1]	2019 US$'000	2018 US$'000
Group 1	**33**	–
Group 2	**3,047**	2,885
Group 3	**–**	–
	3,080	2,885

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

Notes to the consolidated financial statements continued

24. Financial risk management continued

Credit risk continued

Cash at bank and short-term deposits (Moody's)	2019 US$'000	2018 US$'000
Aaa	–	186
Aa2	3,540	–
Aa3	1,991	16,602
A1	369	43
Baa1	8	9
Baa3	88	210
Ba3	–	1,366
B2	–	2,666
Caa1	115	–
Caa2	4,888	–
Other	3	3
Total cash and cash equivalents	11,002	21,085

Past due but not impaired

At 31 December 2019, trade receivables of US$3.6 million were past due but not impaired (2018: US$1.0 million). The aging analysis of these trade receivables is as follows:

	2019 US$'000	2018 US$'000
Up to 3 months	2,499	568
3 to 6 months	411	453
Over 6 months	674	17
	3,584	1,038

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 2019	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	38,165	1,054	1,318	–	40,537	39,443
Lease obligations	1,679	1,926	2,790	–	6,395	5,373
Borrowings	169,017	149,867	–	–	318,884	303,616
	208,861	152,847	4,108	–	365,816	348,432

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

25. Leases

The balance sheet includes the following amounts related to leases:

A) Right-of-use asset

US$'000	Note	Other fixed assets US$'000	Assets under construction US$'000	Total US$'000
At 1 January 2019	3	869	–	869
Additions		–	5,861	5,861
Depreciation		(415)	–	(415)
At 31 December 2019		**454**	**5,861**	**6,315**

In August 2019, the company entered a new finance lease contract for the provision of power generators at the Puesto Rojas concession. An amount of US$5.9 million was capitalised as a right-of-use asset to assets under construction on commencement of the lease. The right-of-use asset will be transferred to development and production assets and depreciated following completion of the asset in 2020.

B) Lease liability

US$'000	Note	Other fixed assets US$'000	Assets under construction US$'000	Total US$'000
At 1 January 2019	3	869	–	869
New leases		–	5,861	5,861
Cash payments of principle and interest		(449)	(970)	(1,419)
Interest charged		62	–	62
At 31 December 2019		**482**	**4,891**	**5,373**
Of which:				
Current		292	988	1,280
Non current		190	3,903	4,093
		482	**4,891**	**5,373**

A corresponding lease liability of US$5.9 million was recognised on commencement of the power generation lease at Puesto Rojas. Under the lease contract, the company will be liable to make monthly fixed payments over the duration of the lease term. These payments will commence once the construction of the power generators has been completed, which is expected in Q2 2020.

26. Deferred tax balances

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 corporate income tax rate in Argentina in 2019 was 30% (2018: 30%). In December 2019, tax reforms were implemented by the incoming Argentine government. Under the new legislation, it was established that the reduced corporate tax rate of 25% would not be applicable until the year ended 31 December 2022 and forward. An additional tax rate of 7% will be applied to dividends when the corporate income tax rate is 30%. This additional dividend tax will be increased to 13% when the corporate tax rate is reduced to 25% in 2022.

Deferred tax assets and liabilities are calculated at the rate of 25% or 30% taking into consideration the expected time of recovery.

Deferred tax assets

	2019 US$'000	2018 US$'000
Tax losses	**14,468**	2,525
Provisions	**1,723**	3,055
Others	**7,064**	7,151
Total deferred tax assets	**23,255**	12,731

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The company did not recognise deferred income tax assets of US$6.3 million (2018: US$10.9 million) in respect of tax losses amounting to US$14.1 million (2018: US$36.3 million) as there is insufficient evidence that the potential assets will be recovered.

Assessed tax losses amounting to US$14.5 million (2018: US$2.5 million) will expire between 2020 to 2024 (2018: 2020 to 2023).

Notes to the consolidated financial statements continued

26. Deferred tax balances continued

Deferred tax assets continued

Movements	Tax losses US$'000	Provisions US$'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

Movements	Tax losses US$'000	Provisions US$'000	Other US$'000	Total US$'000
At 1 January 2019	**2,525**	**3,055**	**7,151**	**12,731**
Credited/(charged) to profit and loss	**11,943**	**(1,332)**	**(87)**	**10,524**
At 31 December 2019	**14,468**	**1,723**	**7,064**	**23,255**

The timeframe for expected recovery or settlement of deferred tax assets is as follows:

	2019 US$'000	2018 US$'000
No more than 12 months after the reporting period	**8,802**	7,150
More than 12 months after the reporting period	**14,453**	5,581
	23,255	12,731

Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2019 US$'000	2018 US$'000
Property, plant and equipment and intangible assets	**(84,461)**	(101,310)
Inventories	**(1,861)**	(42)
Inflation adjustments	**(6,033)**	–
Others	**–**	(1,751)
Total deferred tax liabilities	**(92,355)**	(103,103)

Argentine tax law has introduced provisions for inflationary adjustments to be made for tax purposes in the event that the increases in the 36-month cumulative CPI index for the preceding closing year exceed 100%, considering for the first three periods assessed a increase in excess of 55% in 2018, 30% in 2019 or 15% in 2020. Where an inflationary adjustment for tax is triggered, the law requires an adjustment to taxes in the period with one sixth of the calculated value booked to current income taxes in the year and the remaining five sixths included within deferred tax and recognised through current tax in equal parts in the following five years.

During the period an amount of US$1.5 million (FY18: US$nil) has been included in current taxes, with an additional US$6.0 million (FY18: US$nil) included within deferred tax liabilities in relation to this adjustment.

Movements	Property, plant and equipment and intangible assets US$'000	Inventories US$'000	Inflation adjustments 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)

Movements	Property, plant and equipment and intangible assets US$'000	Inventories US$'000	Inflation adjustments US$'000	Other US$'000	Total US$'000
At 1 January 2019	**(101,310)**	**(42)**	**–**	**(1,751)**	**(103,103)**
(Charged)/credited to profit and loss	**4,821**	**(1,819)**	**(6,033)**	**1,751**	**(1,280)**
Disposal of assets	**12,028**	**–**	**–**	**–**	**12,028**
At 31 December 2019	**(84,461)**	**(1,861)**	**(6,033)**	**–**	**(92,355)**

26. Deferred tax balances continued

Deferred tax liabilities continued

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.

	2019 US$'000	2018 US$'000
Deferred tax assets	**18,534**	9,001
Deferred tax liabilities	**(87,636)**	(99,374)
Net deferred income tax liability	**(69,102)**	(90,373)

27. Inventories

Current assets	2019 US$'000	2018 US$'000
Crude oil	**1,798**	1,594
Spare parts and equipment	**16,404**	15,685
Total	**18,202**	17,279

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.

28. Provisions and contingent liabilities

	2019			2018		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Decommissioning and site restoration	**–**	**11,385**	**11,385**	–	13,382	13,382
Legal claims	**120**	**4,199**	**4,319**	1,733	2,854	4,587
Other	**–**	**200**	**200**	–	–	–
Total	**120**	**15,784**	**15,904**	1,733	16,236	17,969

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

Legal claims mainly relate to disputes arising related to payments for services rendered and the nature of the service rendered. Provisions are recorded for such claims where the company has determined it to be probable that an outflow of resources will be required to settle to claim, or where it is uncertain whether any action by a third party would be successful. Provisions are assessed on a case-by-case basis.

Notes to the consolidated financial statements continued

28. Provisions and contingent liabilities continued

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	Other US$'000	Total US$'000
At 1 January 2019	13,382	4,587	–	17,969
Additional provisions recognised	115	1,519	200	1,834
Unwinding of discount	846	–	–	846
Amounts used during the year	–	(1,787)	–	(1,787)
Disposal of assets	(2,511)	–	–	(2,511)
Classified as held for sale at period end	(447)	–	–	(447)
At 31 December 2019	**11,385**	**4,319**	**200**	**15,904**

29. Commitments

At 31 December, the group had the following licence commitments:

	2019 US$'000	2018 US$'000
Operated	**124,081**	96,786
Non-operated	**7,940**	27,283
Total	**132,021**	124,069

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 does not have any significant contingencies.

Classification	2019 US$'000	2018 US$'000
Not later than one year	**51,919**	35,392
Later than one year and not later than five years	**80,102**	88,677
Total	**132,021**	124,069

30. Related party transactions

Significant shareholder

Mercuria Energy Group Limited ('Mercuria') 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.

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 2018 was US$7.6 million. The company was not party to any derivative instruments at 31 December 2018. No derivative instruments were entered into during 2019.

On 27 June 2018, the group issued 7,156,625 new ordinary shares 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. Refer to note 10 for further details.

Subsidiaries

Interests in subsidiaries are set out in note 4 to the company financial statements.

30. Related party transactions continued

Loan from Mercuria Group

The loan from Mercuria Group at 31 December 2019 relates to a convertible rolling credit facility ('RCF') provided to the group by Mercuria Energy Netherlands B.V., a subsidiary of the 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 for the amount of US$160.0 million. Mercuria Energy Trading S.A. is a 100% owned subsidiary of 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 RCF in the amount of US$160.0 million with an additional US$100.0 million of new funds made available to the company to support the 2018 capital expenditure programme.

In December 2018, Mercuria advanced an additional US$25.0 million as a Facility B element to the RCF. In February 2019, a further US$50.0 million was made available under this Facility B element to support the 2019 capital expenditure programme and Mata Mora development. In May 2019, the amended convertible RCF was further extended to add a Facility C commitment of US$40.0 million. Facility C was extended in November 2019 by an additional US$10.0 million.

All funds drawn down under the amended convertible RCF facility bear interest at three-month LIBOR+4% and are repayable by 31 December 2021. Refer to note 22 for further details.

Analysis of amounts advanced and interest paid are shown in the table below:

Loan from Mercuria Group	2019 US$'000	2018 US$'000
Beginning of the year	**182,009**	162,561
Loans advanced	**96,000**	116,210
Debt conversion	**–**	(100,000)
Interest charged	**15,773**	10,261
Interest paid	**(249)**	(7,023)
At 31 December	**293,533**	182,009

31. Loss per share

Basic and diluted loss per share	2019 US$	2018 US$
From continuing operations attributable to the ordinary equity holders of the company	**(0.04)**	(0.03)
Total basic loss per share attributable to the ordinary equity holders of the company	**(0.04)**	(0.03)

Basic and diluted loss per share	2019 US$'000	2018 US$'000
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share:		
From continuing operations	**(113,810)**	(78,313)
	(113,810)	(78,313)

Weighted average number of shares used as the denominator

Number of shares	2019	2018
Adjustments for calculation of diluted earnings per share:		
At 1 January	**2,786,645**	2,537,178
At 31 December	**2,785,024**	2,786,645
Potential dilutive ordinary shares	**3,989**	3,325
Weighted average number of shares used as the denominator in calculating diluted earnings per share	**2,785,791**	2,730,364

Notes to the consolidated financial statements continued

32. Cash (used in)/generated from operations

	2019 US$'000	2018 US$'000
Loss for the year before taxation	**(134,821)**	(61,516)
Finance costs	**19,361**	12,055
Finance income	**(824)**	(711)
Accretion of discount on asset retirement obligation	**846**	860
Accretion of discount on lease obligation	**62**	–
Net unrealised exchange gains	**3,862**	8,662
Exploration cost written off	**3,856**	8,609
Impairment charge	**7,557**	–
Loss of disposal of non-current assets	**28,971**	1,125
Loss on termination of licences	**20,196**	–
Share-based payments	**893**	5,990
Depreciation and amortisation	**66,057**	64,726
Change in operating assets and liabilities:		
(Increase) in inventories	**(1,233)**	(2,904)
(Increase) in trade and other receivables	**(22,745)**	(15,418)
(Decrease)/increase in trade and other payables	**(8,165)**	9
(Decrease) in provisions	**(153)**	(473)
Cash (used in)/generated from operations	**(16,280)**	21,014

33. Post balance sheet events

Convertible revolving credit facility extension

On 9 March 2020, Facility C of the existing convertible revolving credit facility ('RCF') held with Mercuria was increased by US$6.0 million to US$291.0 million. The terms of this additional facility will be consistent with those of Facility C, bearing interest at a rate of LIBOR+4% and repayable on 31 December 2021. Refer to note 22 for additional details on the company's borrowings.

On 31 March 2020, the company announced that due to the unprecedented market conditions being caused by the current COVID-19 crisis it has reduced its capital expenditure programs for 2020 and is also exploring other cost saving initiatives. As part of these initiatives the company has entered discussions with Mercuria to restructure the existing convertible RCF facility. Whilst these discussions are ongoing, Mercuria has agreed to amend certain terms of the RCF agreement, including extending the interest grace period and first repayment date.

On 15 May 2020, the company announced that it had reached agreement with Mercuria to extend the interest grace period and delay the first repayment date under the RCF agreement to 15 July 2020.

Capex programs and cost saving initiatives

The company is currently faced with several challenges. On a macro level it faces economic uncertainty in Argentina following a change of government in December 2019 and the recent technical default on Argentina's sovereign debt. This political and economic uncertainty has been compounded by the impact of COVID-19 and the consequent governmental response that has led to a significant reduction in demand for fuel resulting in a collapse of oil prices in the first half of 2020.

Given this, the board has taken steps to develop operating plans that conserve or minimise the use of cash by reducing capital expenditure programs and other operating and administrative costs.

Due to significant reduction in demand for oil, the company has shut-in production of crude oil from its operated licences at Puesto Rojas, Atamisqui and Tupungato. In addition, the company has developed a plan that involves a significant reduction in operating and administrative costs. The company has completed the restructure of its US$10.0 million local Argentine debt, restructured its London and Houston offices, reduced the size of the board of directors. In addition, substantially all open capex programmes have been closed and salary reductions of between 30% to 40% have been implemented for all staff.

Company statement of financial position
At 31 December 2019

	Note	2019 US$'000	2018 US$'000
Non-current assets			
Property, plant and equipment	5	**204**	194
Intangible assets	6	**21,380**	21,380
Investments in subsidiaries	4	**894,759**	1,063,900
Other receivables	8	**132,772**	1,546
Total non-current assets		**1,049,115**	1,087,020
Current assets			
Cash and cash equivalents	9	**3,539**	16,601
Equity investments	7	**1,303**	108
Trade and other receivables	8	**31,056**	55,798
Total current assets		**35,898**	72,507
Total assets		**1,085,013**	1,159,527
Non-current liabilities			
Trade and other payables	10	**17,854**	17,965
Borrowings	11	**146,751**	135,919
Total non-current liabilities		**164,605**	153,884
Current liabilities			
Trade and other payables	10	**5,533**	7,328
Income tax liability		**600**	600
Borrowings	11	**146,782**	46,090
Provisions	17	**1,060**	1,060
Total current liabilities		**153,975**	55,078
Total liabilities		**318,580**	208,962
Net assets		**766,433**	950,565
Equity			
Share capital and share premium	14	**456,734**	457,198
Other reserves		**329,155**	329,155
Retained (deficit)/earnings		**(19,456)**	164,212
Total equity		**766,433**	950,565

The company made a loss for the year of US$184.5 million (2018: US$74.7 million).

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

The financial statements on pages 113-129 were approved by the board of directors and authorised for issue on 26 June 2020 and were signed on its behalf by:

Sir Michael Rake
Director

Company statement of changes in equity
For the year ended 31 December 2019

Capital and reserves	Called up share capital US$'000	Share premium US$'000	Treasury shares US$'000	Retained earnings US$'000	Other reserves US$'000	Total equity US$'000
At 1 January 2018	**329,877**	**–**	**–**	**239,013**	**325,566**	**894,456**
IFRS 9 transition adjustment	–	–	–	(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**
Loss for the year	–	–	–	(184,489)	–	(184,489)
Total comprehensive loss for the year	–	–	–	(184,489)	–	(184,489)
Purchase of own shares	–	–	(572)	–	–	(572)
Issue of employee share options	–	–	108	(126)	–	(18)
Cash settlement of employee share options	–	–	–	(154)	–	(154)
Fair value of share-based payments	–	–	–	971	–	971
Fair value of warrants	–	–	–	130	–	130
At 31 December 2019	**364,175**	**93,023**	**(464)**	**(19,456)**	**329,155**	**766,433**

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 2018	**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**
At 31 December 2019	**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 2019

	Note	2019 US$'000	2018 US$'000
Cash flows from operating activities			
Cash used in operations	13	**(108,595)**	(103,438)
Net cash used in operating activities		**(108,595)**	(103,438)
Cash flows from investing activities			
Payments for intangible assets		**–**	(7,000)
Payments for property, plant and equipment		**–**	(45)
Sale of fixed assets		**–**	180
Net cash outflow from investing activities		**–**	(6,865)
Cash flows from financing activities			
Proceeds from issues of shares and other equity instruments		**–**	4,925
Proceeds from borrowings		**96,000**	116,210
Interest paid		**(368)**	(7,023)
Interest received		**67**	224
Principle lease payments		**(127)**	–
Net cash inflow from financing activities		**95,572**	114,336
Net (decrease)/increase in cash and cash equivalents		**(13,023)**	4,033
Cash and cash equivalents at the beginning of the financial year		**16,601**	12,570
Effects of exchange rates on cash and cash equivalents		**(39)**	(2)
Cash and cash equivalents at end of year	9	**3,539**	16,601

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

Notes to the company financial statements

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 section 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 2019 was US$184.5 million (2018: US$74.7 million loss).

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. To date, the funding required to support the activities of the group has been provided by Mercuria Energy Group.

The company is currently faced with several challenges. On a macro level it faces economic uncertainty in Argentina following a change of government in December 2019 and as a result of the continuing negotiations by the government to restructure the country's debt. This political and economic uncertainty has been compounded by the impact of COVID-19 and the global collapse in demand for oil that caused oil prices to collapse in the first half of 2020.

As a result of the fall in the demand for oil and the collapse in oil prices, the company has shut-in production of crude oil from its operated licences. The company has developed and is progressively implementing a plan that involves a significant reduction in both operating and administrative costs. The cost reduction actions being taken mean the company will be in a significantly better position to produce oil economically at lower oil prices and with a positive contribution to cash flow when production recommences. The company will then focus on the continued development of its unconventional assets.

Our major shareholder, Mercuria, is supportive of the cost reduction plan and has extended short-term debt facilities to facilitate its implementation and execution. Mercuria has written to the company stating its intention to continue to provide financial support to the company of up to $37 million in order that the company may continue to operate and service the company's liabilities as they fall due in the next 12 months whilst the company assesses the timing of work plans and capital commitments. Mercuria has agreed to meet the company's cash needs for this period and not demand repayment of the existing loan within the next 12 months whilst in discussion with the company to restructure the existing loan agreement. This letter, which by its nature is not legally binding, represents a letter of comfort stating Mercuria's current intention to continue to provide support.

The directors believe they will be able to agree the restructure of the existing debt with Mercuria and formalise an agreement for new funding and that the group and company can continue as a going concern for the foreseeable future. The application of the going concern basis of preparation of the financial statements included in this annual report is based on the letter that has been received from Mercuria and the ongoing discussions with the Mercuria principals and accordingly, the directors continue to adopt the going concern basis for accounting in preparing the 2019 financial statements. However, the directors recognise that if financial support over the next 12 months from Mercuria were not to be available and the company is unable to restructure the existing loan agreement from Mercuria or obtain funding from alternative sources, this gives rise to a material uncertainty that may cast significant doubt on the group's and company's ability to continue as a going concern.

The financial statements do not include any adjustments that would be required if the group and company were unable to continue as a going concern.

2. Critical accounting estimates and judgements

Critical judgements

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.

The company receives the majority of its funding from Mercuria Energy Netherlands B.V., a subsidiary of Mercuria Energy Group Limited ('Mercuria') through a US Dollar denominated convertible rolling credit facility ('RCF').

As part of the combination transaction in 2017, the company entered a US$160.0 million bridging and working capital facility agreement with Mercuria. In February 2018, this facility was extended by an amount of US$100.0 million following the conversion of US$100.0 million of the initial principal into equity. At 31 December 2018, an additional US$25.0 million had been advanced to the company as a Facility B element to the RCF.

During 2019, the RCF was further extended to increase Facility B to a total of US$75.0 million and add a Facility C element of US$50.0 million. At 31 December 2019, a total facility of US$285.0 million was available to the company, with a total of US$278.0 million drawn down under the RCF.

The RCF predominately provides capex funding for the group's exploitation and development activities in Argentina. The company transfers cash for operations to its subsidiaries in US Dollars.

As a result of the predominance of the US Dollar denominated funding, the functional currency of the company is determined to be the US Dollar.

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 company's market capitalisation at period end.

Impairment evaluation is performed by comparing the carrying value of each investment to its recoverable amount, where the recoverable amount of an investment is determined as the higher of its fair value less costs to sell and its value in use. Assessment of the fair value of a subsidiary investment is often based on the expected future net cash flows of the development and production assets and the exploration and appraisal assets and licences which that subsidiary holds (its CGUs), or on the expected future net cash flows of the CGUs of the entities in which that subsidiary holds an investment.

The assessment of the expected future net cash flows of the group's CGUs involve significant judgement and are 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.

At 31 December 2019, 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.

Amounts due from subsidiary undertakings

IFRS 9 'Financial Instruments' ('IFRS 9') 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.

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 requirement, the company does not intend to demand repayment of any amounts due from subsidiary undertakings in the near future.

Notes to the company financial statements continued

3. Significant accounting policies

New accounting standards

IFRS 16 became effective for accounting periods that started on or after 1 January 2019 and the company adopted the modified retrospective approach permitted under the standard from this date. The principal lease agreement that the company participants in is related to rental of office space in London under a three-year lease agreement. The impact of adopting the new standard was not material and resulted in a US$0.2 million right-of-use asset being recorded in property, plant and equipment at 1 January 2019, with a corresponding lease liability recorded in trade and other payables.

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 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.

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	2019 US$'000	2018 US$'000
At 1 January	**1,063,900**	973,368
Investment in subsidiaries	**248**	117,147
Acquisition of subsidiaries	**–**	7,177
Disposal of subsidiaries	**–**	(1,518)
Impairment of investment	**(169,389)**	(32,274)
At 31 December	**894,759**	1,063,900

Investment in subsidiaries

On 31 December 2019, the company made a capital contribution in certain of its subsidiary holdings in exchange for forgiveness of intercompany debt. The total investment made was US$0.2 million (2018: $117.1 million).

Impairment assessment

The company completed an assessment of the carrying value of its subsidiary investments at 31 December 2019. As part of this assessment the company compared the carrying value of its investments to their determined recoverable value at period end. Recoverable value was assessed as the fair value less cost to sell ('FVLCTS') of the investments. FVLCTS was determined to be the total value of the 2P NPV10 valuations of the underlying CGUs in which the investment holds an interest, plus the fair value assigned to the licences held by the investment with prospective unconventional potential, based on their determined acreage values. 2P NPV10 and acreage value are determined by management to be the minimum value that would be realised for the associated assets in an open market transaction.

The assessment completed by the company identified that the carrying value of its investment in Trefoil Holdings B.V. and of its investment in CHPPC Andes S.R.L were in excess of the determined FVLCTS of those subsidiaries at 31 December 2019. The carrying value of the company's investment in these subsidiaries was therefore written down to the assessed fair value of the respective subsidiary at 31 December 2019. This resulted in a US$157.2 million impairment loss being recorded against Trefoil Holdings B.V. and a US$12.2 million impairment loss being recorded against CHPPC Andes S.R.L at period end.

In 2018, a US$10.8 million impairment loss was recorded against Grecoil y Cia. S.A.U. ('Grecoil') as a result of the carrying value of the company's investment in Grecoil being written down to its net asset value at period end.

Sale of Andes Energia Argentina S.A.

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.

Acquisition of subsidiaries

In order to facilitate the transaction, prior to the sale date the company acquired from AEN Netherlands Cooperatief U.A. 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.

Fair value assessment

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 being 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.

Notes to the company financial statements continued

4. Investments continued

Gain/loss of sale

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 15.2 in the notes to the group financial statements.

At 31 December 2019, 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	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.U.	Intermediate holding company/services	Argentina	100%
Andes Oil S.A.U.	Intermediate holding company	Argentina	100%
Andes Oil and Gas S.A.U.	Intermediate holding company	Argentina	100%
Grecoil y Cia. S.A.U.	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 (2018: US$0.2million) relates to property leases, 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% and 35% per annum.

An amount of US$0.2 million was capitalised to property, plant and equipment on 1 January 2019 in relation to the right-of-use asset calculated on the adoption of IFRS 16 in the period. The asset will be depreciated on a straight-line basis over the life of the underlying lease contracts. Depreciation charged against the right-of-use asset in the period was US$0.1 million.

6. Intangible assets

The intangible assets balance of US$21.4 million (2018: $21.4 million) relates 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 Neuquén 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 in the two concessions increased from 27% to 90% and the company assumed operatorship. As part of the renegotiation Integra Oil & Gas S.A. 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	2019 US$'000	2018 US$'000
Equity investments	**1,303**	108

Equity investments are designated at fair value through profit and loss. Any fair value movements in the period are recorded in other income and expenses within the income statement.

In November 2019, Petrolera El Trebol S.A. ('PETSA'), a 100% subsidiary of the company, sold its 70% working interest in the Santa Cruz Sur ('SCS') licences to Echo Energy plc ('Echo'). Consideration received from Echo for the SCS assets was US$8.5 million, split between cash receipts of US$7.0 million and US$1.5 million settled through the issue of 39,958,443 new ordinary shares in Echo at a price of 2.9 pence per share. PETSA nominated the company to receive the share issue on its behalf, with a corresponding subsidiary payable being recorded between the two entities at the sale date.

The fair value of the equity investment held by the company in Echo at 31 December 2019 was US$1.2 million. The investment is classified as Level 1 in the fair value hierarchy.

8. Trade and other receivables

	2019			2018		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Contingent consideration	**1,345**	**–**	**1,345**	794	–	794
Financial assets held at fair value through P&L	**1,345**	**–**	**1,345**	794	–	794
Trade and other receivables	**53**	**1,180**	**1,233**	3,925	1,546	5,471
Less provision for impairment:	**–**	**–**	**–**	(2,942)	–	(2,942)
	53	**1,180**	**1,233**	983	1,546	2,529
Loans to subsidiaries	**28,905**	**131,592**	**160,497**	53,695	–	53,695
Financial assets at amortised cost	**28,958**	**132,772**	**161,730**	54,678	1,546	56,224
Prepayments to suppliers	**753**	**–**	**753**	326	–	326
Total trade and other receivables	**31,056**	**132,772**	**163,828**	55,798	1,546	57,344

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 licence guarantees in Colombia, put in place in favour of the Colombian national oil company, the ANH. The fair value of the restricted cash assumed at the sale date was US$1.7 million.

At 31 December 2018, the funds held in escrow in respect of the Colombian licences were 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. was recognised in other receivables at 31 December 2018, with the element related to the account maintained by the company held in restricted cash.

During the period, the funds in escrow held in the bank account maintained by the company were transferred to the bank account maintained by AEA S.A., allowing the company to pass full title of the escrow funds to AEA S.A. and ultimately OES. As a result, the full contingent consideration balance is presented in other receivables at the balance sheet date. Refer to note 15.2 in the consolidated financial statements for further details on the sale transaction.

The amounts due from subsidiary undertakings include US$131.5 million (2018: US$34.5 million) that incurs interest at a fixed rate of 7.0% per annum (2018: 7.0%) and is repayable in 2022. An amount of US$24.4 million (2018: US$23.6 million) incurs interest at a fixed rate of 5.0% per annum (2018: 5.0%). The remaining amounts due from subsidiaries accrue no interest and are repayable on demand.

At 31 December 2019, a provision of US$10.7 million (2018: US$10.7 million) was held in respect of the recoverability of amounts due from subsidiary undertakings assessed in accordance with IFRS 9.

Notes to the company financial statements continued

9. Cash and cash equivalents

	2019 US$'000	2018 US$'000
Cash at bank and in hand	**3,539**	12,809
Restricted cash	**–**	3,792
Total cash and cash equivalents	**3,539**	16,601

Restricted cash held in 2018 comprised the cash held in escrow in relation to the Colombia licence obligations which were sold to OES. 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 recognised its share of expected receipts based on details received from OES regarding work to be performed. A payable was also recorded related to the element owed to OES should the commitments be fulfilled. Any restricted funds released from this account would initially be received by the company and then be allocated 75% to OES with the remaining 25% retained by the company.

During the period the funds in escrow held in the bank account maintained by the company were transferred to a bank account maintained by AEA S.A., allowing the company to pass full title of the escrow funds to AEA S.A. and ultimately OES. As a result, no restricted funds were held by the company at 31 December 2019. The fair value of the expected receipts of these funds has been reclassified as contingent consideration in the period. Refer to note 15.2 in the consolidated financial statements for further details on the sale transaction.

10. Trade and other payables

	2019			2018		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Trade payables	**1,634**	**–**	**1,634**	1,237	–	1,237
Employee costs, social security and other taxes	**386**	**–**	**386**	899	–	899
Operating lease obligation	**86**	**–**	**86**	–	–	–
Loans from subsidiaries	**–**	**17,854**	**17,854**	–	17,965	17,965
Other payables	**3,427**	**–**	**3,427**	5,192	–	5,192
Total trade and other payables	**5,533**	**17,854**	**23,387**	7,328	17,965	25,293

All balances held within trade and other payables are held at amortised cost.

11. Borrowings

	2019			2018		
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000	Total US$'000
Loans from related parties	**146,782**	**146,751**	**293,533**	46,090	135,919	182,009
Total borrowings	**146,782**	**146,751**	**293,533**	46,090	135,919	182,009

The loan balance at 31 December 2019 relates to amounts drawn down under the new convertible RCF provided by Mercuria. The RCF bears interest at a rate of 4% over three-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 and receivable from subsidiaries. Amounts outstanding at 31 December include:

	2019 US$'000	2018 US$'000
Related party loans receivable		
Amounts advanced to subsidiaries	**160,497**	53,695
Total related party receivables	**160,497**	53,695
Related party loans payable		
Shareholder loan	**293,502**	182,000
Interest accrued on shareholder loan	**31**	9
Amounts payable to subsidiaries	**17,854**	17,965
Total related party payables	**311,387**	199,974

The related party loan at 31 December 2019 relates to a convertible RCF provided to the group by Mercuria Energy Netherlands B.V., a subsidiary of the Mercuria Energy Group Limited ('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 RCF in the amount of US$160.0 million with an additional US$100.0 million of new funds made available to the company.

In December 2018, Mercuria advanced an additional US$25.0 million as a Facility B element to the RCF. In February 2019, a further US$50.0 million was made available under this Facility B element of the RCF. In May 2019, the amended convertible RCF was further extended to add a Facility C commitment of US$40.0 million. Facility C was extended in November 2019 by an additional US$10.0 million.

At 31 December 2019, a total facility of US$285.0 million was available to the company, with a total of US$278.0 million drawn down under the facility. All funds drawn down under the amended convertible RCF bear interest at three-month LIBOR+4% and are repayable by 31 December 2021.

Mercuria Group has the right to convert all or part of the outstanding principal of Facility 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 of Facility A. A similar conversion feature exists in relation to Facility B at a price of £0.28 per share exercisable from 30 June 2019 until 10 business days prior to the maturity date and in relation to Facility C at a price of £0.23 per share at any time from 30 June 2020 until 10 business days prior to the maturity date.

The amended convertible RCF provides for a grace period (interest and principal) from 1 January 2019 to 29 February 2020 and the loan will be amortised in equal quarterly repayment instalments from 31 March 2020 until maturity. The rights to convert Facility B and Facility C are 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.

During the year, the company made interest payments to Mercuria in relation to the convertible RCF of US$0.2 million (2018: US$7.0 million).

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 three interest bearing loans to subsidiaries. The primary interest bearing loan relates to a US$85.2 million (2018: US$72.3 million) facility advanced to Petrolera el Trebol that carries an interest rate of 7.0% and is repayable in 2022.

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 2018 was US$7.6 million. The company was not party to any derivative instruments at 31 December 2018 or at 31 December 2019. 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 10 in the group financial statements for further detail.

Notes to the company financial statements continued

13. Cash generated from operations

	2019 US$'000	2018 US$'000
Loss for the year before taxation	**(184,489)**	(74,734)
Depreciation	**190**	69
Impairment of investments and other non-current assets	**169,389**	32,563
Provision for credit losses on intercompany loans	**19**	10,680
Finance costs	**17,728**	12,636
Finance income	**(7,569)**	(2,585)
Share-based payments	**434**	5,990
Other non-cash items	**–**	385
(Increase) in trade and other receivable	**(101,522)**	(92,889)
Decrease in restricted cash	**–**	4,198
(Decrease)/increase in trade and other payables	**(3,543)**	700
Net unrealised exchange gains/(losses)	**768**	(451)
Cash used in operations	**(108,595)**	(103,438)

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.

	2019		2018	
Ordinary shares of 10 pence	**No. '000**	**US$'000**	**No. '000**	**US$'000**
Allotted, called up and fully paid	**2,785,024**	**363,711**	2,786,645	364,175
Held in treasury	**1,621**	**464**	–	–
Total ordinary shares of 10 pence	**2,786,645**	**364,175**	2,786,645	364,175

Movements in ordinary shares:

	2019		2018	
	No. '000	**US$'000**	**No. '000**	**US$'000**
At 1 January	**2,786,645**	**364,175**	2,537,178	329,877
Issue of ordinary shares	**–**	**–**	55,080	7,271
Debt to equity conversion	**–**	**–**	194,387	27,027
At 31 December	**2,786,645**	**364,175**	2,786,645	364,175

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.

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.

Treasury shares

On 26 June 2019, the company purchased 2,000,000 of its own ordinary shares with a nominal value of £0.10 per share in accordance with the authority to make an off-market purchase of shares granted to it by shareholders of the company at the annual general meeting held on 25 June 2019. These acquired shares were held in treasury from acquisition.

On 18 July 2019, the company transferred 378,928 of the ordinary shares held in treasury to certain participants in the company's deferred bonus plan. At 31 December 2019, the total ordinary shares held in treasury was 1,621,072.

15. Employee benefits

15.1 Staff costs

As permitted by section 408 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 auditor's 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 four (2018: four).

Staff costs	2019 US$'000	2018 US$'000
Wages and salaries	**1,742**	2,168
Social security costs	**135**	296
Other benefits	**62**	31
Share-based payments	**434**	305
	2,373	2,800

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 annual report on remuneration on pg.s 58-61.

15.2 Share-based payments

The group has a Long Term Incentive Plan ('LTIP') for directors and a Deferred Bonus Plan ('DBP') for management.

For the year ended 31 December 2019, the total cost recognised by the company for equity-settled share-based payment transactions is US$0.5 million (2018: US$0.3 million). A credit of US$0.8 million (2018: US$0.3 million) has been recorded in retained earnings for all equity-settled payments of the company in the period.

Details of the various share incentive plans currently in operation are set out below:

2018 Long Term Incentive Plan

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 pg.s 58-61.

The following table details the weighted average fair value ('WA FV') 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 2019 was 1.6 years (2018: 2.6 years). The number of share awards expected to vest was reduced by 10.0 million shares in 2019 following the resignation of certain directors.

	2018 LTIP	WA share price at grant (pence)	WA FV of awards granted (pence)
Share awards outstanding at 1 January 2019	17,124,212	22.69	7.82
Shares forfeited in 2019	(10,040,528)		
Share awards outstanding at 31 December 2019	7,083,684	22.82	8.93
Key assumptions:			
Grant date	2018		
Vesting	3 years		
Risk free rate of interest	0.81%		
PGR TSR Volatility	46.73%		
Comparator TSR Volatility	29% – 72%		

Notes to the company financial statements continued

15. Employee benefits continued

15.2 Share-based payments continued

Deferred Bonus Plan

The company has 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.

During 2019, the company granted 1,772,358 shares under a new DBP. The details of the plans in issue at 31 December 2019 are presented in the table below.

	2019	
	FY18 DBP	FY17 DBP
Share awards outstanding at 1 January 2019	–	3,325,406
Shares granted during the period	1,772,358	–
Shares issued during the period	–	(378,929)
Cash settlement of vested shares awards	–	(729,549)
Share awards outstanding at 31 December 2019	1,772,358	2,216,928
At 31 December		
Price at grant date	16.67	18.05
Weighted average remaining contractual life	1.35	1.00

15.3 Warrants

Details of warrants granted are as follows:

	1 January 2019 No.	Grant No.	Lapsed No.	31 December 2019 No.	Exercise price pence
August 2013 – August 2020	10,454,545	–	–	**10,454,545**	40.0
August 2015 – August 2019	13,960,370	–	(13,960,370)	**–**	26.0
Total	24,414,915	–	(13,960,370)	**10,454,545**	

The weighted average remaining contractual life of the warrants is 0.6 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, are as follows:

	2019		2018	
	No. ('000)	WAEP (p)	No. ('000)	WAEP (p)
At 1 January	**24,414,915**	**32.0**	121,241,141	45.0
Granted	**–**	**–**	–	–
Exercised	**–**	**–**	–	–
Lapsed	**(13,960,370)**	**26.0**	(96,826,226)	50.3
Outstanding at 31 December	**10,454,545**		24,414,915	
Exercisable at 31 December	**10,454,545**		24,414,915	

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 2019 No.	Grant No.	Lapsed No.	31 December 2019 No.	Exercise price pence
June 2012 – June 2019	20,281,273	–	(20,281,273)	**–**	54.0
November 2013 – November 2020	9,090,909	–	–	**9,090,909**	40.0
Total	29,372,182	–	(20,281,273)	**9,090,909**	

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:

	2019		2018	
	No. '000	WAEP (p)	No. '000	WAEP (p)
At 1 January	**29,372,182**	**49.7**	29,372,182	49.7
Granted	**–**	**–**	–	–
Exercised	**–**	**–**	–	–
Lapsed	**(20,281,273)**	**54.0**	–	–
Outstanding at 31 December	**9,090,909**		29,372,182	
Exercisable at 31 December	**9,090,909**		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 %
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)	–	54.0	2019
Senior management	822,280	–	(822,280)	–	54.0	2019
Others	1,415,400	–	(1,415,400)	–	54.0	2019
Others	2,000,000	–	–	2,000,000	40.0	2020

Notes to the company financial statements continued

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 the US Dollar and it only holds US Dollar denominated debt, therefore it 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:

	2019 US$'000	% of total loans US$'000	2018 US$'000	% of total loans US$'000
Variable rate borrowings	**293,502**	**100**	182,000	100

	Impact on post-tax profit and loss		Impact on other components of equity	
	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
Interest rate increase by 100 basis points	**2,935**	1,820	**–**	–
Interest rate decrease by 100 basis points	**(2,935)**	(1,820)	**–**	–

17. Provisions

	2019			2018	
	Current US$'000	Non-current US$'000	Total US$'000	Current US$'000	Non-current US$'000
Legal claims	**1,060**	**–**	**1,060**	1,060	–
Other provisions	**–**	**–**	**–**	–	–
Total	**1,060**	**–**	**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.

The company does not have any significant commitments or contingencies.

18. Post balance sheet events

Convertible revolving credit facility extension

On 9 March 2020, Facility C of the existing convertible RCF held with Mercuria was increased by US$6.0 million to US$291.0 million. The terms of this additional facility will be consistent with those of Facility C, bearing interest at a rate of LIBOR+4% and repayable on 31 December 2021. Refer to note 12 for additional details on the company's borrowings.

On 31 March 2020, the company announced that due to the unprecedented market conditions being caused by the current COVID-19 crisis it has reduced its capital expenditure programs for 2020 and is also exploring other cost saving initiatives. As part of these initiatives the company has entered discussions with Mercuria to restructure the existing convertible RCF facility. Whilst these discussions are ongoing, Mercuria has agreed to amend certain terms of the RCF agreement, including extending the interest grace period and first repayment date.

On 15 May 2020, the company announced that it had reached agreement with Mercuria to extend the interest grace period and delay the first repayment date under the RCF agreement to 15 July 2020.

Capex programs and cost saving initiatives

The company is currently faced with several challenges. On a macro level it faces economic uncertainty in Argentina following a change of government in December 2019 and as a result of the continuing negotiations by the government to restructure the country's debt. This political and economic uncertainty has been compounded by the impact of COVID-19 and the global collapse in demand for oil that caused oil prices to collapse in the first half of 2020.

Given this, the board has taken steps to develop operating plans that conserve or minimise the use of cash by reducing capital expenditure programs and other operating and administrative costs.

Due to significant reduction in demand for oil, the company has shut-in production of crude oil from its operated licences at Puesto Rojas, Atamisqui and Tupungato. The company has developed and is progressively implementing a plan that involves a significant reduction in both operating and administrative costs. The company has completed the restructure of its US$10.0 million local Argentine debt, restructured its London and Houston offices, reduced the size of the board of directors. In addition, substantially all open capex programmes have been closed and salary reductions of between 30% to 40% have been implemented for all staff.

Glossary

Mm^3	Thousand cubic metres
MMbtu	Million British thermal units
MMcf	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
WTI	West Texas Intermediate crude
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
CGU	Cash generating unit
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.	Euclideslaan 131, 3584 BR Utrecht, Netherlands
San Enrique Petrolera B.V.	Euclideslaan 131, 3584 BR Utrecht, Netherlands
AEN Energy Latina, S.L.	Calle Hermosilla 11, 4th Piso, Madrid, Spain
Upstream Latino America S.L.	Calle Velazquez 61, Madrid 28001, 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
AEN Energy Argentina S.A.	Tiburcio Benegas 843, Mendoza, Argentina
MSO Andes Energia Argentina S.A.U.	Suipacha 1111, 18th Floor, Ciudad Autonoma de Buenos Aires, Argentina
Andes Oil S.A.U.	Suipacha 1111, 18th Floor, Ciudad Autonoma de Buenos Aires, Argentina
Andes Oil and Gas S.A.U.	Suipacha 1111, 18th Floor, Ciudad Autonoma de Buenos Aires, Argentina
Grecoil y Cia. S.A.U.	Ceibo Building , 8th Floor, Provincial Route N° 82, Km 54, Luján de Cuyo, Mendoza
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 Investments 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.	Ceibo Building , 8th Floor, Provincial Route N° 82, Km 54, Luján de Cuyo, Mendoza
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)
Martin Bachmann	Non-executive director (independent)
Javier Alvarez	Non-executive director (independent)
David Jackson	Non-executive director (independent)
Tim Harrington	Non-executive director
Daniel Jaeggi	Non-executive director
Nicolás Mallo Huergo	Non-executive director
Nigel Duxbury	Company secretary

Registered address and corporate office

6th Floor
King's House
10 Haymarket
London SW1Y 4BP

Company number

5083946

Offices

Buenos Aires

Torre Alem Plaza
3rd Floor
Av. Leandro N. Alem 855
Buenos Aires 6023
Argentina

Mendoza

Ceibo Building, 8th Floor
Chacras Park
Ruta Porvincial No. 82, Km 54
Luján de Cuyo
Mendoza (5505)
Argentina

Houston

20 Greenway Plaza
Suite 1075
Houston
Texas 77046-2011
USA

Nominated adviser and joint broker

Shore Capital and Corporate Limited
Cassini House, 57-58 St James Street
London SW1A 1LD

Joint broker

Panmure Gordon
One New Change
London EC4M 9AF

Financial PR

Camarco
107 Cheapside
London EC2V 6DN

Independent auditor

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Solicitor

Herbert Smith Freehills LLP
Exchange House
Primrose Street
London EC2A 2EG

Registrars

Share Registrars
The Courtyard
17 West Street
Farnham
Surrey GU9 7DR

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC® C022913

Both the paper manufacturer and printer are Forest Stewardship Council® (FSC) chain-of-custody certified.

luminous

Consultancy, design and production
www.luminous.co.uk

Phoenix Global Resources plc
6th Floor, King's House
10 Haymarket
London SW1Y 4BP
United Kingdom

Tel: +44 (0) 20 3912 2800
info@phoenixglobalresources.com